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Trade Restrictions in the Context of Foreign Trade Liberalisation

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Abstract. The relevance of the article is determined by the study of scientific works on the impact of the foreign trade component on economic growth, since as of now the idea of the positive impact of foreign trade and its liberalisation on economic growth prevails. At the same time, discussions on trends in the liberalisation of foreign trade are part of the problem, which is the contradictory impact on the economic development of the free cross-border movement of goods, capital, and labor. The aim of the article is to study trade restrictions in the context of foreign trade liberalisation. Achieving this goal is based on methods of analysis and synthesis, induction and deduction, that are grounded on an integrated approach. It is noted that at a high level of economic development, economic liberalisation allows increasing the benefits of foreign trade, but the issues related to the opening of domestic markets in the countries of economic periphery remain controversial. The article considers the essence and classification of foreign trade restrictions. The views of scholars of the leading economic schools on the relationship between trade liberalisation and economic growth are characterised. It is determined that the main trends in the liberalisation of foreign trade are: expanding the scope of regulatory measures by both national governments and global trade institutions; coordination and intensification of international cooperation in the areas of multilateral liberalisation of foreign trade; the growth of non-tariff restrictions on the way of the international trade development. The results of the study allow deepening the understanding of the peculiarities of ensuring national economic interests in the conditions of dynamisation of foreign trade

Keywords: trade restrictions, national economic interests, import regulation, tariff and non-tariff restrictions, foreign trade liberalisation

The Problem Statement

In the process of expanding and diversifying trade restrictions, there is an urgent need to apply such assessing methods that would allow us to assess the efficacy of measures to regulate the import of goods. At the same time, it is extremely difficult to identify in quantitative terms the gains or losses from the introduction of protectionist measures for the country's economy in practice, since the existing calculation models give only approximate results, and the desire to develop an effective universal method for such a comprehensive assessment remains an incentive to develop these directions of research.

To assess the efficiency of import regulation, it is necessary to consider the targeted use of imports in the country's economy, the level of its manufacturability, and the possibility of increasing its export potential based on the use of imports of intermediate goods.

Analysis of Recent Research and Publications

An important methodological basis for the study of the process of regulating foreign trade is represented by the fundamental works of J. Anderson and P. Neary [1], D. Dollar and A. Kraay [2], R. Feenstra [3], J. Sachs and A. Warner [4], etc., which researched the relationship of economic openness in the context of the impact on economic growth. In particular, the ambiguous and contradictory consequences of foreign trade liberalisation are analysed in the works of D. Trefler [5], R. Baldwin [6], E. Leamer [7], A. Kidegaard and P. Williams [8] and others. However, the issues concerning the methodology of trade restriction estimation in the context of foreign trade liberalisation requires the further research.

Setting the Objectives

Therefore, the purpose of the article is to explore trade restriction in the context of foreign trade liberalisation. Achieving this

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goal is based on methods of analysis and synthesis, induction and deduction, that are grounded on an integrated approach.

Results and Discussion

According to Western economists, the state receives a certain income from the introduction of tariffs, but the consumers' losses expressed in foreign currency exceed the total gain of producers and import fees received by the state treasury. The foreign economic literature is dominated by mixed opinions regarding the customs barriers, the efficacy, and the efficiency of customs protectionism. Some authors, considering the evolution of customs policy in the 1950-1990s of the XX century, come to the conclusion about the decline of customs protectionism. Others believe that customs continue to effectively fulfill its economic, trade, and political role. At the same time, it should be noted that a decrease in the arithmetic average rate of the customs tariff in practice does not mean that the degree of protectionist protection of the domestic market decreased in similar proportions.

Table 1 shows the classification of assessment methods and indicators of trade restrictions by the criteria for assessing the trade regime (average-weighted, arithmetic mean customs tariff rate, frequency and coverage index of non-tariff regulation, tariff equivalent); the efficacy of trade restrictions (equivalent and effective customs tariff rates, customs duty collection ratio, method of benefit and loss analysis, the method of export estimates); assessment of the impact of trade restrictions on the development of the Ukrainian market. The insufficient elaboration of the indicators of trade restrictions has led to the need to highlight indicators that would consider the tools of tariff and non-tariff regulation, in particular, the index of limited trade to assess the trade regime; volume index and import deflator index – to analyse the efficacy of trade restrictions; models of imperfect and perfect substitutes and simulation models – to identify the impact of trade restrictions on the development of the Ukrainian market.

