

## **On International Trade – Non Tariff Barrier Theories, Commercial Strategies and More**

- **By Chiara Paolinelli**

It might seem like a paradox, but in the era of globalization, digital communication, social networks and "real-time" information, the barriers (tariffs and not) that individual countries put fourth in order to limit access to other markets for entry of foreign products and services, is strategically, still today, one of the main obstacles to the development of international trade. It is therefore essential that every economic agent and/or operator, or promoter of the subject matter, may identifies the barriers present towards the country of export, before undertaking the task of negotiating any commercial movement of goods or services, or promoting such a task. It is vital to understand trade barriers theories, so as to understand trade policies and procedures today, which affect all commercial agents. Let us then, explore the theory behind trade barriers.

Trade barriers, according to classical theories are considerably divided into 3 sub-categories:

- Tariff barriers (duties and other customs duties).
- Para-tariff barriers (anti-dumping duties, countervailing duties, safeguard measures).
- Non-tariff barriers (quantitative restrictions, sanitary and phytosanitary measures, labeling rules, dual-use goods and materials for military use).

According to the first category, meaning tariff barriers, one includes in such, custom duties – also known as a fiscal charge in the form of a tax, which is imposed on a product at the moment of import. There are then three sub categories of duties, which one must consider when studying import export ops, which are (1) the ad valorem Duty, the most common one – which is applied proportionally to the value declared to customs of the goods (example: customs value of the

*(1) G. De Arcangelis, Economia internazional – Cap. 1,2,3, 6,8, MacGraw Hill Education, III Edizione, 2013*

product equal to 10,000 euro /%duty 10%, duty is equal to 1,000 euro). They have the disadvantage of not being impartial, as the price of the goods can not always be attributed unequivocally. As a general rule, the customs value of the imported goods is equal to the transaction value, ie the price actually paid or payable for these goods, regardless of whether they are sold for free or for a purchase or sale. It therefore becomes crucial to analyze the correct construction of the price of the asset, removing all the elements that can be deducted (for example, expenses for construction, installation and assembly, maintenance or technical assistance started after importation, purchase commissions, transport, loading, unloading and handling). The second type of duty is the specific duty, which is less common, are duties whose amount can be commensurate with the weight, length, capacity or volume of goods introduced into the State. In other words, strategically, the reference is made to the physical structure of the products and not to their value. They have the advantage of being able to be applied more easily, because they are based on objective parameters. Third, but not last is the mixed duty on trade, which is the ad valorem, in addition to the specific duty – these types of duties are only applied in very specific case- ie .when local authorities want to pursue tax purposes and protective purposes at the same time. The basic element from which the applicable duties are calculated is the customs classification code of the imported products. The Community Customs Code, Rule 2913/92 – which introduced the TARIC (Community Customs Tariff). The TARIC codes consist of 10 digits and are based (3) On the nomenclature of the harmonized system (HS), international standardized system that classifies each individual product through the use of a numerical code. Most who decide to import goods are unaware of

(2) *G. De Arcangelis, Economia Internazionale- Cap. 1-3,6-8, MacGraw Hill Ed., III Ed., 2013*

(3) *Timone, Elementi di economia internazionale Manuale, Cap. 1- 5 Edizioni Giuridiche Simone, Ed. 2008*

such system –but would benefit from the knowledge not only of its mere existence, but rather from learning how to read such code, rules and numbers. To know how to read such codes, one must strategically know that the basic classifications, which are the same throughout the world, are contained in the first 6 digits of the code: each state in the world can then decide to further subdivide the goods by adding other figures to these 6 basic ones. (4) This system therefore makes it possible to identify a certain product globally, univocally and unequivocally, regardless of the country of origin and destination. It goes without saying that the correct classification of goods is a crucial operation for the economic operator, since the correct application of the combined nomenclature results in the correct application of taxes, customs procedures and the procedure for attesting the origin of the product. (preferential or non-preferential). Since the classification of a product among the most complex subjects of the customs law, the Community Customs Code recognizes to an importer / exporter the possibility to ask the Customs Authority for the correct classification of a product, through the binding tariff information (BTI). (5) In Italy, for example, the application must be sent directly to the central offices of the Customs Agency, the Customs Tariff Office, which provides a response to the operator within 60 days of receiving the request. The validity of an BTI is usually 6 years. There are also, other custom charges, which are not merely duties. For example when importing a product into a particular country, other charges are normally applied in addition to the duties in the form of, taxes (VAT, Excise tax) or accessory/additional charges, also known as commissions, brokerage fees, border rights, etc. Another form of limitations on trade that exists are known or – can be called – para tariff barriers – which in accordance with the WTO (World Trade Organization) Agreements, States, and

