Economic trade

Business

Economic trade Reasons why nations restrict international trade Introduction Despite the benefits offered by international trade such as increased efficiency in production, lower prices for consumers and wide variety of consumer choice, countries restrict international trade for various reasons such as protecting the domestic industries, safeguarding national security and protecting local employment (Boudreaux, 2008, p 57). The countries that restrict international trade use various barriers such as restrictive tariffs and taxes, quotas and product quality standards in order to make the imported goods more expensive than the locally produced goods in the domestic market (Boudreaux, 2008, p 58).

Nations restrict international trade is the need to protect the infant domestic industries from unfair trade practices and ensure the newly developing industries grow in order to become competitive. The governments may impose quotas on imported products in certain industries and issue subsidies to the domestic industries in order to facilitate their growth and attain competitiveness in the international markets (Boudreaux, 2008, p 62).

The nations also restrict international trade in order to safeguard the local jobs from ‘ cheap labor abroad’ through supporting the establishment of domestic industries that will create jobs for the population. For instance, the US government has outlined initiatives that reward companies that create jobs for US industries rather than shipping jobs to least expensive manufacturing countries. The US motor industry is an example where the government has undertaken measures in order to ensure the firms establish manufacturing and assembly plants within the country borders in order to create jobs. The restrictions also shield downgrade of the domestic wages due to influx of cheap labor from the developing countries (Grimwade, 2006, p 72).

According to Grimwade (2006), nations will restrict international trade if the national security is at stake (p 71). For instance, nations protect the national defense industries and associated industries such as oil industry. For instance, the US government has embarked on attaining fuel efficiency through investing in low emission and sustainable energy sources in order to stop reliance on imported oils.

Boudreaux (2008) asserts that nations may restrict international trade in order to control their trade deficit through use of tariffs in order to control the volumes of imports in to the economy (p 58). Another reason why governments restrict international trade is to gain revenues from the high tariffs and taxes that are imposed on imported goods. Tariffs on trade account for higher percentage of revenues for domestic countries (Boudreaux, 2008, p 63).

Nations may restrict international trade in order to protect the health and safety of its citizens through implementing embargoes or advocating for certain quality standards. For instance, the US government prohibited livestock imports from the Europe in March 2001 in order to protect US livestock herds from foot and mouth disease that was high across European herds.

Governments may impose measures that restrict trade with certain nations for political nations in form sanctions due to violation of certain international obligations (Boudreaux, 2008, p 67). Sanctions are applicable in circumstances where the other trade partners engages in production of illegal goods, supports terrorism, provides illegal subsidies to their domestic industries or have violated UN agreements and obligations such as supporting proliferation of nuclear weapons (Grimwade, 2006, p 72).

The restrictions of international trade such as quotas, tariffs and embargoes encourage retaliation from the other trading partners. Protective tariffs on imported goods aim at making the imports expensive in the domestic market while compared with locally produced goods thus discouraging importation. Quotas limit the amounts of goods or volume of goods that can be imported within a certain period thus creating shortages of imports and encouraging consumption of the local commodities (Grimwade, 2006, p 73). Embargoes prohibit the importation or export of a certain product while restrictive licenses will limit international trade through limiting the number of licenses for importation of the product. The other measures are safety and quality standards than are higher than those of the domestically produced goods thus making the imports expensive. The subsidies to the local industries lower the production costs of the domestic industries thus leading to cheaper prices than the imported goods. Subsidies to local industries will enhance the competiveness of the local industries in the domestic industry through making domestic goods cheaper and imports expensive thus restricting international trade (Grimwade, 2006, p 75).

Conclusion

Nations restrict international trade in order to protect the infant domestic industries, protect local labor market from cheap foreign labor, safeguard the national security, protect the health and safety of its citizens and raise revenues. Other reasons include political objectives that take the form of sanctions. The methods of restriction include protective tariffs, quotas, restrictive licensing, safety and quality standards, embargoes and sanctions.

References:

Boudreaux, D. J. (2008). Globalization. Westport, CT: Greenwood Press.

Grimwade, N. (2006). International trade policy: a contemporary analysis. New York: Routledge.