

Non-Tariff Barriers to Trade

- ◆ Types of non-tariff barriers
- ◆ Analysis of the impact of a quota
 - » Under competition
 - » Under monopoly
 - » Granting of import licenses
- ◆ Voluntary export restraints (VER)
- ◆ VERs versus quotas
- ◆ Measuring the cost of protection
 - » As percentage of GDP
 - » AS percentage of protection given

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Types of Non-Tariff Barriers

- ◆ Quantitative Restrictions
 - » Global quotas
 - » Embargoes
 - » Selective quotas
 - » Voluntary Export Restraints (VER)
 - » Orderly Marketing Arrangements
 - » Performance requirements (local content requirements)
 - » Counter-trade (payment in commodities)
- ◆ Non-tariff Barriers
 - » Technical / quality standards
 - » Customs practices
 - » Licensing
 - » Government procurement

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What's Special about Non-Tariff Barriers?

- ◆ Tariffs effect prices and are analyzed within Price/Quantity, Demand/Supply framework
- ◆ Non-tariff barriers often have uncertain effects on price and/or quantity - harder to analyze
- ◆ Trade negotiations relatively successful in achieving tariff rate reductions
- ◆ Much less success in reducing/eliminating non-tariff barriers

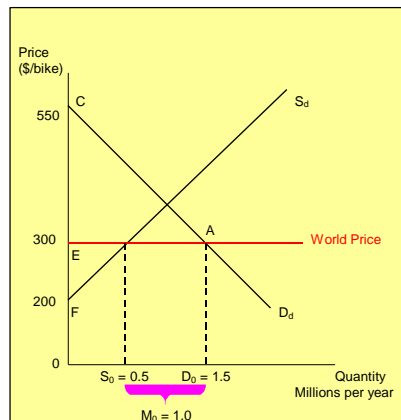
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Basic Analysis of a Quota (1 of 2)

US Market for Bicycles with Free Trade



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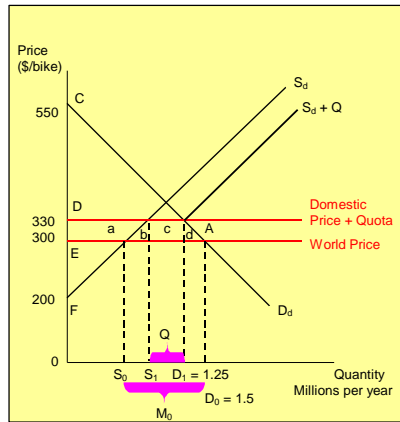
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- ◆ Begin with the case of a small country, "price-taker"
- ◆ \Rightarrow US can import unlimited number of bicycles at \$300
- ◆ US manufacturers produce 0.5 million/yr.
- ◆ US consumers demand 1.5 million/yr
- ◆ \Rightarrow US imports 1.0 units/yr.
- ◆ US consumers enjoy consumer surplus (ΔACE) by having access to world market and free trade

Basic Analysis of a Quota (2 of 2)

Effect of a Quota Under Competition



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- ◆ Suppose US limits number of imported bicycles to $Q = D_1 - S_1$
 - » Quota has bite: $Q < M_0$
- ◆ Price of bicycles (imported & domestic bicycles) \uparrow \$330
- ◆ Consumer demand \downarrow 1.25 mm
- ◆ Consumer surplus is now ΔBCD , lower by $a+b+c+d$
- ◆ Right to import worth \$30/unit, sold competitively \Rightarrow Gov't collects revenues = b
- ◆ With these assumptions $Q =$ "tariff equivalent" quota, effects same as 10% tariff

Granting Import Licenses

- ◆ **Competitive Auctions**
 - » Likely to yield close to world price - home price differential
 - » Maximize government revenues from import licenses
 - » Low cost, fair, efficient
 - » Auctions must be transparent to prevent official corruption or private bid rigging
- ◆ **Government Favoritism**
 - » Import licenses given to political contributors, friends, family at less than their fair market value (often zero)
- ◆ **Other Wasteful Methods**
 - » Non-price rationing: First-come/first served, corporate need
 - » Rent-seeking behavior: Political lobbying
 - ◆ How much would you spend on lobbying to get a license?

