Impacts of tariffs on international trade

a)Explain comparative advantage in more detail

With reference to international trade theory, comparative advantage principle is probably the most important concept. The origination of the idea of comparative advantage could be traced back to the early 19 th Century described by Torrens (1815) in an Essay on the External Corn Trade. It was later formalized by Ricardo (1817a) in " On the Principles of Political Economy and Taxation".

The principle is now a key concept in international trade as a result of the book " Principles of Political Economy" by Stuart Mill (1848). The principle is however not intuitive, so the most suitable way of presenting is by making use of numerical example as done by Ricardo (1817b).

With reference to the example illustrated by Ricardo, two countries are taken into consideration. For instance, Ghana and Togo. Both countries produce two commodities, cocoa and palm oil, where labour is considered as the only input for production. It is assumed that there is varying productivity of labour between industries and across countries. It is also assumed that Ghana was more productive in both commodities. So, if relative to Togo, Ghana is twice as productive in producing palm oil but three times as productive in producing cocoa, then the comparative advantage commodity of Ghana is cocoa. Ghana and Togo specializing in producing cocoa and palm oil respectively could benefit from specialization and free trade.

It is also known that comparative advantage is as a result of a country producing goods with low opportunity cost than other countries (Amadeo, 2018). Therefore, from the example above, Ghana producing cocoa relative to palm oil puts it at a comparative advantage.

b)Describe how tariffs can restrict international trade.

Tariff is defined by Kenton (2017) as “ a tax imposed on imported goods and services”. Tariffs could be charges or restrictions on imports. International trade, on the other hand, is “ the transfer of goods and services which include capital goods from one country to another” (Hassan et al., 2014, p. 26). International trade contributes substantially to the growth of the economy in countries all over the world. International trade provides the consumer with a variety of goods and services for their choosing and invigorates more innovation and productivity. Despite all its benefits, international trade is not widely accepted.

Partington (2018a) reports that the ideal motive for the imposition of tariffs which is to raise revenue is being exploited by rather tending to increase prices of imported goods with the intention to stimulate domestic companies and protect them from global competition. It is almost certain that tariffs restrict international trade in various ways by adding to cost of imported goods which makes it challenging for companies to function in outside regions and cause raw materials to be costly to manufactures which slows production. This demonstrates that tariffs tend to fail their purpose of implementation but rather lead to higher prices and high rate of unemployment which leads to suppression of economic growth. Multinationals could, therefore, relocate to other places where there are no restrictions to trade and take advantage of units of production such as cheap labour. Partington (2018b) again reports that it is certain that while tariffs can sustain jobs, they cause goods and services to be highly priced and suppress productivity and growth of the economy.

The likely implications of tariff being imposed on steel and aluminium by the President of the US have been of intense discussion within affected regions and some people in the US as well which has caused retaliation from trading partners which is almost causing a trade war. These tariffs do not only reduce imports and protect domestics steel companies in the US but causing indiscriminate harms to local business as US carmakers must struggle with higher prices of imported raw materials. For US auto manufacturing supply chains, these tariffs may protect them from competition from foreigners, but the US also exports cars, Generals Motors, for instance, sells more cars to China than in the US. (SandBu, 2018a). This protectionism, according to SandBu (2018b) will cause retaliations as BMW has already relocated production of its X3 from South Carolina to Shenyang, but also make domestic goods costlier.

These, therefore, mean that if the imposition of tariffs increases by time, economies would be limited to the goods and services produced within their borders, cause imports to be more expensive and exports less competitive all at the expense of making goods more expensive for the consumer. These could lead to a reduction in the additional inflow of capital from other countries, transfer of technology and in general free trade among countries.

c)Critique how the tariffs discussed and imposed during the last two years might impact on international trade in automobiles.

With reference to an article by Hollinger & Waldmeir (2017), US intention to impose tariffs up to 219 percent on Bombardier's newest passenger jet, C Series based on allegations by its rival Boeing has led to the loss of thousands of jobs in Canada and the UK. According to Lampert & Scott (2017), the C Series sustains jobs in the US because its components are supplied by American companies sustaining about 23, 000 jobs. As a result of these tariffs, all these jobs could be lost thereby retarding economic growth in the US.

SandBu (2018c) reports that workers in the auto manufacturing supply chains are affected by car tariffs though it is presumed to protect them from import competition since the US also exports cars to other countries such as China. These tariffs could lead to manufacturing supply chains manufacturing all at home to cut down imports but at the same time reduce the competitiveness of their exports. SandBu (2018d) again states that the imposition of these tariffs that are aimed at limiting imports can also discourage exports due to retaliation from other economies. General motors shutting down four plants in the US and one in Canada which leads to loss of about 14, 000 jobs tends to generate a high rate of unemployment in these economies thereby stifling economic growth.

Tariffs are not good for car makers now that they are becoming more globalized and depend on the global community to sustain a profitable business. According to Bruce (2018a), President Trump initially proposed tariffs of roughly $50 billion on car parts coming into the United States from China. China, on the other hand, responded to this by proposing tariff on $50 billion American products, including cars and planes. Bruce (2018b) also stated that General Motors already imports two models or cars from China into the U. S. and Ford will soon import the Focus model of one of its cars, and they both will export significant volumes of cars from the U. S. to China. These trade war disputes could destroy the business models for many automobiles.

Another reference to an article from the Independent records that tariffs imposed on the exports of cars from the UK to Europe based on the post-Brexit trade barriers will be catastrophic (O'Grady, 2016a). Mr Kirner, Executive Director for Jaguar Land Rover, in the article by O'Grady (2016b) asserts that tariffs would inspire cost and the complexity of incorporated supply chains that go across borders and would be a detriment to jobs in the UK and businesses (O'Grady, 2016c). O'Grady (2016c) again reports that Jaguar Land Rover is British's exporter of different kind of cars to China, it gives jobs to about 42, 000 people and invests about £3. 5 billion in the UK a year.

In a recent article from Financial Times, the US threatened to increase taxes on imported cars from Europe to encourage buyers in America to purchase luxury brands made in the US instead of those from Europe such as Mercedes-Benz and BMW. (Campbell, 2019). These new standards are causing a decline in sales in Mercedes- Benz (known to be the world's bestselling luxury car brand) supply in the US, Europe and Asia and in its home market, Germany. It was recorded that deliveries in Europe, Germany, the US and Asia fell by 11. 2%, 11. 9%, 11. 1% and 1. 3% respectively. (McGee, 2019). These actions as a result of trade hostility hinder growth in automobile industry thereby causing loss of Jobs and stifle economic growth.

These findings contribute in several ways to our understanding of tariffs and the impact they have on international trade being making imported goods costlier which tends to discourage companies from trading internationally, retaliation from economies and loss of jobs. However, although international trade is good, countries should give the true market value of their products so this would put a halt to the rift between countries.

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