

Import Quotas, Tariffs, and The Consequences of Protecting Domestic Industries From Foreign Competition: a More Complex Application

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Abstract

Import quotas restrict the quantity of foreign goods that can be sold in a nation. An alternative to achieve the same objective is a tariffs are taxes levied on imported goods. Both tariffs and import quotas are likely to affect the prices of the goods involved. This harms consumers of those goods but is likely to benefit their domestic producer. However, there are other gains and losses stemming from these two policies that can be illuminated with supply-and-demand analysis. Analysis shows that the some reduction in the quantity of product. A tariff represented by the vertical distance (dollars) per product has the same effect as a tax. It decreases the supply and results in a new market equilibrium. This result in a substantial decline in the net revenue they receive from sale after playing the tariff. Finally, tariffs could be used to finance tax reduction because they substitute for alternative source of tax revenues for government.

Keywords : *quotas, tariffs and consequences*

1 INTRODUCTION

Domestic industries often use political means to induce government to provide the with protection from foreign competition [Frederick, 1992], the U.S. automobile industry was successful in the early 1980s in persuading governing authorities to negotiate quotas on the number of Japanese cars that could be imported into the United States.

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In 2001 President Reagan negotiated a Voluntary Export Restraint agreement, in effect, established improt quotas for Japanese cars was initially set at 1,68 million cars per year but

was increased to 19,85 million cars per year in 2013. These temporary quotas were design to protect the ailing U.S. automobile industry, there by improving job apportunities. Profits, and the incentive to invest in new facilities.

Facts:

1. Automotive industry was successful in the early 2000s in persuading governing authorities to negotiate quotas of the number of Japanese cars that could be imported into the United States.
2. The alternative with the same objective is a tariffs. It is taxes levied on imported product.
3. Both tariffs and import quotas are likely to affect the prices of the product. In these case is car from Japan Industry.

Problem; Is it effective to make politics barrier and protection thorough regulation implementing to local industries?

2 RESEARCH METHODOLOGY

A quota on imports places a limit on supply after a certain amount of sales. The supply curve is upward sloping up to the quantity corresponding to the annual import quota [Ross, 2012]. Thereafter, the quota prevents quantity supplied from increasing in response to higher prices.

Assuming that initially the import quota of $QL = 1,68$ million cars corresponded to the market equilibrium at $E1$, the demand curve $D1$ is drawn. Market price is initially $P1$. In Figure the supply curve the quotas are imposed is dark curved labeled $SE1SI$. As the United States came out of a recession in 2003, an increase in demand for Japanese automobiles took place in response to increased consumer income. In the absence of the quotas, quantity supplied would have increased to Q along the dashed portion of the actual market supply, $E1S$.

Price would have risen to P , but the quotas prevented quantity supplied from increasing beyond the limit of 1,68 million cars per year; as a result, price increased to $P2$ along the vertical portion of supply curve as the new equilibrium was attained at point $E2$. Because of the quotas, consumers paid a higher price for Japanese cars than they otherwise would have. This increment in price is

$$\Delta P = P2 - P$$

Where the Greek Delta (Δ) is a symbol denoting change in the value of the variable [Hyman, 1991].

3 ANALYSIS

Japanese automobile producers and their domestic dealers benefited from this positive price differential resulting from the quotas, even though they did not sell as many cars as they would have without the quotas. In the absence of the quota, sales revenues of Japanese auto sellers would have been \$ PQ , represented by the area $0PEQ$. With the quotas, revenues were \$ $P2Q1$. Represented by the area $0P2E2QL$.

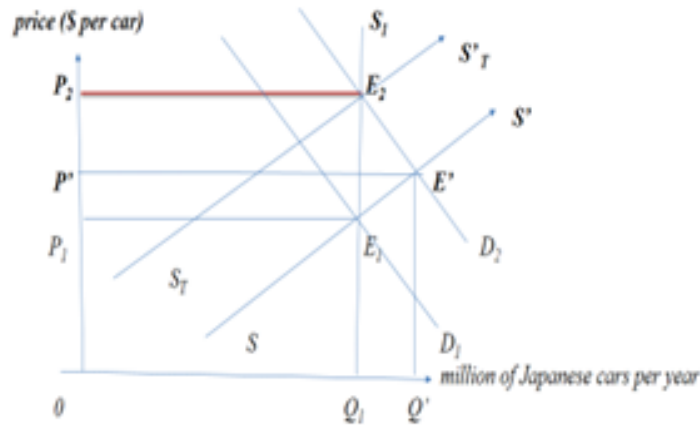


Figure 1: Analysis Import Quotas Tariffs

The difference in revenues of Japanese automobile sellers when quotas are used and when they are not is $\$ (PQ - P_2Q_1)$. This difference could be positive or negative. If ΔPQL (represented by shaded area A), exceeds $P \Delta Q$ (represented by area B), sales revenues from Japanese cars will increase. Area A is the increase in seller revenues resulting from the quotas. Area B is the revenue decline caused by lost sales. This analysis does not discuss profits of Japanese automobile sellers; this would require data on cost, as well as revenue. Empirical research indicates that the price of imported Japanese cars increased on average by nearly \$ 1,000 per car as a result of the import quotas in 2001 to 2002. This resulted in increases in revenues of Japanese auto producers and their dealers of close to \$ 2 billion in that year. Because Japanese cars are substitutes for American built cars, an increase in their price contributed to an increase amounted to an average of about \$ 370 per domestic car from 2001 to 2013.

Figure 1 also shows that the same reduction in the quantity of Japanese cars sold could have been achieved by a tariff on these cars. A tariff represented by the vertical distance E_1E_2 dollars per car has the same effect as a tax. It decrease the supply from SS to the dotted supply curve S_tS_T . The price of Japanese cars would be the same as it would have been with the quotas when demand is D_2 .

The difference in this case is that the tariffs not only make consumers worse off but also directly reduce revenues of Japanese producers and their dealers. The Japanese sellers must pay an amount represented by the area $P_2E_2E_1P_1$ to the U.S. government, which equals Q_1 multiplied by the tariff per car. This result in a substantial decline in the net revenue they receive from sale often paying the tariff. It is clear why the Japanese prefer the quotas to the tariffs. The result is the same for consumers in both cases, but the sellers are better off with the quotas. Finally, tariffs could be used to finance tax reduction because they substitute for alternative source of tax revenues for government. This would benefit all U.S. citizens.

4 CONCLUSION

1. The net revenue that received as a substantial decline from sales often paying the tariff. It is clearly why the Japanese prefer quotas than tariffs.
2. Tariffs could using as tax reduction because of its substitution as an alternative source of tax revenues of government.

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