(4) *Paolo Gramatica, Economia e tecnica degli scambi internazionali, Ed. II - Vita e Pensiero, Ed. 2002*

(5) *G. De Arcangelis, Economia Internazionale- Cap. 1-3,6-8, MacGraw Hill Ed., III Ed., 2013*

therefore also the EU, can provide for 3 main commercial defense measures, which can only be adopted in the presence of objective risks for local businesses. Another important form of taxation are those which pertain to anti – dumping rules, regulations and taxation. (6) Duties applied to counteract the activity of "Dumping", also known as the practice of selling a product at prices lower than those implemented on the market of origin are fighting the phenomena and need to obtain more attention from the general public and commercial agents. What occurs is that third-country economic operators, sell these products on the local market at lower prices than those on the home market, thus creating unfair competition for domestic companies. Strategically enforced, anti-dumping duties can only be imposed following the conclusion of an investigation, that is to say an administrative procedure carried out ex officio by the government authorities or on request (denunciation) of the interested parties (companies, importers, users, consumers). (7) In the Case of the European Union, relevant to our case study, as all is related to the economy and commercial relations of Italy – founding country of the EU - At the EU level, the competence of defining and applying anti-dumping duties rests exclusively with the European Commission, national governments have no direct jurisdiction. The average duration of a community investigation is approximately 15 months (from the report). If at the end of the investigation the adoption of an anti-dumping measure is confirmed, the Commission will proceed to define the extent of the duty and the period of application (on average 5 years). There is then another type of duty, known as countervailing duties - these are duties applied to products subject to export subsidies (de facto subsidies), ie products that receive state subsidies and subsidies granted by the government of the country of origin to their exporting companies. There are then, rather than mere taxation methods,

(6) *Paolo Gramatica, Economia e tecnica degli scambi internazionali, Ed. II - Vita e Pensiero, Ed. 2002*

(7) *G. De Arcangelis, Economia Internazionale- Cap. 1-3,6-8, MacGraw Hill Ed., III Ed., 2013*

other ways to contain trade and commerce, which are known as safeguard measures – which can be applied in case of serious damage to local companies, following the sudden and significant (8) increase in import flows. The safeguard measure is to be understood as a safety valve to be used in a very exceptional way, only in the presence of an increase in imports of a product so high that it causes serious injury to local producers of the like, equal or directly competitive product. Of vital importance to any case study on the matter of trade and commerce, is the role of non-tariff barriers. The action of the WTO and the international trade agreements that have taken place over the last few decades have had as their object the lowering of duties and the stipulation of more favorable conditions for the circulation of goods, services and investments. (9)The agreements have limited the possibility for national governments to intervene in trade policy, in particular in placing restrictions on imports. However, non-tariff barriers have become increasingly important in this context - under such denomination there are a wide range of economic and regulatory constraints that strategically hinder international trade. Specifically, at a global level, non-tariff barriers are identified in the form of Quantitative Restrictions. These are measures for the quantitative discrimination of international trade through the direct determination of the quantities of goods that can be imported or exportable. The quantity admitted for import or export is called "quota".In the presence of an import quota, it is normally necessary to obtain an import license consisting of an administrative procedure requesting the submission of an application and of documents other than those necessary for customs operations as a condition on which the import depends. The rules and procedures for issuing a license must be published and available to all WTO Member States and their economic operators. The license can be automatic (license approval

(8) *G. De Arcangelis, Economia Internazionale- Cap. 1-3,6-8, MacGraw Hill Ed., III Ed., 2013*