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Voluntary Export Restraints

- ◆ Origin of the VER
 - » Quotas are a violation of GATT (now WTO) rules
 - » Limiting exports *voluntarily* is permitted
- ◆ Why VERs?
 - » US cannot impose quotas
 - » Exporters fear worse trade actions, or political reprisals
- ◆ Known Consequences of VERs
 - » Government loses tariff revenue, area *c* goes to foreigners
- ◆ Unintended Consequences of VERs
 - » VERs have often limited the number of items (e.g. X shirts, Y cars), but not the quality, style or price of these items
 - » “Export tickets” (allocated by foreigners) may be traded asset

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Other Non-Tariff Barriers

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| <ul style="list-style-type: none">◆ Technical standards<ul style="list-style-type: none">» 110 vs. 220 volts» Withstand a 5 mph crash?» Steering wheels R or L?» FDA approval?◆ Quality standards<ul style="list-style-type: none">» What is beer?» What is Champagne?» Pesticides on apples?» Hormones in beef?» Genetically engineered ___?» Made by oppressed workers?◆ Customs practices<ul style="list-style-type: none">» Is it a rug or is it “art”?» Is it a truck or an SUV? | <ul style="list-style-type: none">◆ Government procurement<ul style="list-style-type: none">» Preferences toward domestic suppliers - of tanks, bridges, airports◆ Trading preferences<ul style="list-style-type: none">» Most-Favored-Nation (US)» Regional trade blocs» Trade with former colonies (European bananas)◆ Local content<ul style="list-style-type: none">» French movies for French TV» Is this an “American” car? |
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Section 301 Legislation (U.S.)

- ◆ Originated with 1974 U.S Trade Act
 - » Gives U.S. President power to impose barriers against imports from a country with “unfair trade practices”
 - » Incidents of Section 301 use: See [U.S Trade Representative](#)
- ◆ Super 301 legislation in 1989
 - » Names 5 specific foreign practices as “unfair”
 - » Names 3 countries (Brazil, India, Japan) as targets
- ◆ Section 301 can work
 - » US threatens Section 301 action against China if intellectual property rights (as per GATT) are not enforced (1995)
- ◆ Section 301 can backfire
 - » US invokes Section 301 on unilateral basis
 - » Threats go unheeded, foreign country retaliates, trade war

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Costs of Trade Protection

- ◆ Calculation of costs depend heavily on assumptions
 - » Elasticities of demand and supply (to calculate area of triangles, etc.)
 - » Horizon: Short-run / long-run
 - » Static / Dynamic case (demand growth, new technology, ...)
 - » Costs of administering trade protection program
 - » Costs of rent-seeking behavior
 - » Re-distribution costs: gainers / losers
 - ◆ Do we compensate losers but not tax gainers?
 - » Retaliation by trading partners

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Costs of Trade Protection - Two Methods

- ◆ Costs as a percentage of GDP
 - » Most estimates for the U.S. are small: < 1% of GDP
- ◆ Costs as percentage of protection given
 - » What does it cost losers to transfer \$1.00 to gainers?
 - » What does it cost a nation to grant \$1.00 of protection?
 - ◆ For U.S., perhaps \$1.49 for each \$1.00
 - » What is cost to world when a nation grants \$1 of protection?
 - ◆ In U.S. case, perhaps \$1.35 for each \$1.00
- ◆ These estimates suggest there are more efficient ways to make transfers and protect industries
 - » ⇒ Specificity rule: Use a direct policy (closest to the market distortion) to impact desired sector (Chapter 9)

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Summary of Non-Tariff Barriers

- ◆ Non-tariff barriers are an increasingly common form of protectionism
- ◆ Quotas can be analyzed in the partial equilibrium framework used for tariffs
 - » We can identify a tariff-equivalent quota, but only under strict assumptions about competitive pricing of import licenses
- ◆ VERs are generally worse from the importing nations standpoint
 - » Value of export licenses goes to foreigners + dynamic costs
- ◆ Measuring the cost of protection
 - » Low as a % of GDP
 - » Higher when costs of enforcement, retaliation, etc added + as a percentage of protection provided

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