Non-tariff Barriers to Import

Based on Chapter 8

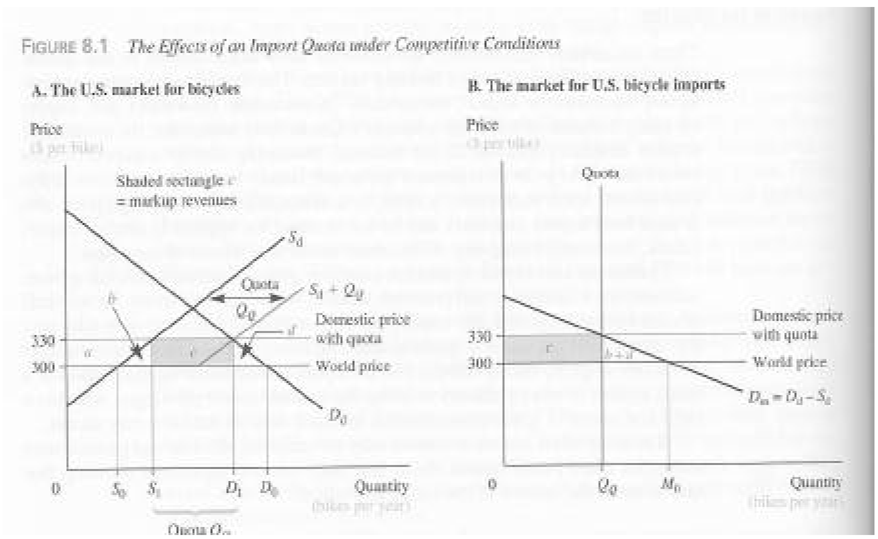
Topics

- World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT), as well as the result of the Uruguay Round of multilateraltrade negotiations.
- Types of non-tariff barriers –
  - import quotas,
  - voluntary export restraint (VER),
  - product standards,
  - domestic content requirement, state monopolies on foreign trade, buy-at-home rules government purchases administrative red-tape to harass foreign sellers, complicated exchange controls, etc.
- Welfare effects and estimation of the cost of these NTBs.
- We study two NTBs: Import quota, VER today, first Import Quota

Reason for the govt. to have Import quotas

- Protectionist insurance: reduces further increase in import competition
- Balance of payment insurance: Reduces foreign exchange outflow
- Adminstrative flexibility and power to deal with firms, e.g., who gets the import license.

Effects of Import Quota



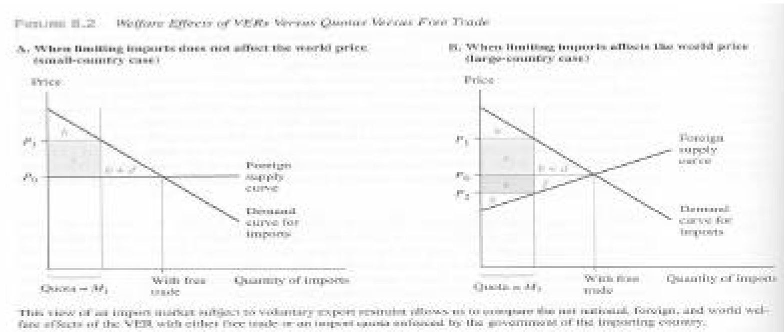
Quota vs Tariffs

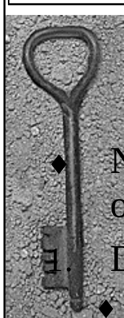
- They are equivalent except
- If quota creates monopoly power
- Or the licenses to import are allocated inefficiently
- Consider this problem for each of the following ways to allocate licenses
- Competitive auctions (the best and rarest way)
  - Example:
- Fixed favoritism (the most arbitrary way)
  - Example: 1959 and 1973, US gave quotas to oil co. to import oil
- Resource using application procedure (least efficient way)
  - Example: stand-up in line for free licese
- Ann Krueger estimated that costs

Effect of VER when compared with Quota or Free Trade

- The effects of VER on welfare of the importing country, exporting countries and the world as a whole depends on if the importing country is a small or a large to influence the world equilibrium price.
- The figure 8.2A considers the small importing country case.
- The figure 8.2B considers the large importing country so that the supply curve of the foreigners to the importing country is price elastic.
- The net-gains and the comparisons of welfare losses and gains for various possibilities are shown in the table below the figure.

Effect of VER

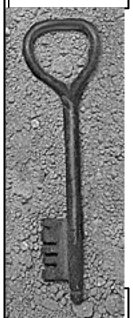




Other Non-tariff Barriers

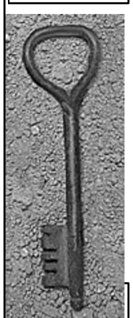
- NTBs reduce import by operating through one of more of three channels:

1. Direct limit on the quantity of imports
   - Examples:
2. Increasing the cost of getting imports into the market
   - Examples
3. Creating Uncertainty about the conditions under which imports will be permitted
   - Examples:



Other Barriers

- Product Standards:
  - Examples: restrictions of Beef and chicken imports from US by Europe and Japan
- Domestic Content or mixing Requirements
  - Examples



How big are the costs of Protection?

Thank you, and Good night.