(9) *Adalgiso Amendola, Mario Biagioli, Giuseppe Celi, Economia internazionali, Ed. EGEEA, Pixel, Ed. 2015*

is provided in any case, has statistical function), or non-automatic (issued only under certain conditions). There are then also other non-tariff barriers, which can be simplified in merely five sub-categories, which are: Technical production standards, Export subsidies, Sanitary and phytosanitary measures to protect health and the environment (applied primarily to food products), Customs formalities - and the label regulations - including those for indicating the country of origin "Made in" - to define the extent of the duty and the period of application (over a potential average of 5 years) (10). We should then explore, the strategic idea of dual use goods, as in when classifying a good meant for export, one also considers the use, which in some cases, for some goods, can be of two natures. The term "dual use" identifies those goods and technologies that, although mainly used for civil and industrial purposes, are also subject to military use, as they can be used in the manufacture or maintenance of chemical, biological or nuclear weapons. International trade in these goods is controlled and subject to particularly restrictive procedures provided for by various international non-proliferation agreements. At Community level, the export of dual-use items included in the list referred to in Regulation 1183/2007 is subject to authorization by the competent national authority (for Italy, the Ministry of Economic Development, Directorate-General for Policy commercial). In 2015, in practical terms we can look a very real example of what could have been a drastic reduction on commercial and trade barriers. The example at hand is that of the TTIP – It would have the pure sample of trade without limitations between the EU and US economies. The strategic negotiation rounds held in Miami in 2015, were crucial specifically, as that was the moment when the President Obama, signed off on the Asian accords and decided to take on the EU- US trade relations – At stake in that case some said was

*(10) “Le barriere al commercio Internazionale: prospettiva multilaterale e UE” Laura Carola Beretta, ED. GIUGNO 2013 – Parte prima”*

the potential GDP increase for the signee countries - of nearly .5 % per year. We may then take into consideration a very practical example, that of the traded goods of oysters – for further understanding. Oysters in the EU – are grown and checked to prove the absence of harmful elements, but in America the water in which they grow is controlled and tested in diverse way - meaning that scientific tests have ascertained that – even though waters are tested in diverse ways- testing and control is merely exactly the same thing - it is solely a matter of harmonizing – or bringing regulations on the same level. Another good example are lotions, as in the lotions are thoroughly tested to verify that they do not contain toxic substances in both Europe and America - health authorities of both countries have said that it is useless to repeat the tests when the lotions are sold on the other side of the ocean. The grand agreement that would have harmonized rules and regulations on import and export between the EU and the US, amongst so many of the most diverse goods traded, would have been the TTIP (Transatlantic trade and investment partnership) – ideally known as the US-EU “free trade treaty”. According to economists whom have studies thoroughly the subject matter, and have compared hypothetical reports – drew the average of the following results – as in, if the treaty had gone forward, at full speed, the GDP for both countries, could have grown by 0.5% per year in Europe (€ 73.2 billion of which € 5.6 in Italy) and 0.6 in America (85.5 billion). (11- 12) According to some reports, the car industry - as well as food exports value would have grown by nearly 20 % and 9.4% - and the added value of European exports would have allowed for improvements in the budgets of the exporting companies – which

(11) *Monica Di Sisto, Il fatto quotidiano, Trump, perche' stoppa L'accordo TTP ma sul TTIP sta a guardare, (Jan 25th, 2017) Retried from : <https://www.ilfattoquotidiano.it/2017/01/25/trump-perche-stoppa-laccordo-trans-pacifico-ma-sul-ttip-sta-a-guardare/3340061/>*

(12) *E. Occorsio, La Repubblica Online, USA EU Commercio Senza Barriere, (26. Oct. 2015) Retrieved from: [https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue\\_commercio\\_senza\\_pi\\_barriere\\_perch\\_i\\_no\\_ttip\\_attaccano\\_il\\_trattato-125967436/](https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue_commercio_senza_pi_barriere_perch_i_no_ttip_attaccano_il_trattato-125967436/)*

Would have exceeded by 190 billion – in Italy alone, 30 thousand new jobs, could have created – as per said by commercial agents and economists which were making estimates back in 2015. (13) So upon the consideration of the example of the TTIP, we can get into the very much contested topic of why such trade agreement was and is still so contested – and of grand interest the fact that the most contested topics of the agreement were the cultural and audiovisual sectors- interesting topic seeing as, such were actually excluded from the TTIP - which happened to be precisely two points discussion, for those who have been forthcoming about opposing the treaty. Furthermore, strategically public services would not have been privatized – other contested area by the general public of the treaty- and therefore no regulation would have prevented states and the local authorities from continuing to manage water, health, education. Back in 2015, regarding the official Italian authorities take on the agreement, Carlo Calenda, the Deputy Minister for Development, stated that in regards to the nation’s responsibility for foreign trade: "In the same way the mandate clarifies that the precautionary principle that regulates the entry of GMOs in Europe will not be changed- it will not be allowed until their non-danger is concluded, exactly the opposite of America where they are allowed until someone does not test that are harmful” ... also the Italian Deputy Minister added that "The mobilization against the TTIP - says Calenda hides an ideological battle against the market economy, or perhaps against America." (14) Such statements, one could say that nearly create fertile grounds for, educated economic policy battles, which are not only legitimate, rather even necessary in order to stimulate the global economy, as well as direct confrontation by not avoiding the discussion of unique thoughts and ideals that push forward all markets, as well as democracy as a whole. Considering all that was previously stated, one may

