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6. Effects of Trade Tariffs on International Business

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ABSTRACT

All commercial activities that facilitate the flow of products, services, people, ideas, and technologies across national borders are included in the category of international commerce. International business can take many different forms. It can involve the movement of goods between nations (exporting, importing, trading), contractual arrangements that permit foreign companies to utilize goods, services, and processes from other countries (franchising, licensing), and the establishment and management of manufacturing, sales, R&D, and distribution facilities abroad. This paper will talk about. Trade tariffs and their effects on global trade.

KEYWORDS

Trade Tariffs, International, Business, Technologies, Exporting, Importing, Services, Sales, Foreign Markets, Growth, Trade Environment.

Introduction:

The globe has shifted away from protectionist trade policies and toward an open, rules-based economic economy since the end of World War II. Large increases in commercial activity and the corresponding increases in economic output and wealth are only two of the several ways that this extensive removal of trade barriers has aided in the growth of the economy. Although trade and investment have been major drivers of U.S. prosperity, the country nevertheless imposes tariffs on a number of product categories. Although these tariffs appear to have a low aggregate effective rate, the rates vary greatly throughout product categories. Aircraft, spaceships, and live animals are subject to the lowest duties, whereas clothing, apparel, and footwear are subject to some of the highest duties.

Trade tariffs impact international companies by raising the cost of imports, upsetting supply chains, and changing the dynamics of the market. They make a stable trading environment more difficult to maintain by posing a risk of trade wars and slowing economic growth.

To meet the needs of people, businesses, and other businesses, international business consists of prearranged transactions carried out across national borders. In reality, international trade unites all nations, organizations, and people. Businesses that want to sell on the global market should decide on their goals and objectives. It refers to identifying the target markets, the likelihood of successfully promoting goods and services there, and, of course, the potential profit margin from doing business in the chosen nations. [1]

Some Different Types of Tariffs:

A tariff can be created in a few ways:

Ad valorem tariff – a tariff that is determined by taking the price of the imported items into account. For instance, a $100 computer would be subject to a $10 duty if all computers imported into the nation are subject to a 10% ad valorem levy.

Specific tariff – a tariff levied on the basis of cost per unit (or volume or weight). For instance, a given duty on computer imports may be the same whether the importer pays $100 or $1000 for the device.

Compound tariff – a special tariff combined with ad valorem; that is, a charge per unit and a charge as a percentage of the price.

Tariffs may also be divided into groups based on the objectives behind their imposition:

Revenue tariff – primarily intended to generate funds for the importing nation's treasury.

Protective tariff – principally intended to harm the economy of a foreign country or assist home companies.

The impact of trade tariffs on global businesses:

Trade tariffs directly affect firms around the world, particularly those that engage in a lot of international trade. Imported goods and services become more expensive when tariffs are applied, which reduces their ability to compete on the home market.

For some businesses, this may result in a drop in revenue and market share. Long-term investment decisions might also be hampered by tariff uncertainty since businesses may be hesitant to allocate resources to markets where abrupt tariff changes could occur.

Disruption to global supply chains:

Worldwide corporations significantly depend on intricate supply networks including numerous nations. Trade tariffs have the potential to destabilize supply networks by forcing businesses to reconsider their sourcing tactics. Tariffs may increase the cost of imported components, raw materials, or completed goods, requiring businesses to change suppliers or modify their manufacturing procedures.

Changes in market dynamics:

Due to their impact on both domestic and foreign enterprises' competitiveness, trade tariffs have the potential to drastically alter market dynamics. Lower prices or less competition may give domestic businesses a competitive edge when tariffs are placed on imported goods. [2]

The Benefits of Tariffs:

- Try to stop rival industries from importing less expensive products from other nations. This can help protect the interests of nearby companies.
- Take away the competitive edge that a foreign industry possesses in order to level the playing field.
- Promote local manufacturing of goods to create jobs in the many industries that make up a country.
- Stop dumping, the practice of allowing a nation to import goods that other nations have rejected, by protecting it against it.
- result in a rise in tax income.
- Reduce the deficit to aid in the growth of the economy.

Importance of International Business

People can raise their standard of living and consume goods and services from other nations thanks to international trade. Global exporters of goods and services are international businesses. This makes it possible to earn significant foreign currency.The ability of a firm to produce grows as it engages in foreign trade. The benefit of economies of scale causes a reduction in production costs. Expanding a company's global reach enhances its competitive edge and diversifies its offerings.

