This is the Commissioner of Customs appointed according to the Kenyan legislation, to be responsible for the management and control of Customs, including the collection of and accounting for customs revenue.

Common External Tariff (CET)

An identical rate of tariff imposed on goods imported from countries outside a regional trade agreement area e.g. EAC or COMESA.

Common Market

Integration of the markets of the partner states in a regional trade agreement e.g. EAC, COMESA, into a single market in which there is free movement of capital, labour, goods and services.

Community Tariff Treatment

A five year interim tariff imposed on specific goods originating from the Republic of Kenya to the Republic of Uganda, and from the Republic of Kenya to the United Republic of Tanzania under the principle of asymmetry.

Cost, Insurance and Freight (CIF)

The seller pays the costs and freight necessary to bring the goods to the named port of destination as well as procures marine insurance against the buyer's risk of loss or damage to the goods during carriage. The seller contracts for insurance and pays the insurance premium. The costs are then passed on to the buyer (see FOB).

Countervailing Duty

A specific duty levied for the purposes of offsetting a subsidy bestowed directly or indirectly upon the manufacture, production or export of a product.

East African Customs Union Protocol

Officially titled the Protocol on the Establishment of the East African Customs Union. This is the protocol establishing the East African Community Customs Union within which non-tariff barriers are eliminated, a common external tariff in respect of all goods imported into the Community is applied and customs duties are eliminated except for some specified circumstances.

East African Customs Management Act

The Act applying to the East African Community partner states regarding the Customs Union.

Exemption from Duty

Duty is not charged on the goods specified when imported or purchased before clearance through customs.

Export Processing Zone (EPZ)

A designated part of Customs territory where any goods introduced are generally regarded, in so far as import duties and taxes are concerned, as being outside Customs territory but are restricted by controlled access.

- Unit costs of production are constant. Thus, the hours of labor per unit of production of a good do not change, regardless of the quantity produced. This means that the supply curve for any god is horizontal.
- There is full employment of resources.
- The economy is characterized by perfect competition. No single consumer or producer is large enough to influence the market; hence, all are price takers. All participants have full access to market information, there is free entry to and exit from an industry, and all prices equal the marginal cost of production.
- There are no government-imposed obstacles to economic activity.
- Internal and external transportation costs are zero.

Origins of the theory

Comparative advantage was first described by Robert Torrens in 1815 in an essay on the Corn Laws. He concluded it was to England's advantage to trade with Portugal in return for grain, even though it might be possible to produce that grain more cheaply in England than Portugal.

However the term is usually attributed to David Ricardo who explained it in his 1817 book *On the Principles of Political Economy and Taxation* in an example involving England and Portugal. In Portugal it is possible to produce both wine and cloth with less labor than it would take to produce the same quantities in England. However the *relative costs* of producing those two goods are different in the two countries. In England it is very hard to produce wine and only moderately difficult to produce cloth. In Portugal both are easy to produce.

Therefore while it is cheaper to produce cloth in Portugal than England, it is cheaper still for Portugal to produce excess wine, and trade that for English cloth. Conversely England benefits from this trade because its cost for producing cloth has not changed but it can now get wine at a lower price, closer to the cost of cloth. The conclusion drawn is that each country can gain by specializing in the good where it has comparative advantage, and trading that good for the other.

Examples

The following hypothetical examples explain the reasoning behind the theory. In Example 2 all assumptions are bolded for easy reference, and some are explained at the end of the example.

Example 1

Two men live alone on an isolated island. To survive they must undertake a few basic economic activities like water carrying, fishing, cooking and shelter construction and maintenance. The first man is young, strong, and educated. He is also, faster, better, more

Constant Returns to Scale

Another drawback of the Ricardian principle of comparative costs is that assumes constant Returns to scale and thus constant cost of production in both the countries. The doctrine holds that if England specialises in cloth; there is no reason why it should produce wine. Similarly if Portugal has a comparative advantage in producing wine, it will not produce cloth; but import all cloth from England. If we examine the pattern of international trade in practice, we find it is not so. A time will come when it will not be reasonable for Portugal to import cloth from England because of increasing cost of production. Moreover, in actual practice a country produces a particular commodity and also imports a part of it. This phenomenon has not been explained by the theory of comparative costs.