(13) NA, Author, European Commission Official Site (2015, April 1) *In Focus – TTIP – Documents* – Retrieved from <http://ec.europa.eu/trade/policy/in-focus/ttip/documents-and-events/>

(14) E. Occorsio, *La Repubblica Online, USA EU Commercio Senza Barriere*, (26. Oct. 2015) Retrieved from: [https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue\\_commercio\\_senza\\_pi\\_barriere\\_perch\\_i\\_no\\_ttip\\_attaccano\\_il\\_trattato-125967436/](https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue_commercio_senza_pi_barriere_perch_i_no_ttip_attaccano_il_trattato-125967436/)

Be then left wondering ... after the well thought out consideration, what would have been then the TTIP? Considering merely its structure, as it was laid out – and as it was formally known - the treaty was divided into three main sections or chapters, one chapter was on tariff barriers specifically, one on regulation barriers, and last but not least, one was on the actual enforcement of rules and regulations. In the text there were a multitude of sub-chapters dedicated to the most various problems and economic activities. Vital to understanding the course of not only the development of the treaty but its story, were the negotiating rounds held in Miami back in 2015 (15) (the eleventh in the series started in the spring of 2013 ended in an interlocutory way last Friday) during which there were 50 sector groups proactively working towards the cause. In detail, looking at the Trade and commercial scenario of the EU, in 2015, customs tariffs between Europe and the US were already low, just over 3% on average - but there were several notes to be added, to the former agreement, as in the US imposed and imposes a duty or rate of 35% on cigarettes and pipe tobacco, 16% on agricultural products (when it imports), 56% rate on shoes, and up to a 40% duty on textiles and clothing. Europe was not far behind in 2015 - it penalized incoming materials from the United States up to a rate of 25% for agriculture, 22% for trucks, 17% for shoes, 12% for clothes, and so on. If the TTIP had been approved, what would have happened is that the nearly 97% of all existing tariffs would have been grandly reduced or even gone. In addition the non-tariff barriers, represented the core of the TTIP – in which is that "Basically, it was a matter of harmonizing and eliminating - according to diverse standards – those, which would normally be the most stringent rules among the two countries facing the Atlantic (from anti-pollution rules to safety rules) – as to reduce commercial constraints", Mr. Terzulli, chief economist of SACE,

(15) E. Occorsio, *La Repubblica Online, USA EU Commercio Senza Barriere*, (26. Oct. 2015) Retrieved from: [https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue\\_commercio\\_senza\\_pi\\_barriere\\_perch\\_i\\_no-ttip\\_attaccano\\_il\\_trattato-125967436/](https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue_commercio_senza_pi_barriere_perch_i_no-ttip_attaccano_il_trattato-125967436/)

Stated in Oct. 2015. Also another popular contested item were the GMOs issues, which were item said to be out of the question –and so eliminated by the EU – specifically in the food sector. Also it is rather relevant to acknowledge that the barrier on GMOS and other such discussions, was also merely based upon culture and way of thinking and as per said by the Italian minister, Calenda on 2015 (17) “In certain cases the differences are insurmountable - because rooted in the culture of their respective countries," , therefore if the battle is cultural, how could one have ever thought to break down cultural barriers, considering that they are the main core of existence of nations and therefore economies? Technically, and culturally, and strategically no one would have been able to prevent Americans from continuing to administer hormones to cattle, and so EU countries wouldn't have imported them – such consideration is very relevant when one is left wondering why the TTIP was never able to come to life. For the case and consideration of the Italian economy - in 2015- it was relevant to impose the rule that would have blocked the loss of the “Made in Italy” products – and so in the famous case of Parmesan or "Grana like" to be clear – each country was and is battling currently in its “Made in XX” campaigns- so how could have economic agents thoughts to take down barriers if nationalism, never left the thoughts of every economic agent as well as policy maker, globally? (18) The attempt of the TTIP, was that of ideally creating a nearly automated, international, decision-making system that would have allowed companies to manufacture products only once, avoiding duplications of models and testing and recognizing standards valid in either continents – but such task would have needed to take on a whole new form of economic policy making processes globally. Detaching ourselves from the mere social cultural considerations, and making once more practical economic references and samples to the