Review of Literature:

Through trade, countries can focus on areas where they have a comparative advantage, or what they can produce at a reduced opportunity cost, and exchange those goods for goods that would otherwise need higher opportunity costs. This implies that countries create more things and services for less money and trade those goods and services for goods and services from other nations, raising their levels of consumption above what would be achievable in the absence of trade. J. Donald, 2000). [3] According to Paul Krugman, protectionism doesn't cause recessions. He claims that the introduction of tariffs, which might lead to a drop in imports, has an expansion effect that promotes growth. Therefore, in a trade war, the expansionary effect of a fall in imports will balance the negative effect of a decrease in exports because both imports and exports will decline equally for everyone. Thus, a recession is not brought on by a trade war. Moreover, he emphasizes that the Great Depression was not brought on by the Smoot-Hawley tariff. Between 1929 and 1933, trade fell off nearly totally, and this was a result of the Depression rather than a cause. A reaction to the Depression that resulted in trade barriers was partially caused by deflation." [4]

Objectives:

- Effects of Trade Tariffs on International Business
- Importance of International Business
- To Study Terms of Trade Effect in the Absence of Retaliation

Research Methodology:

This study's overall design was exploratory. The research paper is an endeavor that is founded on secondary data that was obtained from reliable online resources, newspapers, textbooks, journals, and publications. The research design of the study is mostly descriptive in nature.

Result and Discussion:

A tariff is a levy placed on the import or export of products by a national government or supranational union. In addition to providing the government with income, import charges can be used as a tool for trade control and policy, taxing imported goods in order to support or protect homegrown industries. Along with import and export quotas and other non-tariff trade restrictions, protective tariffs are some of the most used tools of protectionism.

Average tariff rates: Table 1 [5]

Country	*1913*	*1925*	*1931*	*1952*	*2007[a]*
Belgium	6	7	17	n.a.	5.2
France	14	9	38	19	5.2
Germany	12	15	40	16	5.2
Italy	17	16	48	24	5.2
United Kingdom	n.a.	4	17	17	5.2
United States	32	26	35	9	3.5

Effect of tariffs:

The government imposes taxes on imports in the form of tariffs. They increase consumer prices, cause imports to decrease, and may provoke retaliation from other nations.

- They could be a specific amount (e.g., £1 per unit.)
- Or they could be an ad valorem tax (e.g., 10% of the price)

Tariffs are a significant impediment to free trade that are frequently put in place to shield home industries from low-cost imports. But frequently, it results in retaliation in the form of tariffs on exports imposed by other nations.

