Trade Barriers

Tariff, Quota, & Embargo

International Trade

- This involves the exchange of goods or services between countries.
- International trade is described in terms of:
    - **Exports**: the goods and services sold to other countries
    - **Imports**: the goods or services bought from other countries
- Countries trade goods because no country has all the resources necessary to efficiently produce everything its people need.

Free Trade Vs. Trade Barriers

- With **free trade**, nothing hinders or gets in the way of two nations trading with each other.
- Countries sometimes set up **trade barriers** to restrict trade because they want to produce and sell their own goods:
  - Trading is difficult because things get in the way.
- There are costs and benefits related to free trade as well as trade barriers.

Trade Barriers

- Trade barriers keep products from being bought and sold between countries.
  - They hinder (stop or slow down) global trade.

- There are 3 major types of economic trade barriers:
  1. **Tariff**
  2. **Quota**
  3. **Embargo**

- Most barriers to trade are designed to prevent imports from entering a country.

Physical Trade Barriers

- Natural barriers can slow down trade between nations by making it harder and more expensive to move goods from place to place.

- Example: The Swiss Alps make it difficult for northern Italy to trade with Switzerland. The countries are building tunnels through the mountains to help make trade easier.

- Example: The Sahara Desert makes it extremely hard for countries in Northern Africa to trade with the rest of the continent.

Tariff

What is a Tariff?

- A **tariff** is a tax put on goods imported from other countries.
- The effect of a tariff is to raise the price of the imported product.
- It makes imported goods more expensive so that people are more likely to purchase lower-priced items produced domestically.

Tariffs

- Tariffs are taxes charged for goods that leave or enter a country.
  - In order to get a product from another country, you have to pay extra for it.
  - It is the same concept as sales tax that is put on items your purchase at the store.

Quota

What is a Quota?

- A **quota** is a restriction on the amount of a good that can be imported into country.
- Putting a quota on a good creates a shortage, which causes the price of the good to rise.
  - Consumers are less likely to buy this good because it's now more expensive than the good produced in the home country.
- Quotas encourage people to buy domestic products, rather than foreign goods (boosts country's economy).

Quota

- A quota is when a country limits the amount of a product that can be imported from another country.
  - Example: A country might limit the amount of cars imported from other countries to 500,000 per year.

Embargo

What’s an Embargo?

- Trade embargoes forbid trade with another country.
- The government orders a complete ban on trade with another country.
- The embargo is the harshest type of trade barrier and is usually enacted for political purposes to hurt a country economically.

Embargo

- An embargo is when one country completely refuses to trade with another country.
  - Example – The US had an embargo with South Africa during apartheid.
  - Example – The US has an embargo with Cuba that has lasted over 50 years.
- This is usually done between two countries that are disagreeing over political issues.

Benefits of Trade Barriers

- Trade barriers provide many benefits:
  - They protect homeland industries from competition.
  - They protects jobs.
  - They help provide extra income for the government.
  - They increase the number of goods people can choose from.
  - They decreases the costs of these goods through increased competition.

Costs of Trade Barriers

- Tariffs increase the price of imported goods.
  - The tax on imported goods is passed along to the consumer so the price of imported goods is higher.
- Less competition from world markets means there is an increase in the price of goods.
- With quotas, there is a smaller variety of goods available for consumers to choose from.