(17) E. Occorsio, *La Repubblica Online, USA EU Commercio Senza Barriere*, (26. Oct. 2015) Retrieved from: [https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue\\_commercio\\_senza\\_pi\\_barriere\\_perch\\_i\\_no-ttip\\_attaccano\\_il\\_trattato-125967436/](https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue_commercio_senza_pi_barriere_perch_i_no-ttip_attaccano_il_trattato-125967436/)

(18 ) NA Author, *European Commission Official Site (2015, April)* About the TTIP – Retrieved from <http://ec.europa.eu/trade/policy/in-focus/ttip/about-ttip/>

case study, one may consider that in the car industry for example, the average cost of the different manufacturing standards – amongst the two continents - was 35% of the exported product, and in the food sector as another example, it was 40 %. (18) "Often the fact of having to manufacture two different products for the two markets discourages so much small businesses, to make sure that these desist by losing very important market shares ", said Mr. Calenda back in a 2015 interview – saying that thus who responds to another recurrent objection meaning that the TTIP would have been tailor-made to favor for large companies- according to some – therefore hurting small and mid sized businesses. The strategic TTIP that would have – according to most economists - harmonized the technical and industrial standards focused on the advanced patrol of nine sectors: chemistry, cosmetics, engineering (refrigerators, electrical sockets, tractors, pressure equipment), ICT, medical equipment, pesticides, pharmaceuticals, textiles, cars – proved to be a much larger issue, then previously thought. (19) To make the rules mandatory, the only thing that had to be done would have been that of creating a system of sanctions with a body capable of controlling them in a binding manner - To make the system stronger and closer to European ways of doing business - the Commissioner for Competition – back in 2015 - Cecilia Malmstrom - proposed the task of modifying the so-called "ISDS clause – which stated that investors or exporters could have summoned a State to an international arbitration group if one considered one's self a victim of discrimination – as per export rules - by the country which would have hosted the so called investment - whereas the other option, would have been that of having a real court - nearly a court of rule system - which should have been created with professional judges on both sides – as in from both continents - which would have given more security against conflicts of interest. It would

(18) E. Occorsio, *La Repubblica Online, USA EU Commercio Senza Barriere*, (26. Oct. 2015) Retrieved from: [https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue\\_commercio\\_senza\\_pi\\_barriere\\_perch\\_i\\_no-ttip\\_attaccano\\_il\\_trattato-125967436/](https://www.repubblica.it/economia/affari-e-finanza/2015/10/26/news/usa-ue_commercio_senza_pi_barriere_perch_i_no-ttip_attaccano_il_trattato-125967436/)

(19) NA Author, *European Commission Official Site (2015, April 1) Documents and Events TTIP – Retrieved from [http://ec.europa.eu/trade/policy/in-focus/ttip/documents-and-events/index\\_en.htm#\\_documents](http://ec.europa.eu/trade/policy/in-focus/ttip/documents-and-events/index_en.htm#_documents)*

have also been important to add a protectionist tool within the infamous TTIP – so as to create a precedent compared to other treaties, such as China or other BRIC, where the need to protect EU investors would have been stronger, seeing a there could have an addition to the value of the rule of law – which would have protected EU countries and would have given the US the potential to control – in a positive manner investments, rules and regulations, as to benefit both continents equally. (20) The strategic trade agreement negotiations were stopped, but the works, the talks, the extensive formal writing and debates, which were established and done, were vital to the works and studies of those who are focused on understating the subject matter which is international trade and commerce today. Understanding trade barriers and what potential trade agreements would could have taken places is vital, when forming an opinion and understanding, commercial agents' actions and well lawmakers skills, when considering the future of economic policy. To continue the discourse on not only what could have been the TTIP, but rather to understand the reasons that push governments to impose legal restrictions – and not get rid of them - on international trade, we must look once again at the diverse forms that tariffs and not traffic trade barriers take and why economic decision makers take on a certain strategy of imputations to the their tasks at hand. Let's recap the basic arguments in support of free trade first – as to give a grand- super partes view on the matter, then one shall analyze the positions in favor of protectionist policies, often based (21) On considerations that somehow deviate from the fundamental assumptions of previous theories and economic policy modules. Let's start with an example that clearly illustrates how in practice there can be important examples of governments that act in a manner opposite to that suggested