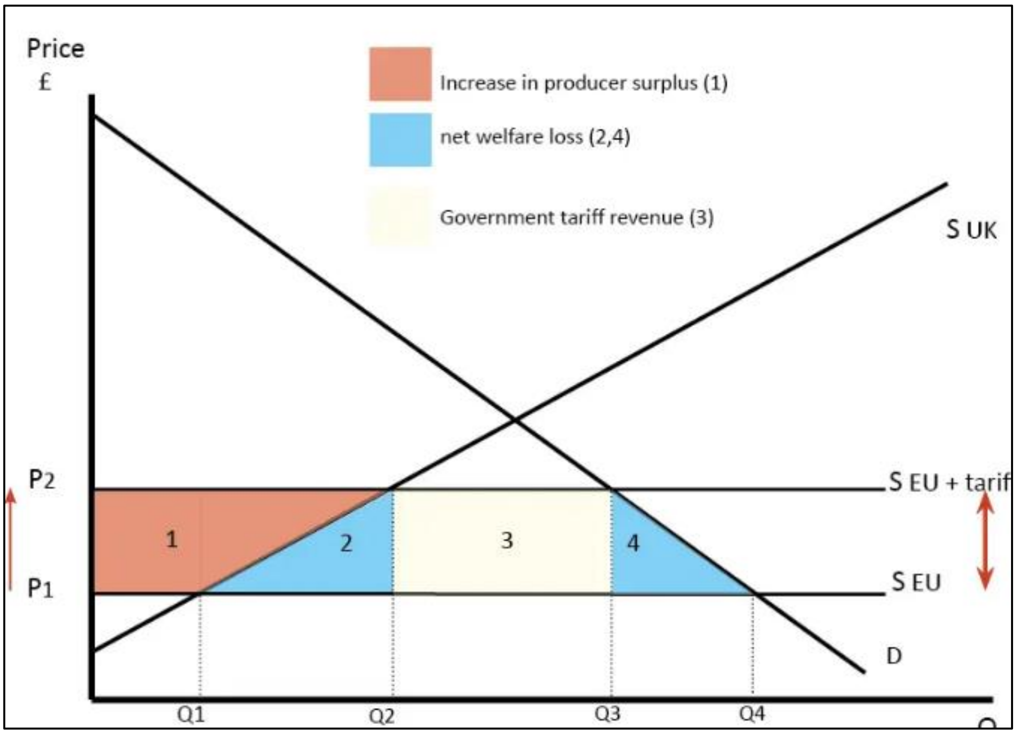

Figure 1: Effect of Tariffs [6]

- In this case, the tariff is P1-P2.
- The tariff leads to a decline in imports. Imports were Q4-Q1. After the tariff, imports fall to Q3-Q2.
- Consumer surplus falls by 1+2+3+4
- Government raises tariff revenue of area 3
- Domestic suppliers gain an increase in producer surplus of area 1
- The net welfare loss is (1+2+3+4) – (1+3) = 2+4

Winners and losers of tariffs: Table 2 [7]

Winners	Losers
• Domestic industries - uncompetitive on world markets • Workers in these domestic industries. • Government tax revenue increases by small amount.	• Foreign exporters • Domestic consumers who pay higher prices. • Some domestic industries who see lower demand due to more spent on imports • Domestic exporters who experience retaliatory tariffs.

The Rising Importance of International Trade

International trade has a significant impact and is becoming more so. For instance, global output grew by roughly 3% year between 1990 and 2010, but global export growth averaged roughly 6% annually during the same period. Globally, international trade was expanding, but it was also becoming increasingly important in the US. While exports made for only 3.5% of the actual GDP in 1960, they accounted for over 13% of the GDP in 2011. The growth in exports and imports as a proportion of the real GDP of the United States from 1960 to 2011 is depicted in Figure 15.1, "U.S. Exports and Imports Relative to U.S. Real GDP, 1960–2011."

There have been two significant factors: First, the cost of shipping goods throughout the world has significantly decreased thanks to advancements in communication and transportation. Beginning in 1956, the advent of shipping containerization—which enables cargo to be transported seamlessly from trucks or trains to ships—dramatically decreased the cost of transferring products worldwide by up to 90%. As a result, both the quantity and capacity of container ships have significantly expanded. Second, trade barriers between nations have already decreased and are probably going to do so in the future.

