**9-3 EXPORT SUBSIDIES**

An export subsidy is a negative export tax. For this reason, a detailed analysis of export subsidies is redundant. In general, the microeconomic effects of export subsidies are the opposite of the corresponding effects of export taxes. The primary purpose of an export subsidy is to increase exports by switching foreign spending to domestic products. This is accomplished, of course, by effectively reducing the prices that foreigners have to pay for the subsidized exported commodities. Accordingly, the terms-of-trade effect of export subsidies is, in general, unfavorable.

　Export subsidies may be overt or covert. An overt export subsidy involves a direct payment by the government to the exporter of the subsidized commodity in direct proportion to either the volume or the value of the exports. Covert export subsidies are schemes that provide financial assistance to the exporter indirectly. Such indirect financial assistance is often provided, for instance, through subsidization of credit conditions and of export shipping services by ships of the national flag. For example, the U.S. Export-Import Bank, founded in the 1930s, provides easy credit to U.S. exporters and their foreign customers.

　Export subsidies violate international agreements. The General Agreement on Tariffs and Trade (GAIT) views export subsidies as "unfair competition" and allows importing countries to retaliate with "countervailing duties." A countervailing duty is levied by the importing country to offset the exporter's subsidy and cannot exceed the amount of the subsidy. The use of countervailing duties is limited to cases in which imports cause, or threaten to cause, injury to a domestic industry.

　When foreign countries retaliate with countervailing duties, the country that initiates the export subsidy program actually becomes worse off because the export subsidy program amounts then to a direct income transfer by the export­ subsidizing country to the rest of the world.

　An important case in which an export subsidy may be granted occurs when the export industry uses imported inputs that are subject to import duties. In this case, which is frequently observed in developing countries, the export industry is granted an export subsidy that is, in effect, a rebate of the tariff paid by the same industry on imported inputs. This type of export subsidy is indeed very sensible. Otherwise, the export industry would be at a disadvantage in world markets.

International Economics by Miltiades Chacholiades　1990