(20) Vittorio Valli, *L'Europa e l'economia mondiale. Trasformazioni e prospettive*, Cap. 6, Ed. Carocci, Ed. 2002

(21) Adalgiso Amendola, Mario Biagioli, Giuseppe Celi, *Economia internazionali*, Ed. EGEA, Pixel, Ed. 2015

by the analysis of the models analyzed up to now – specifically, as we shall see, not only could two major economies agree to limit international trade, but they do so with the tools that, and potentially with the least efficient factor use – example – which one shall read upon later - and which is perfect competition, which will then generate safe losses of well-being of the economy, which is merely via the use of quotas and voluntary restrictions on exports. Going back to the past, to a solid example of limitations on trade, one must go back to 1981- when the US government asked Japan to limit its car exports to the United States. (22) The direct effect of this measure was the increase in the price of cars imported into the United States. This increase led US consumers to increase spending on automobiles produced within the United States. Japan, although willing to meet this request, refused, however, to adhere to another desire expressed by the United States, namely the elimination of the quota imposed by the Japanese government on imports of citrus fruits and beef. It is important to stress that this quota generated welfare losses for Japanese consumers, as it forced them to buy the same goods at prices that were much higher. The importation of beef from the United States would have made this commodity much cheaper, with an increase in consumer surplus in this market. Both governments, therefore, proved determined to pursue policies whose costs - at least according to the analysis developed in the previous module - appear to be superior to the benefits. It is therefore evident that trade policies reflect objectives that do not coincide with the simple index of costs and social benefits that we have used to establish the goodness or otherwise of commercial policies. The first step towards understanding the trade policies actually promoted by governments is to ask themselves what good reasons they would have in order not to interfere in international trade. As we have seen in previous modules, at a theoretical level, models that study international trade suggest that freedom of exchange eliminates

(22) Karl Polanyi, *La grande trasformazione. Le origini economiche e politiche della nostra epoca, Capitoli 1-5*, Einaudi Editore- Vugenvi R, 2010

inefficiencies associated with protectionist barriers such as tariffs, subsidies and other measures. Furthermore, according to many economists, freedom of trade has some additional benefits that go beyond eliminating distortions in production and consumption. Finally, even among economists for whom free trade is not a perfect policy, many are those who consider it better than any other policy that a government is likely to be able to implement. The argument for free trade based on the notion of efficiency derives from the result that, in the case of a small country, free trade is the best trade policy - in such models a duty causes a loss for the economy. (23) For this reason the shift from a balance of duty to a free trade equilibrium eliminates – strategically - the loss of efficiency and increases national well-being. The arguments that naturally emerge in favor of free trade, ie those based on the notion of efficiency, are practically the inverse of the cost-benefit analysis related to the duty, which is a classical theory in economic policy studies. On the other hand in the case in which a rather small economy cannot influence the export price - the imposition of a duty causes a net loss for the economy – such loss, can be described as a mere distortion of what are known as economic incentives – which affect both the consumers and the producers. (24) By reasoning in the opposite direction, the elimination of a duty avoids such distortion and, therefore, increases national well-being - in addition to could be known as the classical – or this usual argument - linked to the classical representation of a perfectly competitive economy, there are others that subsist even if they move away from the hypothesis of perfect competition. In practice, although the analyzes in competitive markets indicate the existence of significant advantages associated with free trade, these could reflect only a part of the arguments favorable to it. In fact, with reference to the case of small countries - and, in particular, that of developing

(23) *Paolo Gramatica, Economia e tecnica degli scambi internazionali, Ed. II - Vita e Pensiero, Ed. 2002*

