Automobile trade restrictions economics essay

The automobile industry is considered a very complex and vital industry compared to others, this is because of the development process with each project. The U. S. has said to have the most open automotive market in the world. The automotive industry has been a part of every major U. S. trade development dating back since World War One and is composed of three broad industries. These three industries consist of high-volume, full-ranged producers, which offer higher volumes and lower prices; while appealing to a mass amount of consumers. GM, Nissan, and Fiat are the main companies in this full-range producer and compete on a cost reduction basis. The second industry is the specialist producers, (BMW, Volvo, and Mercedes) these producers supply higher performance cars at higher prices and compete on the basis of differentiation and cost recovery. Lastly, there are niche producers, (alpine, TRV, and Ferrari), who offer on exclusivity and extreme performance.

In addition to these producers, some trends can be identified when examining the global automotive market. These trends consist of the global Market, Establishment of Global Alliances, and Industry Consolidation. First, the global market is considered to be the world's largest automobile manufacturer. The global market invests in production facilities that reduce production costs and are located in places such as Latin America, China, Malaysia and markets in Southeast Asia. Secondly, Establishment of Global Alliances are referred to as the, " The Big Three" (GM, Ford and Chrysler) who have merged in partnerships with other European and Japanese automobile manufacturers. Finally, Industry Consolidation involves increasing global competition among manufacturers and positioning within foreign markets. The U. S. is in the world's top three automobile industries along with Japan and Germany. These automobile industries are major wealth generators for Europe and the U. S. recently providing over 17 million foreign and domestic cars and trucks in the U. S., which in turn accounted for more than 400 billion in sales.

In addition to these producers and trends, there are six leading automobile manufactures, which are located in the U. S. and Japan. The U. S. consists of Daimler-Chrysler which is regulated by the United Nations, while General motors, and Ford are the other two in the U. S. The other three are produced by Japan and consist of Toyota, Nissan, and Honda. Between these six companies, they control over 87% of the market. The automotive industry has been a crucial part of the global market with automotive products accounting for ten percent of global merchandise trade.

Fortunately and unfortunately with trade also comes trade restrictions. So what is a trade restriction? A trade restriction is defined as an artificial restriction on the trade of goods between two countries. The most known and important form of trade restriction is a tariff, import quotas, voluntary export restraints, and antidumping actions are also restrictions which will be explained in more detail later. In this paper I will explain trade restrictions/barriers that the U. S. imposes on the automobile industry, what programs are available to help make automobile trading more efficient and attractive for everyone, and also mention the various tariffs and trade barriers. In addition, I will talk about the current global automotive market , new foreign policy introduced in the U. S. and other nations, and finally explain the ramifications of certain restrictions and there effects on different people groups within the nation.

First, there are many programs whose intentions are to help the automotive industry in trading. First are (APEC), Asia Pacific Economic Cooperation and Automotive Dialogue (AD) which serve as a forum for APEC. (APEC) attempts to find strategies to increase the integration and development of the automotive industry in a region. AD try to promote growth and development of the regional auto industry while also attempting to offer certain recommendations. Some of the economies that have participated in APEC and the AD include Australia, Canada, China, Indonesia, Japan, Korea, Malaysia, Mexico, the Philippines, Chinese Taipei, Thailand, Viet Nam and the United States.

Many of these same countries have also tried and introduce new policies to make their country better off. For example, in 2004 China issued a new automobile industrial policy which discouraged the importation of automotive parts but encouraged the use of domestic technology in new vehicles assembled in China. In 2005, China issued regulations implementing the new automobile industrial policy. The policy was said to unfairly discriminate against imported automotive parts and discourage automobile manufacturers in China from using imported automotive parts in the assembly of vehicles. In March 2008, China's policy was ruled inconsistent with several WTO provisions then in January of 2009, China complied with the recommendations and set rulings. Along with China, Korea also has attempted to bring out barriers that restrict importation and sale which include anti-import basis, standards and certification process and procedures, tariff and tax structure, and currency manipulation.