Table 1. Assessment methods and indicators of trade restrictions

Assessment methods	Tariff restrictions	Non-tariff restrictions	Complex indicators
Assessment of trade regime	The weighted average rate of the customs tariff	Frequency index and import coverage index for non-tariff restrictions	Trade restrictive index
	The coefficient of the arithmetic mean rate of customs tariff	Tariff equivalent (that can be represented through a tariff equivalent)	–
Assessment of the efficacy of trade restrictions	The coefficient of the equivalent and effective rate of customs tariff	Method of analysing the benefits and losses	Import physical volume index
	Import duty rate	Method of expert assessments	Import deflator index
Assessment of the impact of trade restrictions on the development of the internal market	Simulation models: the extent of public welfare losses; Gravity model		
	Import substitution models: Model of imperfect substitutes; Model of perfect substitutes		

Source: developed by the author

The calculation of the weighted average and arithmetic mean rate of customs tariff is the most common method of estimating tariff restrictions. They are complementary and collectively provide a broader picture of the nature of customs policy, and their comparison may be informative in determining the general characteristics of import duties [2].

The significant excess of the arithmetic mean rate of the customs tariff over the weighted average shows that for certain commodity items, the receipts of which are subject to regulation by means of customs duties, the volume of imports has significantly decreased, which, in turn, allows formulating conclusions [9-11]: the customs tariff rates on commodity items, whose share in national consumption in terms of quantity and value are significant, were prohibitive, which led to a significant decrease in imports due to the redistribution of resources in favor of those economic activities that produce import substitution, or was triggered by a legal import into the shadow; the commodity items, which are subject to customs duties on importation, are characterised by a sufficiently high coefficient of elasticity of substitution, and consequently, the demand response to the increase in prices for imported goods may lead to switching to consumption of goods of Ukrainian production; the vast majority of import flows of goods are carried out within the framework of preferential agreements.

In this case, the customs tariff performs a protectionist function and the main focus is on the implementation of an import-substituting model of economic growth inside the country. Instead, a significant excess of the weighted average rate over the arithmetic mean indicates the following: customs tariff rates on commodity items, whose share in national consumption in terms of quantity and value are significant, can be characterised as high, but the factors of internal economic development do not allow the development of import substitution production; the commodity items, which are subject to customs duties on imports have a coefficient of elasticity of substitution in the interval (0, 1), in particular critical imports, and therefore, despite the increase in prices for imported products, demand for it is not reduced or is not reduced proportionally.

In this case, the customs tariff is mainly a fiscal function and an instrument for filling the country's budget. However, the conclusions based on the analysis of exclusively the arithmetic and weighted average customs tariff rates are somewhat conditional and do not allow considering the strengthening of the national currency compared to major currencies of imports. The calculation of the recovery rate of the import duty allows assessing the fiscal efficiency of the customs tariff and deepen the validity of the efficacy of import regulation instruments. A comparative analysis of the weighted average customs tariff rate and the recovery rate of the import duty allows determining the degree of receipt of customs payments to the budget in accordance with the commodity structure of imports and the structure of customs tariff.

A detailed study of the impact mechanism of duties on prices and the competitiveness of goods leads to another conclusion, namely, the effectiveness of tariff protectionism is determined not only by the nominal value. A comparison of the structure of the customs tariff, the dynamics, and structure of Ukrainian production and the commodity structure of imports allows concluding that the degree of protection of the finished product is directly dependent on the level of duties on components and parts imported for the purpose of its production to a greater extent than on the taxation level of the finished product [12].

An analysis of customs tariffs from the perspective of effective protectionism indicates that the customs taxation of goods at different stages of processing is interconnected (tariff escalation). A reliable assessment of the level of tariff protection of goods with a high degree of processing should consider duties on raw materials, semifinished products, and other components of these goods. Such an approach to the analysis of tariff protectionism answers the question of why the level of customs taxation in the tariffs of many countries grows as the degree of processing increases. Using the principle of escalation in international trade allows economically developed countries to consolidate the raw material orientation of developing countries and the least developed countries and restrain their development, helping to maintain the leadership.

The calculation of the effective level of protectionism began to acquire a practical application in tariff negotiations of different countries after the second half of the 1960s of the XX century. Countries that negotiated mutual tariff reductions began to pay attention not to a general linear reduction in duties on all goods, but only to those that did not reduce the amount of effective protectionism. This trend was noted by G. Gruela, who noted that, given the effective level of customs protectionism, a country that reduces duties on raw materials and semifinished products more than on the finished industrial products, can actually strengthen and not weaken its tariff during tariff negotiations protectionism. Consequently, the concept of effective tariff protection leads to a paradoxical at first glance conclusion, namely, that an increase in tariff protection of any industry can be achieved not only by increasing rates on final products but also by reducing duties on imported components for the production of goods.

Vertical integration is one of the main factors determining the level of tariffs that the state sets to protect Ukrainian industry. The work of A. Kildegard, P. Williams indicates that ceteris paribus, a high share of imports in the economy should reduce the level of vertical integration [8]. The probable reason for this is that the purchase of imported goods means a narrowing of the interaction between national producers: if intermediate products are purchased, this means that some Ukrainian companies do not use their own production of intermediate products for the manufacture of the final one. In theoretical and empirical studies on protectionism, economists seek to answer the question of why certain industries receive trade protection and why some industries receive protection more than others.