(24) *Maurizio Favaro, Manuale delle operazioni con l'estero, Ed. Ipsos, Commercio e fiscalità internazionale, Ed. 2011*

countries - there are many to support the existence of significant positive effects of free trade, which, however, can not be captured by traditional analysis cost benefit. One of these additional advantages is related to the notion of economies of scale. (25) The existence of protected markets leads to an international fragmentation of production, but it is not merely that, one may say that by reducing competition and increasing profits, trade protection also encourages many companies to enter the sector that enjoys such protection. The strategic proliferation of companies within a necessarily restricted internal market means that the scale of production in which each company operates does not guarantee efficiency. A good example of the link between protectionism and inefficiency of the production scale is provided by the car industry case in Argentina. It is well known that an efficient system in this sector should produce between eighty thousand and two hundred thousand automobiles a year. In Argentina, the entire sector, which produced one hundred sixty six thousand cars, counted thirteen different companies in 1964. The need to discourage an excess of revenue on the market, which generates inefficiencies in the scale of production, is considered a justification of free trade that goes beyond the mere conventional calculation of social costs and benefits. Another argument in favor of free trade derives from the incentives for innovation and learning that are generated in entrepreneurs, starting from the need to seek new markets for their exports and to defend themselves from import competition. Such incentives are certainly greater than those experienced in a controlled system of trade, in which the government largely determines the structure of exports and imports. In 1985, two Canadian economists Richard Harris and David freely with the United State, estimated real Canadian income is equal to 8.6%, a result three times Cox attempted to quantify the benefits to the Canadian economy resulting from

(25) *Cesare Imbriani, Rosanna Pittiglio, Filippo Reganati, Economia internazionale di base ed investimenti esteri - Teorie e politiche, Cap 2-6 - Giappichelli, Ed. 2014*

the ability to trade higher than expected by similar estimates that, however, do not explicitly consider economies of scale. Of course, if these additional benefits from free trade are indeed as relevant as some economists suggest, the cost of distortions - introduced by tariffs, quotas, subsidies to exports, etc. - it is also greater than that foreseen by the traditional cost-benefit analysis. (26) The political motives in favor of free trade are based on the idea that even in the presence of better solutions, these are not always easily reached. That is, sticking to the principle of strategic commercial freedom can be a good choice in practice even if, in principle, there can be better policies. Often the commercial policies of the real world are dictated by the desire to favor specific sectors or operators, hence specifically political interests, while leaving out the evaluation of costs and benefits for the whole community. The bottom line of those who argue that free trade is often the best solution in practical rather than theoretical terms states that although in theory a particular structure of tariffs and subsidies to exports could increase national welfare, in reality, any body governmental policy that attempts to implement a sophisticated commercial policy intervention program would be likely subjected to the pressures of interest groups. (27) The program itself would end up being reduced to a mere instrument of income redistribution in favor of politically more influential operators. If this thesis is correct, the best policy can be to invoke commercial freedom without exceptions, even if on an exclusively economic basis this, as we shall see later, may not always be the best possible choice. Let us therefore summarize the main motivations in favor of free trade: first of all, using the traditional cost-benefit evaluation techniques, as shown in the previous module, the costs of

(26) *Paolo Gramatica, Economia e tecnica degli scambi internazionali, Ed. II - Vita e Pensiero, Ed. 2002*

(27) *Sebastian Puig, La Sintetia, TTIP El Nuevo Monstruo de Siete Cabezas, (May 8th, 2015)Retried from:<https://www.sinetia.com/ttip-el-nuevo-monstruo-de-siete-cabezas-i/>*

deviations from free trade are significant. To these costs of deviation it is necessary to add advantages related to commercial freedom, deriving from the possibility of achieving economies of scale. Moreover, any strategic attempt to pursue sophisticated policies of deviation from the free trade scheme would be compromised by political factors. Despite these considerations, however, there are arguments in support of protectionism and restrictions on international trade that are entirely respectable from an intellectual point of view. Most commercial policy measures such as tariffs, subsidies and quotas etc. they are undertaken substantially in order to protect the income of certain specific groups of interest. However, the government often maintains that these policies are adopted in the interests of the entire national community. It is true that according to the economic analysis (and the models addressed in the previous modules are an example), it is often obtained that as a result, deviations from free trade reduce national welfare. However, there are some theoretical justifications for which active trade policies can sometimes have positive effects on the welfare of the country as a whole. In particular, there are two main reasons why a move away from a free trade situation could have a positive impact on collective well-being: the effects of a tariff on the terms of trade and the failures of the internal market. (30) A justification for the abandonment of a free trade policy derives directly from the cost-benefit analysis we conducted in the previous module, under the hypothesis of trade between two large countries, able to alter their own terms of exchange. In fact, for an economy of such size as to affect the export price charged by the exporting countries, a tariff reduces the price of imports and therefore generates a benefit in terms of terms of trade. This benefit must be compared with the costs resulting from the distortion in production and consumption incentives caused by the duty. However, we have seen how the advantage conferred by a duty in terms of terms of trade exceeds

