

CLASS 11

TOPIC	<i>Foreign Trade Policy</i>	
LEARNING CONTENT - DETAILED CHARACTERISTICS	We present the key aspects and instruments of foreign trade policy. We focus on tariff restrictions on world trade. Functions of tariffs, forms of tariffs, including optimum tariff and prohibitive tariff, are presented. Their functions, advantages and disadvantages are commented on. The students become familiar with non-tariff restrictions on imports of goods: import quota, market allocation arrangements, local content requirements, technical norms and standards and government procurement policy, as well as non-tariff restrictions on exports of goods such as voluntary export restrictions. We study the advantages and disadvantages of imposing such non-tariff restrictions on foreign trade. We present the financial instruments of the foreign trade policy: domestic and export subsidies and foreign trade insurance due to foreign trade risks. We discuss some static effects of tariff, non-tariff, and financial restrictions on world trade in a comparative way. The basic principles of the EU Trade Policy are presented.	
KEY WORDS	Foreign trade policy, tariffs, ad valorem tariff, specific tariff, compound tariff, two-tier tariff, optimum tariff, prohibitive tariff, import quota, market allocation arrangements, local content requirements, technical norms and standards, government procurement policy, voluntary export restrictions, domestic and export subsidies, foreign trade insurance, foreign trade risks, EU Trade Policy.	
SUGGESTED TOOLS	Power-point presentation Critical thinking and analysis Real-world personal observation Interactive and group discussions A personal study plan	
TIPS / METHODOLOGICAL REMARKS (if applicable)	Learning-by-doing and case studies activities. The focus is on the instruments of the foreign trade policy and the EU Trade policy specificities.	
IMPLEMENTATION OF THE CLASSES	STEP 1	We discuss the foreign trade policy key principles and specificities. The students become familiar with the nature and functions of tariffs and different forms of tariffs: ad valorem tariff, specific tariff, compound tariff, two-tier tariff, optimum tariff, prohibitive tariff.

	STEP 2	The students become familiar with the specificities, advantages, and disadvantages of non-tariff restrictions on imports of goods: import quota, market allocation arrangements, local content requirements, technical norms and standards and government procurement policy, as well as non-tariff restrictions on exports of goods such as voluntary export restrictions. Some examples are provided. See work card 1.
	STEP 3	We present the financial instruments of the foreign trade policy: domestic and export subsidies and foreign trade insurance due to foreign trade risks: credit risk, intellectual property risk, foreign exchange risk, ethics risk, shipping risks, and country and political risks.
	STEP 4	We make a comparison of static effects of alternative trade policies using tariffs, import quota, and export subsidy. Key policy-related conclusions and recommendations are discussed. See work card 2.
	STEP 5	EU Trade Policy principles and elements are considered. The students are aware that there are no internal borders between Member States and border controls when foreign trade is considered and trade transactions between EU partners are exempted from customs duties and charges with equivalent effect to customs duty.

ADDITIONAL MATERIAL 1 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNMENTS)

WORK CARD 1 – FOREIGN TRADE POLICY

Choose the correct answer.

1. A tariff of 20% per unit of imported goods is an example of:

- (a) a specific tariff
- (b) ad valorem tariff
- (c) combined tariff
- (d) a two-tier tariff

2. Prohibitive tariff:

- (a) shall always be lower than the rate of the optimum tariff
- (b) indicates the value of the tariff at which the marginal benefit of the improved terms of trade is equal to the marginal efficiency loss
- (c) is higher than the value of the optimal tariff
- (d) unlike the optimal tariff, it is valid mostly for large countries

3. Which of the following non-tariff foreign trade policy instruments is essentially a combination of an import quota and an export quota?

- (a) market allocation arrangements
- (b) local content requirements
- (c) voluntary export restrictions
- (d) none of the above non-tariff instruments include such options

4. Which of the following non-tariff foreign trade policy instruments is not the result of trade negotiations at government level?

- (a) market allocation arrangements
- (b) local content requirements
- (c) voluntary export restrictions
- (d) government procurement policies

5. The export subsidies may lead to:

- (a) trade dumping
- (b) expansion of domestic import substitution production
- (c) discrimination against more efficient foreign producers in the domestic market
- (d) all the above

ADDITIONAL MATERIAL 2 (WORK CARD, PICTURE, RECORDING, QUIZ, PRESENTATION, ASSIGNMENTS)

WORK CARD 2 – FOREIGN TRADE POLICY

Consider the following table that summarizes the static effects of alternative trade policies using customs duty, tariff quota, and export subsidy:

	Tariffs	Import quota	Export subsidy
Producer surplus	↑	↑	↑
Consumer surplus	↓	↓	↓
Budget revenues	↑	Depends on the budget revenues for licensing local distributors	↓
Public welfare	Undefined (for small open economy ↓)	Undefined (for small open economy ↓)	↓

What conclusions can we draw about the static effects of tariffs, import quotas and export subsidies? Which of these instruments is most restrictive? Why? What do define the abovementioned effects of alternative trade policy instruments?