Tariffs: benefits and costs essays example

Business, Industries

(Institute/College)

Introduction

Tariffs are defined as custom levies that are imposed on shipped goods. The levy is traditionally calculated as a percentage of the collective cost of the shipment, inclusive of transportation and guarantees. This factor increases the price of the shipment and provides a benefit to local products in that specific market; these are almost never imposed on export products. On average, tariffs hover at 5 percent; however, countries charge varying rates of tariffs depending on the product the tariff is designed to protect. Customs authorities will also impose sales duties, local duties and even additional customs levies. These levies are collected when the shipments clear Customs.

American trade policy makers constantly change their positions on whether the US government will develop or establish tariff structures. In general, when a local sector perceives it is under threat, the industry will pressure Congress into developing a trade restriction policy to protect its local market. Again, this will help the industry weather intense foreign competitive pressure; however, the imposition of the trade barriers will drive prices higher for the consuming public.

Simply put, the imposition or non-imposition of trade restrictions will mandate compromises be arrived at between the need to shield critical and vulnerable industries and raising the number of Americans with gainful employment. Moreover, retaliation is likely from countries that will be negatively impacted by the imposition of these policies; this can degenerate into a downward tailspin for industry, as what occurred during the period of

the Great Depression.

Throughout its history, the United States has imposed one form of trade restriction in its trading activities with the global market. The “ Harmonized Tariff Schedule” sets particular duties for specific categories of shipments into the United States market. The Schedule is founded on the “ international harmonized system” that characterizes majority of the manufactures and commodities produced across the globe. Earlier tariff structures include the Smoot-Hawley Tariff that significantly increased the existing inordinately high duty system being implemented to protect local farm producers.

Tariffs were imposed in even earlier times; the so-called “ Tariff of Abomination” was geared to protect industry interest in the Northeast, but actually damaged Southern manufactures. The opposition against the tariffs degenerated to the point that it helped Andrew Jackson win the presidency over John Quincy Adams; though the issue died down in the ensuing years, the hostility bought about by the passage of the duty ultimately resulted in the launching of the American Civil War (Amadeo, 2015, p. 1).

As with taxes, there are different types of duties and each has its own specific design. “ Revenue tariffs” are traditionally levied to items and manufactures not locally produced; in the case of the US, these are applied to imports such as coffee, tin, and bananas, to name a few. The price of this type of tariff is conservatively priced, the objective being able to generate funds for the Federal coffers. “ Protective tariffs” are geared to protect the local market from expatriate competition. Though these types of duties are traditionally not set extremely high as to effectively contain overseas competition in the local market, these tariffs will put foreign competitors at a

distinct inferior position compared to local industry players in plying their products.

“ Import quotas” set the maximum quantity that a certain manufacture can be imported into the market at any given period. Import limits can better limit global competition to the state’s local market compared to the action of implementing tariff strictures. To illustrate a point, certain products and manufactures can still be imported and pose competition to similar products in the local market even though there are high tariff structures in place. In comparison, decreased import limits can thwart any additional importations when the limits are filled up.

“ Non-tariff barriers” describe licensing mandates, capricious protocols related to product quality and safety concerns, “ red tape” in Customs policies and other similar practices. For example, Japan and countries in Europe consistently require local importers to acquire permits and other licenses; by limiting the number of licenses and permits that are issued, shipping certain manufactures and commodities into their countries will likewise be constricted. Coal importation to Great Britain is limited in this manner.

“ Voluntary export restrictions” can be regarded as “ reverse tariffs” in that it is not the importing country that places trade barriers to hinder access into their local markets; it is the companies themselves that set the limits. These policies, which are similar in effect to importation limits, are limits companies set for the export of a specific manufacture or commodity to a particular market. The exporters agree to the limit in the desire to skirt around more acerbic trade restrictions. For example, Japanese automobile manufacturers

set a collective limit on the export of their cars to the American market to avoid being meted higher trade restrictions or having to deal with decreased import limits (University of Delaware, n. date, p. 1).

Tariffs are the most common trade barrier; one of the stated purposes for the establishment of the World Trade Organization (WTO) is to allow member states to arbitrate bilateral tariff reduction policies (Ministry of Economy, Trade and Industry, n. date, p. 1). Once the countries are able to negotiate an acceptable trade agreement, the WTO has the power and responsibility to enforce the provisions of the agreement. The group enforces the GATT or the " General Agreement on Tariffs and Trade." The international community nearly gained increased free trade policies from the Doha round of negotiations; should the round proven successful, the global economy would have seen an " across the board" reduction in tariff rates. However, the Doha round collapsed, leaving China to acquire an international trading foothold (Amadeo, 2015, p. 1).

Tariffs raise the cost of shipments, resulting in a decrease in consumer excess. To cite an example, the consuming public in the United Kingdom have fallen owing to tariff schemes imposed by the European Union on farm products. A good number of farm produce are priced higher owing to higher duties to safeguard the interests of farmers in the EU. It is difficult to attribute any boon to be gained from the imposition of tariffs (Pettinger, 2008, p. 1). The tariffs negatively impact the consumers in a country in that these drive the costs of importing the item; this in turn is reflected in the prices of the item in the importing state. In addition, tariffs increase the costs of conducting business for exporters, as the tariffs impose costs that will

likely be taken out of quality-related costs to maintain competitiveness. Moreover, when governments implement a tariff structure, trading partners will likely reciprocate with their own duty schemes, significantly increasing the cost of business. In essence, duties are taxes; the tariff is designed to increase the prices of transported goods. Given the weight of the duty on the imported good, this will render it most costly to purchase than similar local goods. The objective is to raise the demand for the locally produced good and at the same time drive down the amount of imports. In addition, tariffs are geared to raise income for the levying state. On the other hand, quotas are restrictions on the amount of shipments bought into the country. Depending on the jurisdiction, this restriction can be calculated as a portion of the sales of the product on the amount of the units sold for the product. A number of sectors of the textiles industry are protected by quotas. The quotas are designed to protect small-scale and new industries and maintain low market entry expenses low for local manufacturers. However, these policies are still enforced even though the industries are well established and operating.

Aside from industry protection and the maintenance of low industry entry costs, critical industries that need protection are also served by the imposition of quotas. Agricultural and defense industries are aided by quotas in limiting competition and other variables that tend to depress the market owing to oversupply. In markets where there are dramatic spikes in the level of markets entering the local market, quotas are more effective in protecting the market compared to tariffs. Jurisdictions that utilize trade limits face the issue of retaliatory tariff policies, citing the very same justifications that the

implementing country used in applying the duties and limits. The ultimate end of this “ conflict” is that the exporters’ opportunities to expand their markets are circumscribed and the prices that the consumers have to pay are higher.

Trade disputes are ultimately the final “ product” of the imposition of trade barriers among countries. China and the members of the European Union were engaged in a heated dispute regarding textile exports that hindered the passage of a new agreement since the last accord expired in 2005. In this light, trade barriers tend to increase tensions, while negotiations to stimulate freer trade helps in assuaging trade disputes between nations. Simply stated, commerce only works when countries are allowed to freely and equitably trade with each other (Sanders, 2015, p. 1).

References

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