

INTERNATIONAL TRADE AND ORGANIZATIONS

LESSON VI



**SILESIA
UNIVERSITY**

SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

Ingrid Majerova
World Economy
EVS/XXX

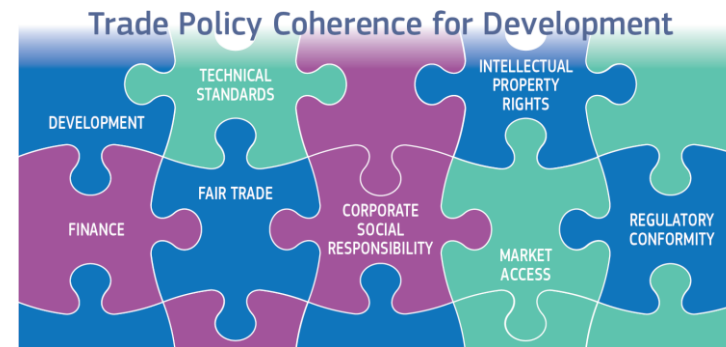
Outline of the lecture



**SILESIAN
UNIVERSITY**
SCHOOL OF BUSINESS
ADMINISTRATION IN KÄRVINA

1. Trade Policy
 2. Tools of Trade Policy
 3. Trade Organizations
 4. Intellectual property rights
-

- **Trade policy** refers to the regulations and agreements that control imports and exports to foreign countries.
- Trade policies come in many varieties. Generally they consist of either taxes or subsidies, quantitative restrictions or encouragements, on either imported or exported goods, services and assets.



- **Tariff**
 - A tax (duty) levied on a product when it crosses national boundaries
- **Import tariff**
 - Tax levied on an imported product
- **Export tariff**
 - Tax imposed on an exported product
- Often used by developing nations
- Raise revenue, increase the world price



- **Protective tariff**

- To reduce the amount of imports entering a country
- Insulating import-competing producers from foreign competition
- Allows an increase in the output of import-competing producers

- **Revenue tariff**

- To generate tax revenues
- Placed on either exports or imports



- Tariff revenues as a percentage of government revenues

Developing Countries	Percentage	Industrial Countries	Percentage
The Bahamas	51.2	New Zealand	2.6
Guinea	47.9	Australia	2.5
Ethiopia	33.5	Japan	1.2
Ghana	28.5	Canada	1.2
Sierra Leone	27.6	Switzerland	1.2
Madagascar	26.9	United States	1.1
Dominican Republic	20.9	United Kingdom	1.0
Jordan	11.3	Iceland	1.0

- Examples of tariffs in selected countries (%)

	United States	Canada	Japan	China	European Union
Textiles and clothing	9.6	11.7	7.4	17.5	7.9
Footwear	4.3	5.7	6.4	14.6	4.2
Metals	2.1	1.9	1.3	7.3	1.9
Chemicals	3.4	3.0	2.5	7.5	4.5
Nonelectrical machinery	1.2	1.5	0.0	9.9	1.7
Electrical machinery	1.9	2.4	0.2	10.4	2.5
Petroleum	1.9	3.0	1.7	5.0	3.1
Sugar	13.0	4.3	10.2	33.6	11.4
Dairy products	19.0	7.4	28.0	24.5	7.7
Average	3.9	4.1	3.2	12.4	4.2



- **Tariff** - imposes costs to domestic economy
 - Buyers will pay more for their protected U.S.-made goods than they would have for the imported goods under free trade
 - Jobs will be lost at retail and shipping companies that import foreign-made goods
 - Jobs will be lost in any domestic industries that suffer from retaliatory tariffs
 - The extra cost of the goods gets passed on to whatever products and services that use these goods in the production process
-



- **Tariff effects**
 - Higher price of imports
 - Lower demand for imports
 - Domestic suppliers expand output
 - Benefits
 - Domestic producers
 - **Tariffs are inequitable**
 - Impose the most severe costs on low-income families
 - Higher tariffs on cheap goods than luxuries
 - Affect different countries in different ways
 - Burdens countries that specialize in the cheapest goods
 - Very poor countries in Asia and the Middle East
-



- US tariff history – average tariff rates

Tariff Laws and Dates	Average Tariff Rate* (%)
McKinley Law, 1890	48.4
Wilson Law, 1894	41.3
Dingley Law, 1897	46.5
Payne-Aldrich Law, 1909	40.8
Underwood Law, 1913	27.0
Fordney-McCumber Law, 1922	38.5
Smoot-Hawley Law, 1930	53.0
1930–1949	33.9
1950–1969	11.9
1970–1989	6.4
1990–1999	5.2
2008	3.5

*Simple average.