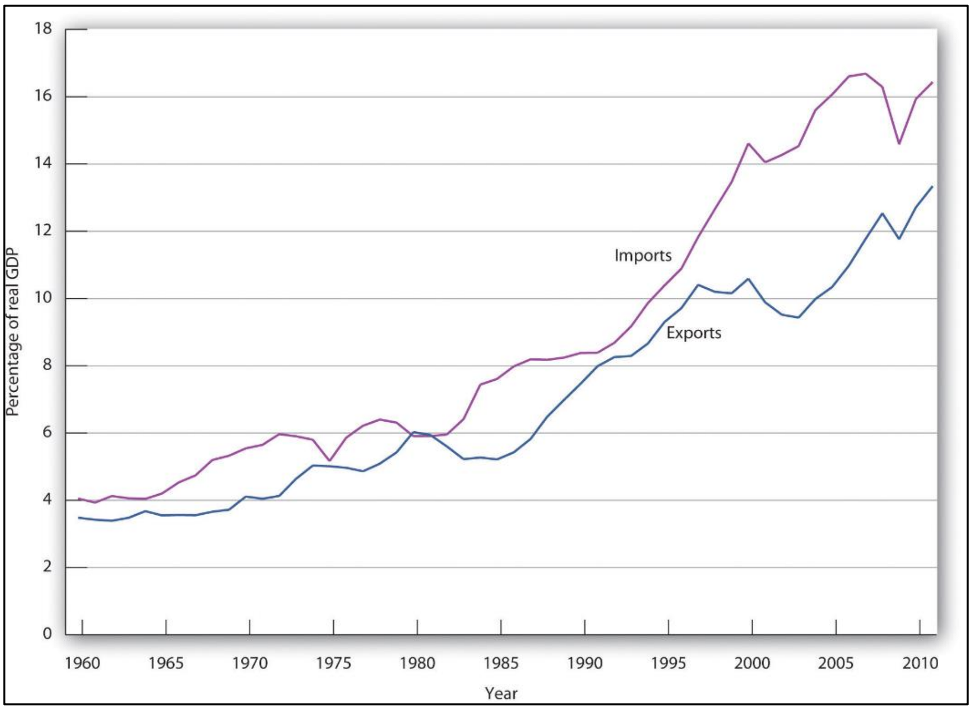

Figure 2: U.S. Exports and Imports Relative to U.S. Real GDP, 1960–2011 [8]

Terms of Trade Effect in the Absence of Retaliation:

There are two possible outcomes if a nation applies tariffs and the other nation does not respond in kind. First, the nation applying the tariffs has improved its conditions of trade. econd, the reduction in trade volume is the outcome of the tariffs. The following tariff consequences are illustrated in Figure 3:

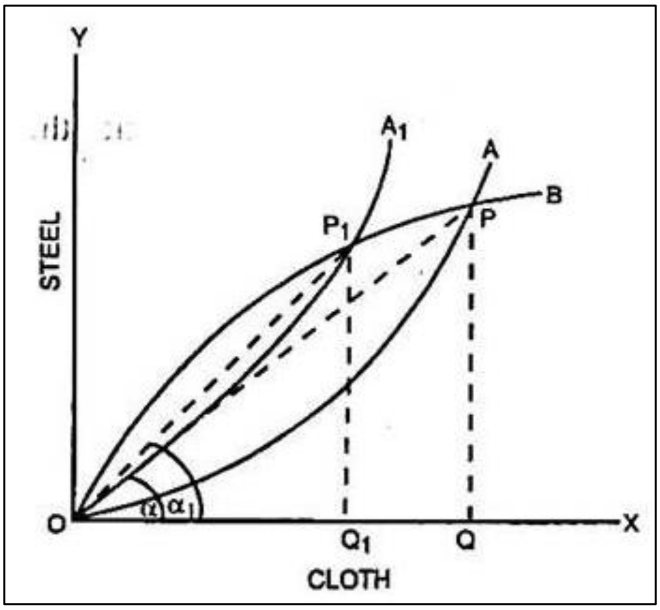

Figure 3: Terms of Trade Effect in the Absence of Retaliation [9]

The commodity cloth in Fig. 3 is measured along a horizontal scale that allows it to be imported by country B and exported by home country A. The vertical scale is used to measure the commodity steel that B can export and A can import. The offer curves for countries A and B are respectively represented by OA and OB. First, the trade occurs at P, where nation A imports PQ worth of steel and exports OQ worth of fabric.

The home country A's terms of trade are as follows: P = (QM/QX) = (PQ/OQ) = Slope of Line OP = Tan α. Steel's offer curve changes to the left if the home country applies tariffs on it; this shows that steel has become comparatively more expensive than cloth. At P1, when the offer curve OA1 of nation A crosses the given offer curve of country B, exchange now occurs.

Currently, nation A exports OQ1 quantity of cloth and buys P1Q1 quantity of steel. Country A's terms of trade at P1 are as follows: Slope of Line OP1 = Tan α1, QM/QX) = P1Q1/OQ1). Tan α1 > Tan α indicates that, after the tariff is imposed, the terms of trade for the home country A that imposes the tariff have improved.

The volume of commerce before tariffs were imposed was made up of PQ imports of steel and OQ exports of textiles. Following the tariff's implementation, exports and imports are now only allowed to reach OQ1 and P1Q1, respectively. As a result, following the imposition of tariffs, trade volume declines.

The previous examination of how tariffs affect trade terms made the assumption that the foreign country would not retaliate and that its offer curve would not be totally elastic. The tariff imposed by the home nation will not result in an improvement in the terms of trade if it is assumed that the foreign country's offer curve is perfectly elastic. In this case, tariffs will only have the impact of reducing the volume of foreign trade.