(30) Karl Polanyi, *La grande trasformazione. Le origini economiche e politiche della nostra epoca, Capitoli 1-5*, Einaudi Editore- Vuginvi R, 2010

the relative costs, when the reason for exchange improves so much that the burden of the tax falls to a large extent on foreign producers. In this case the income for the government, which we assumed to have the same social value at the margin of an improvement of both consumers and producers, more than offset the loss of welfare due to loss of efficiency. This is the foundation on which this particular argument for the imposition of a duty is based. Let us now go into more detail to understand how the benefit from terms of trade can exceed costs, provided that the level of duty is sufficiently low. When the government of a large country - such as the US- faces the problem of imposing a duty it faces a trade off, in increasing the amount of the duty, there's reduction of the quantity of goods demanded internationally, and the effects obtained are on the one hand positive and negative on the other. (31) The positive and strategic effect is given by the decrease in the price of goods imported internationally, ie an improvement in the international trade reason. The negative effect is instead represented by the social costs of the duty. If the supply and demand curves have the usual slopes, the net benefit increases with the increase in the duty, but only when the duty is small. For small values of the duty the increase in well-being represented by the area is certainly greater than the sum of the areas representing the costs of the duty, ie areas b, d. On the other hand, when the tariff is very high, the positive effect on the terms of trade is very small and instead the negative effect of social costs prevails, ie the reduction of efficiency. In practice, when the tariff is high, increasing it further causes a reduction in the welfare of the economy. (32) So there is a value of the duty that, whether it is increased or decreased, involves a reduction in the welfare of the economy – such value is the optimum duty - We therefore try to understand how, for a sufficiently small duty, the advantage in terms of trade can overcome the disadvantage

(31) *G. De Arcangelis, Economia internazionale – Cap. 1,2,3, 6,8, MacGraw Hill Education, III Edizione, 2013*

(32) *Joseph E. Stiglitz, La globalizzazione che funziona, Cap. 3-5, Einaudi-Trad.Cavallinni, 2007*

associated with the distortion from full efficiency. In other words, we want to demonstrate the existence of a very good positive duty – and or rate – in order to proceed with import and or export ops, we must look full at the distortion of the market or the hypothetical full efficiency. Even though our discourse has been broad and has covered many subject matters, theories, examples and practices, the conclusion may be actually considered to be merely even simplistic. In order to maximize efficiency for each economy and understand import export ops, one must understand barriers, limitations, as well as incentives on trade, as to gain a “super partes” look on what is not only international trade theory, but today’s reality. It is as if international trade and commerce ops were moves put in act in game – which may be considered nearly a perfectly strategic balancing act, which may seem merely impossible, as, when one good moves, another good moves, and when a trade balance for a certain economy is in the negative, corresponds another move, in order to give an incentive to positive action. It is a game of balance, between what each national economy needs – in an international market – as well as what each economy wants and can benefit from. In order to figure out how to perfectly balance commercial trade actions, policy makers, as well as day to day newspaper readers – who may if they have an interest in be interested in why the cost of goods they purchase is the way that it is - should gain a better understanding of past international trade agreements, as well as ask questions on international trade barriers and thoroughly consider the cultural aspect that may or may not be nationalistic within each economy’s decision to act upon a certain way in the international trade and commerce scene. To gain insight into today’s trade and commerce scenario, there may only be understanding if there is knowledge on of past economic policy, trade and commerce theory. One shall see what the economic and commercial scene holds for the future of trade relations between the EU or Italy, and the US, as per relation to trade barriers, economic theory and strategic business development amongst the two continents.

## Resources Page

### Manuals and Hardback Book Editions:

- G. De Arcangelis, Economia internazionale – Cap. 1,2,3, 6,8, MacGraw Hill Education, III Edizione, 2013
- Joseph E. Stiglitz, La globalizzazione che funziona, Cap. 3-5, Einaudi-Trad.Cavallinni, 2007
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