- **Import quota**
 - Physical restriction on the quantity of goods that can be imported during a specific time period
 - Require an import license
 - Specifies the total volume of imports allowed
 - On manufactured goods
 - Outlawed by the World Trade Organization
 - **Global** (for goods) x **selective** quota (allocated to specific countries)
-

- Examples of US import quotas

Imported Article	Quota Quantity (yearly)
Condensed milk (Australia)	91,625 kg*
Condensed milk (Denmark)	605,092 kg
Evaporated milk (Germany)	9,997 kg
Evaporated milk (Netherlands)	548,393 kg
Blue-mold cheese (Argentina)	2,000 kg
Blue-mold cheese (Chile)	80,000 kg
Cheddar cheese (New Zealand)	8,200,000 kg
Italian cheese (Poland)	1,325,000 kg
Italian cheese (Romania)	500,000 kg
Swiss cheese (Switzerland)	1,850,000 kg

*kg = kilograms.

- Effects of import quota on economy's welfare
- Price increase
- Decrease in consumer surplus
 - Redistributive effect
 - Deadweight loss
 - Protective effect
 - Consumption effect
 - Revenue effect
 - Windfall profit
 - Quota rent
- An import quota restricts the volume of imports
- Quota
 - More restrictive than a tariff
 - Suppresses competition



"Only two cookies? What is this — a quota system?"

- **Export quotas**
 - Market sharing pact, voluntary export restraint agreement
 - To moderate the intensity of international competition
 - Tend to be more costly than tariffs
-
- **Study:** three major U.S. voluntary export restraint agreements of the 1980s
 - Automobiles, steel, and textiles and apparel
 - 67% of the costs to American consumers - captured by foreign exporters as profit





- **Trade protectionism intensifies as global economy falls into recession**
 - Global economic downturns - catalyst for trade protectionism; 2007–2009
 - Decrease in the demand for goods and services
 - Decline in international trade
 - Shortfall of some \$100 billion in trade finance – 90% of world trade
 - Indiscriminate decrease in trade
 - Exports declined by 30 %
 - China - targeted by the most governments for protectionist measures
 - Russia
 - Increased tariffs on imported automobiles
 - India
 - Raised tariffs on steel imports
 - Argentina
 - New obstacles to imported auto parts and shoes
-



- Creeping protectionism during recession 2007-2009

NUMBER OF NATIONS THAT HAVE IMPOSED PROTECTIONIST MEASURES ON EACH COUNTRY	
Targeted Country	Number of Nations Imposing Protectionist Measures
China	55
United States	49
Japan	46
Germany	29
France	29

NUMBER OF PROTECTIONIST MEASURES IMPOSED ON EACH CATEGORY OF PRODUCTS	
Product Category	Number of Protectionist Measures
Machinery	44
Foods	22
Financial Services	21
Agricultural Goods	20
Grain and Starch Goods	19

*State aid funds, higher tariffs, immigration restrictions, export subsidies initiated during the period November 2008–September 2009



- **Subsidies**
 - Outright cash disbursements, tax concessions, insurance arrangements, and loans at below-market interest rates
 - From the government for producers
 - To help improve their market position
 - Provide domestic firms a cost advantage
 - Market products at prices lower than warranted by their actual cost or profit considerations
 - Net price received by the producer = price paid by the purchaser + subsidy
 - **Domestic production subsidy**
 - Granted to producers of import-competing goods
 - **Export subsidy**
 - Granted to producers of goods that are to be sold overseas
-



- **Domestic content requirements**
- Higher input prices
 - Higher product prices
 - Loss of competitiveness
- Subsidizing by domestic consumers of the domestic producer

Country	Minimum Domestic Content Required (percent) to Qualify for Zero Duty Rates
Argentina	76
Mexico	62
Brazil	60
Uruguay	60
Chinese Taipei	40
Ecuador	35
Venezuela	30
Colombia	30



- **Dumping**
 - International price discrimination
 - Foreign producers charge lower prices than domestic producers for an identical product
 - After allowing for transportation costs and tariff duties
 - Selling in foreign markets at a price below the cost of production
 - Types:
 - Sporadic dumping - result of misfortune or poor planning
 - Persistent dumping - a producer may consistently sell abroad at lower prices than at home
 - International price discrimination – different demand elasticity
-



- **Dumping - example**

	No Dumping	Dumping
Home sales	100 units @ \$300	100 units @ \$300
Export sales	0 units @ \$300	50 units @ \$250
Sales revenue	<u>\$30,000</u>	<u>\$42,500</u>
Less variable costs of \$200 per unit	<u>-20,000</u>	<u>-30,000</u>
	<u>\$10,000</u>	<u>\$12,500</u>
Less total fixed costs of \$10,000	<u>-10,000</u>	<u>-10,000</u>
Profit	<u>\$ 0</u>	<u>\$ 2,500</u>

- **Government Procurement Policies**

- requires that a specified percentage of purchases by the federal or state governments be made from domestic firms rather than foreign firms

- **Health and Safety Standards**

- Other countries governing the use of some goods, such as pharmaceuticals
- these regulations can have an effect upon trade patterns even though the policies are not designed based on their effects on trade