From the authors' standpoint, the government bodies, when deciding to establish a certain level of protective measures (tariff and non-tariff), use the following criteria: the influence of protectionism on the manufacturers targeted by protective measures; the impact of trade barriers on consumers of final products and the overall public well-being. The state's assessment of the impact of trade policy on manufacturers as a whole and on specific manufacturers in particular depends on the lobbying power possessed by particular interest groups. The tariff structure can also be the result of rent-oriented behavior that occurs when a third party deprives one of the participants of certain opportunities, turning a mutually beneficial transaction into an instrument of receiving rent by the other party. Thus, policy plays an important role in determining the size of tariff and non-tariff restrictions in international trade.

Among the main factors affecting the level of tariff protection are: at the sectoral level – elasticity of demand for imports at their own import price and at the price of national substitute products; at the country level, such characteristics of the ownership structure in the economy as vertical integration and income inequality. Early empirical work in the trade policy mainly explored the correlation between the level of tariff protection and the political and economic variables, which was supposed to be relevant to the definition of trade policy. The results of these studies indicate that trade policy is largely endogenous [6; 13; 14].

For most international economic organisations, the global economic crisis of 2007-2009 has become a significant catalyst for the process of adapting to the challenges of the new millennium. When analysing specific areas of the WTO's activities in a crisis, it is important to consider that it is endowed with limited capabilities of "contract enforcement" [15]. Unlike other leading international economic organisations, in particular the WB and the IMF, the WTO has neither financial resources nor the ability to directly influence financial flows. Consequently, it only states the fact of violation of trade practice and puts forward requirements for bringing the trade practice of the violating country by the current rules. If such pressure does not bring any result, then the WTO can only provide the injured party with the right to apply measures to compensate for the damage caused.

Conclusions

The methodology of state regulation of foreign trade activity should be based on the philosophy, principles, and instruments of modern macroeconomic regulation and forecasting, sectoral and regional indicative planning, and programmatic and targeted management. It provides both moderate protection by the state of national producers and promotion of their products to foreign markets, as well as the encouragement of these producers to increase their competitiveness, as well as the orientation of imported supplies for the development of the national economy and improving the quality of life of the population.

Formal and informal institutional rules, conditions, and restrictions should be formulated based on industrial and foreign trade policies, which serve as a tool for optimising the balance of measures to ensure openness of the economy and protectionist measures. This is a kind of compromise when trade not only seeks commercial profit but also helps to build confidence and allows you to maintain long-term and mutually beneficial trade relations between partners, as well as positive foreign relations between countries.

Thus, the analysis of the existing methods of assessing the efficacy of import regulation has shown that in order to accurately represent the status of tariff and non-tariff regulation, it is necessary to use the widest possible arsenal of available methods of assessing the trade regime, the efficacy of trade restrictions and their impact on the development of the domestic market. At the same time, when the estimation of tariff restrictions is carried out based on information published on state resources and in publications of international organisations, the statistics on the use of non-tariff restrictions are incomplete and therefore difficult to calculate and therefore have a relatively quantified dimension.

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Торговельні обмеження в контексті зовнішньоторговельної лібералізації

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Анотація. Актуальність статті полягає у дослідженні наукових розробок щодо впливу зовнішньоторговельної компоненти на економічне зростання, оскільки наразі домінує думка про позитивний вплив зовнішньої торгівлі та її лібералізації на економічне зростання. Водночас дискусії щодо тенденцій лібералізації зовнішньої торгівлі є частиною проблеми, що полягає у суперечливому впливі на економічний розвиток вільного транскордонного руху товарів, капіталу та праці. Метою статті є дослідження торговельного обмеження в контексті лібералізації зовнішньої торгівлі. Досягнення цієї мети базується на методах аналізу та синтезу, індукції та дедукції, заснованих на комплексному підході. Зазначено, що перебуваючи на високому рівні економічного розвитку, лібералізація економіки дозволяє збільшувати виграші від зовнішньої торгівлі, проте дискусійними залишаються питання, пов'язані з відкриттям внутрішніх ринків країн економічної периферії. У статті розглянуто сутність та класифікацію зовнішньоторговельних обмежень. Схарактеризовано погляди науковців провідних економічних шкіл щодо взаємозв'язку торговельної лібералізації та економічного зростання. Визначено, що основними тенденціями лібералізації зовнішньої торгівлі є: розширення масштабів застосування регулюючих заходів як з боку урядів національних держав, так і глобальних торговельних інституцій; координація та активізація міжнародної співпраці у напрямках багатосторонньої лібералізації зовнішньоторговельного обороту; зростання нетарифних обмежень на шляху розвитку міжнародної торгівлі. Результати дослідження дозволяють поглибити розуміння особливостей забезпечення національних економічних інтересів в умовах динамізації зовнішньої торгівлі

Ключові слова:торговельні обмеження, національні економічні інтереси, регулювання імпорту, тарифні та нетарифні обмеження, зовнішньоторговельна лібералізація