So what are barriers/ restriction design to do? Barriers to entry are designed to keep out potential entrants from entering a profitable market. The barriers to enter the automotive industry are considered substantial, a new company must have the startup capital required to establish manufacturing capacity to achieve minimum efficient scale which is prohibitive. Many automotive established companies are entering new markets through strategic partnerships or through buying out or merging with other companies. Previously , the barriers to entry for new markets were low; However once the U. S. invited Japanese makers who began to offer quality vehicles in lower price markets compared to the U. S. changed this. Not only has Japan had success, many large automotive companies have globalized and entered foreign markets with varying degrees of success including, Asia, Africa, and South America whose barriers to entry are similar.

As mentioned briefly before, there are a number of types of tariffs and trade Barriers that the government can employ and they include Specific tariffs, Ad valorem tariffs, Licenses, Import quotas, Voluntary export restraints, and Local content requirements. Specific Tariffs are considered a fixed fee levied on one unit of an imported good. Ad Valorem Tariff is based on a percentage of that good’s value. Non-tariff barriers to trade include Embargoes, Subsidies, standards, and licenses which are granted to a business by the government which then allows the business to import a certain type of good into the country.

So what effects can these barriers cause? Barriers can cause restriction in competition or increase prices on consumers. An import quota is a restriction placed on the amount of a particular good that can be imported. Voluntary Export Restraints (VER) is a type of trade barrier that is voluntary and is created by the exporting country rather than the importing one. Also, instead of placing a quota on a number of goods that can be imported, the government can require a percentage of a good be made domestically. The restriction can be a percentage of the good itself, or a percentage of the value of the good.

Now that you know a little about tariffs and certain barriers, let's examine further the effect of tariffs and trade barriers on businesses and consumers. Patents, limit pricing, and cost advantages are all considered barriers to entry. In the short run, effects such as higher prices for goods can decrease consumption by individual consumers and by businesses, causing business profit and the government to see an increase in revenue from things like duties. However, in the long term, businesses can see decline in profits and efficiency due to lack of competition and future substitutes to their products. When speaking about the government, the long-term effect of subsidies is an increase in the demand for public services, overall resulting in less disposable income.

When looking into the future, Japan continues its economic expansion which has allowed them to see continued success in exports. With the automobile industry being extremely competitive, the U. S. has worked with the, " Big Three" to introduce a program called the, " PNGV" which is a partnership for new generation vehicles. They aim to strengthen the U. S. global competiveness, keep jobs, while also trying to reduce the dependence of foreign oil, and improve the environment. The U. S. and Europe had increased concern regarding mobility, economic development, safety and environmental concerns when putting out new automobiles. As the government continues to try and provide incentives to reduce tax increases and fuel price increase they are also intending to find cars that reduce air pollution. Older models make automobile traded restrictions more difficult because of controversies over car prices and consumer preferences.

Many consumers are now looking for vehicles that are equipped with, air-bags, power steering, antilock brakes, comfort, technology, and automobiles that reduce carbon going into the atmosphere. Car manufacturing must met safety, environmental, and business standard demand for international and domestic regulations. According to the future growth in the automotive industry over the next decade is expected to come from places like India, China, and Eastern Europe. Major companies are beginning to develop low cost cars, which include, Hyundai, Toyota, Fiat and others. With the increase worries about environmental issues, Hybrid sales have increased drastically. The U. S. and Europe are the main introducers of less pollutant and fuel efficiency standards in vehicles.

So what are the ramifications of these barriers? Restrictions or trade barriers seem only to limit world trade, while also decreasing economic efficiency, reducing total production and employment, raise prices, and even cause retaliation. Some domestic companies benefit at the expense of foreign companies and workers, and domestic consumers. While subsidies do benefit domestic companies and workers in exporting industries, tariffs decrease exports and shift resources and production from more effective to less effective producers.

In conclusion, while Japan continues to force competition on the U. S. It causes damage to the U. S car industry because of priced car exports. Causing the U. S. to now only represent s less than ¼ of the world Industry and its market share continues to decline. Since 2007 the " big three" has been falling drastically. Chrysler is now selling 53 percent fewer vehicles since 2007, while GM is down 23% from 2007 and Ford 32%. Honda also saw declines along with Toyota who was down 37 percent, Nissan 31% and Honda 35 percent. All of these drops have caused oversupply in car lots, motivated dealers, easier financing terms, and long-term industry presence driving down the price of gas, making now the perfect time to purchase automobiles.