- **Red-Tape Barriers**

- refers to costly administrative procedures required for the importation of foreign goods
 - many forms: France once required that videocassette recorders enter the country through one small port facility in the south of France; because the port capacity was limited, it effectively restricted the number of VCRs that could enter the country
 - may arise if multiple licences must be obtained from a variety of government sources before importation of a product is allowed. .
-

TOOLS OF TRADE POLICY



- **Export promotion**

- Marketing information and technical assistance
- Trade missions
- Sponsoring exhibits of goods at international trade fairs
- Establish overseas trade centers
- Export trade associations
- Export trading companies
- Export subsidies: low-cost credit

- **Economic sanctions**

- Government-mandated limitations placed on customary trade or financial relations among nations
 - Protect the domestic economy and security
 - Reduce nuclear proliferation
 - Set compensation for property expropriated by foreign governments
 - Combat international terrorism
 - Protect human rights
-

- Economic welfare gains from liberalization of import restrains (tariffs, quotas)

Annual change in Economic Welfare	Import-Competing Industry
Textiles and apparel	\$1,885 millions
Sugar	811
Dairy	573
Footwear	249
Ethyl alcohol	120
Beef	48
Tuna	24
Glass products	20
Tobacco	19



- **Free-trade argument**
 - If each nation produces what it does best and permits trade
 - In the long term
 - Lower prices
 - Higher levels of output, income, and consumption
 - Little or no positive effect on the level of employment in the long run by protectionism
 - **Argument for trade restrictions**
 - Trade benefits the domestic economy even if foreign nations impose trade restrictions
 - Job losses spread across many industries
 - Trading nations should temporarily shield their newly developing industries from foreign competition (infant industry)
 - National security argument
-



- **General Agreement on Tariffs and Trade**
 - Agreement among the member nations
 - To decrease trade barriers
 - To place all nations on an equal footing in trading relations
 - Never intended to become an organization
 - 1995, GATT - transformed into the World Trade Organization (WTO)
 - Main provisions of GATT
 - Include a mechanism intended to improve GATT's process for resolving trade disputes among member nations
-

TRADE ORGANIZATIONS



- Major principles of GATT system
- Trade without discrimination
 - MFN principle (normal trade relations)
 - National treatment principle
- Promoting freer trade
 - Improved the dispute-resolution process
 - Use tariffs rather than quotas
- Binding and transparency
- Multilateral trade negotiations



TRADE ORGANIZATIONS



- GATT negotiating rounds

Negotiating Round and Coverage	Dates	Number of Participants	Tariff Cut Achieved (percent)
Addressed tariffs			
Geneva	1947	23	21
Annecy	1949	13	2
Torquay	1951	38	3
Geneva	1956	26	4
Dillon Round	1960–1961	26	2
Kennedy Round	1964–1967	62	35
Addressed tariff and nontariff barriers			
Tokyo Round	1973–79	99	33
Uruguay Round	1986–93	125	34
Doha Round	2002–	149	—



- **WTO (World Trade Organization)**
 - 153 nations, 97% of world trade
 - International organization, headquartered in Geneva, Switzerland
 - Multilateral trading system
 - Trade in services, intellectual property, and investment
 - Administers a unified package of agreements to which all members are committed
 - Oversees
 - Implementation of the tariff cuts
 - Reduction of nontariff measures
 - Watchdog of international trade
 - Database - trade measures and statistics
-



- **Intellectual property rights (IPRs) violations**
 - Pirates
 - Counterfeiters
 - Other infringers
 - **Intellectual property**
 - An invention, idea, product, or process
 - Registered with the government
 - Awards the inventor (or author) exclusive rights to use the invention for a given time period
 - **Copyrights**
 - To protect works of original authorship
 - For the remainder of the author's life plus 50 years
 - **Trademarks**
 - To manufacturers
 - Exclusive rights to a distinguishing name or symbol
 - **Patents**
 - Inventor - for a term (15 years or more) - exclusive right to make, use, or sell the invention
-

INTELLECTUAL PROPERTY RIGHTS



- Examples of intellectual property right violations in China

Affected Firm	Violation in China
Epson	Copying machines and ink cartridges are counterfeited.
Microsoft	Counterfeiting of Windows and Windows NT, with packaging virtually indistinguishable from the real product and sold in authorized outlets.
Yamaha	Five of every six JYM150-A motorcycles and ZY125 scooters bearing Yamaha's name are fake in China. Some state-owned factories manufacture copies four months following the introduction of a new model.
Gillette	Up to one-fourth of its Parker pens, Duracell batteries, and Gillette razors sold in China are pirated.
Anheuser-Busch	Some 640 million bottles of fake Budweiser beer are sold annually in China.
Bestfoods	Bogus versions of Knorr bouillon and Skippy Peanut Butter lead to tens of millions of dollars in forgone sales each year.



Thank you for your Attention!