Impact on the international economy:

The global economy may be significantly impacted by the use of trade tariffs. A trade war may result from tariffs as they prompt retaliatory actions from other nations. Such increases may cause market volatility to rise, economic growth to slow, and international trade to drop. In addition to upsetting international value chains, trade tariffs can have an impact on non-tariff industries. Due to the interdependence of the world economy, any disturbance in one area can have a significant impact on other businesses and geographical areas.

Trade Barriers Can Revive Global Productivity and Growth:

Concerns over future development prospects are being raised by the weak productivity growth that many advanced and emerging market countries have seen in the wake of the global financial crisis. According to recent studies, lowering trade and foreign direct investment (FDI) barriers may increase output and productivity. Given their wide geographic coverage and historical contribution to multilateral trade liberalization rounds, these new accords, however not global in scope, have the potential to increase productivity both as a share of global trade and GDP. Nonetheless, in order to fully appreciate the benefits of lower trade barriers on productivity and economic well-being, policymakers must be aware of the distributional impacts of open trade and take action to lessen the burden on those displaced. Even in developed nations that have previously liberalized tariffs, as demonstrated in Figure 4 below, there is still room for productivity improvements through incremental reductions in nontariff/regulatory trade and foreign direct investment obstacles. [10]

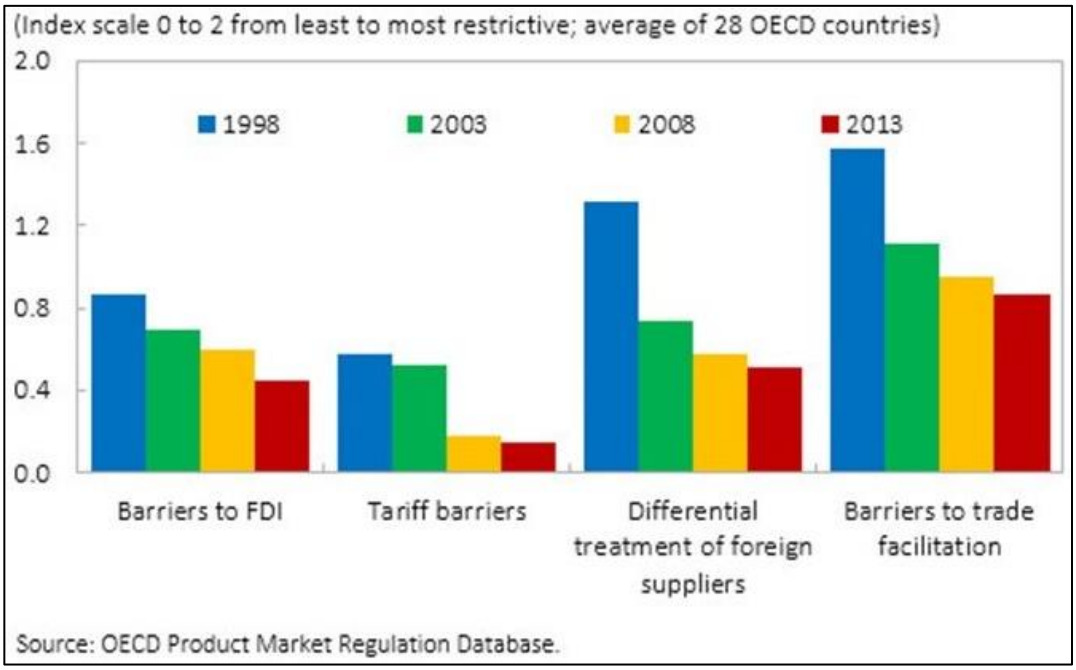

Figure 4: Barriers to Trade and Investment (Source: OCED Product Market Regulation Database)

Conclusion:

International business is the execution of prearranged transactions across national boundaries. Any business that exchanges products or services or engages in cross-border activities is either a direct or indirect participant in the global market. The process of globalizing business, which entails expanding global manufacturing and integration as well as the worldwide market for goods and services, is how international business is accomplished. The term "globalization" describes the increasing interconnectedness, integration, and interdependence of the political, social, technological, cultural, and environmental domains on a worldwide scale. Tariffs have a detrimental influence on international relations, importing and exporting companies, and general market competitiveness, even if they may also have some positive benefits, such as raising tax income for the government and boosting local industry.

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