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# MAJOR ASSIGNMENT OF INTERNATIONAL MARKETING

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## TOPIC : Trade Barriers

# Trade barriers

Trade barriers are government-induced restrictions on international trade. Barriers take the form of tariffs (which impose a financial burden on imports) and non-tariff barriers to trade (which uses other overt and covert means to restrict imports and occasionally exports.

# Free Trade vs. Trade Barriers

Nations can trade freely with each other or there are trade barriers.

**Free Trade:** Nothing hinders or gets in the way from two nations trading with each other.

**Trade Barriers**: Trade is difficult because things get in the way.

There are costs and benefits related to free trade as well as trade barriers.

# Trade Barriers – Three Types

Barriers to trade are things that hinder or get in the way of trading.

They can be cultural, physical , or economic.

**Cultural barriers:** language, currency, belief system.

**Physical barriers:** mountains, rivers, etc.

**Example:** The Alps Mountains in Europe

**Economic barriers:** government rules that restrict, block or discourage international trade between countries.

# The most common trade restrictions are:

# 1: Tariffs:

# A tariff is a tax on imported products or services. In the case of tariffs imposed by the United States, the business that imports or produces the foreign product must pay the tax to the U.S. government. The tariff revenue goes directly to the U.S. Treasury.

**Example of a Tariff**

* Two companies sell athletic shoes in the US.
* Company 1 is located in Brazil.
* Company 2 is in Hershey, Pennsylvania.

A tariff must be paid on all shoes made outside the US and sold in the US.

The tariff is 10% of all sales. Both companies sell shoes at a price of $100 per pair

1. Which company must pay the tariff? Which company benefits from the tariff?

2. How much will the tariff cost the company?

3. Who receives the revenues generated by the tariffs?

# 2 – Quota:

A quota is a limit on the amount of goods that can be imported. Putting a quota on a good creates a shortage (or a scarcity), which causes the price of the good to rise and allows domestic (inside the country) producers to raise their prices and to expand their production.

**Example of Quota**

* Germany has imported 2 million tons of steel from France every year for the past decade.
* Germany then started an import quota on steel.
* Germany now only imports around 1 million tons of steel from France, but the country of Germany still uses around 3 tons of steel a year.

1. How will this impact German steel companies?

2. How will this impact French steel companies?

3. Why would a country do this?

**Embargo:**

An embargo stops exports or importsν (sending goods to another country and getting goods from another country) of a product or group of products. Sometimes all trade with a country is stopped, usually for political reasons.

**Example of Embargo**

Last year Spain had some political disagreements with Greece, so they enacted an embargo against Greece. With the embargo, no Greek ships are allowed in Spanish ports.

1. How will this impact Greece?

2. Why would Spain want to do this?

3. Will Spain benefit from this decision?

# Conclusion

Regional agreements are one way to reduce these trade barriers. Other measures such as the reduction of non-tariff barriers, and rationalization and harmonization of regulations, also aim to facilitate trade.

# KEY TAKEAWAYS

* Free trade is encouraged by a number of agreements and organizations set up to monitor trade policies.
* The General Agreement on Tariffs and Trade (GATT) encourages free trade by regulating and reducing tariffs and by providing a forum for resolving disputes.
* This highly successful initiative achieved substantial reductions in tariffs and quotas, and in 1995, its members founded the World Trade Organization (WTO**)**, which encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes.
* Providing monetary assistance to some of the poorest nations in the world is the shared goal of two organizations: the International Monetary Fund (IMF**)** and the World Bank. Several initiatives have successfully promoted free trade on a regional level. In certain parts of the world, groups of countries have joined together to allow goods and services to flow without restrictions across their mutual borders. Such groups are called trading blocs.
* The North American Free Trade Association (NAFTA**)** is an agreement among the governments of the United States, Canada, and Mexico to open their borders to unrestricted trade.
* The effect of this agreement is that three very different economies are combined into one economic zone with almost no trade barriers.
* The European Union (EU**)** is a group of twenty-seven countries that have eliminated trade barriers among themselves.