Non-tariff Barriers to Import

Based on Chapter 8 of PL

By

Professor Lakshmi K. Raut

Objectives

- There is a wide variety of non-tariff interventions that affect trade flows. Some are ‘price-based’ (e.g. subsidies), others are ‘quantity-based’ (e.g. import quotas, VERs). Some are ‘border measures’ (e.g. export subsidies), others are ostensibly domestic measures (e.g. production subsidies).
- We shall consider examples of all of these.
- As in the tariff-barriers, we will see that as with non-tariff barriers, there are losers and gainers, but the world as a whole lose.

Objective (continued)

- Because economies benefits from the reductions of trade barriers, the world need international institutions that could negotiate among nations to agree to reduce the trade barriers.
- Thus was created GATT in 1947, which was a provisional agreement on tariff rates signed by 23 countries. After eight rounds of GATT with more countries being member it was succeeded by WTO, which now foresee the global rules of government policy toward international trade.
- I will show you two video clips, one on WTO and the other on strategic commercial policy by government that helps domestic production and exports, without such strategic policy a country could not have found comparative advantage to produce the good. It’s the case of Airbus industry in Europe.

Topics

- World Trade Organization (WTO) and the General Agreement on Tariffs and Trade (GATT).
- 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

WTO and its predecessor GATT

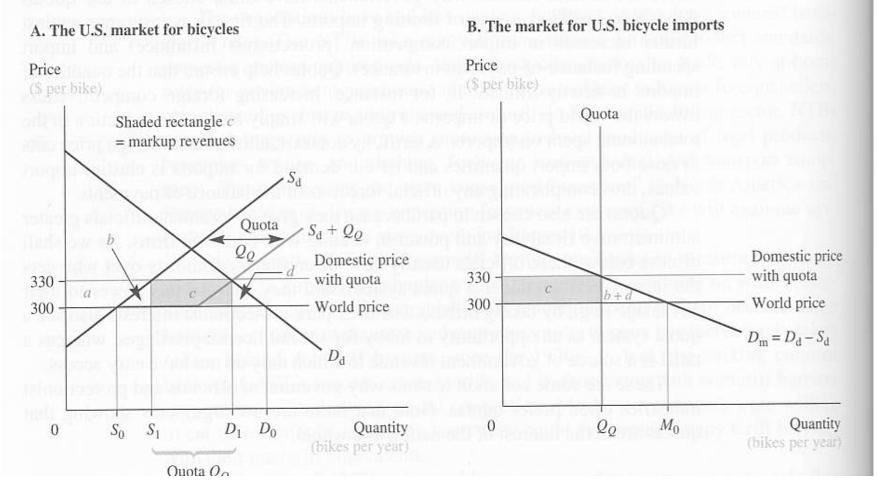
- WTO as did the GATT before it codifies three major principles:
  - Liberalization of trade
  - Non-discrimination, e.g., to eliminate most favored nation (MFN) principle
  - No unfair encouragement for exports.
- Try to understand: (please read the text box in PL p.140, and also the video clip).
- How WTO came about.
- What it does, and how it sets-up its rules that are then imposed on all member countries.
- How it determines if there are violations of the agreements or rules on tariff and non-tariff barriers by any trading partner country.

Reason for the govt. to have Import quotas

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

Effects of Import Quota

FIGURE 8.1 *The Effects of an Import Quota under Competitive Conditions*



Quota vs Tariffs

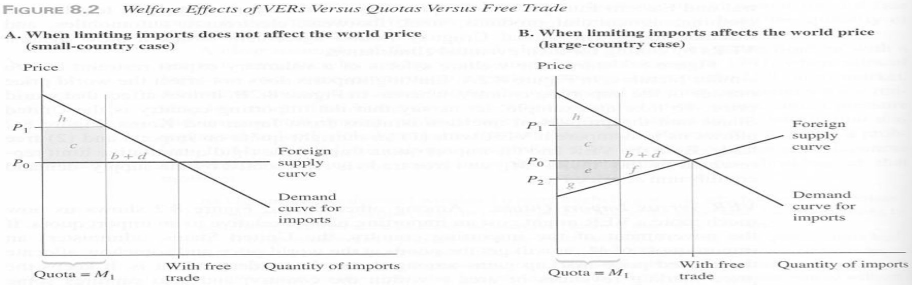
- They are equivalent except, if quota creates monopoly power, or the licenses to import are allocated inefficiently
- Consider this problem for each of the following ways to allocate licenses
- Competitive auctions (the best and rarest way)
  - Example: The government announces people to bid for the price per unit of quota that he or she would pay to get the license to import the quota amount. The revenue from this goes to the government.
- Fixed favoritism (the most arbitrary way)
  - Example: In 1959 and 1973, the US government gave quotas to oil co. to import oil and thus favored those companies over other citizens the right to import the quota amount.
- Resource using application procedure (least efficient way)
  - Example: stand-up in line for free license.

Effect of VER when compared with Quota or Free Trade (1)

- 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 compared with quota and free trade (2).

FIGURE 8.2 *Welfare Effects of VERs Versus Quotas Versus Free Trade*



This view of an import market subject to voluntary export restraint allows us to compare the net national, foreign, and world welfare effects of the VER with either free trade or an import quota enforced by the government of the importing country.

If the importing country is a price-taking (small) country, as in Figure 8.2A:

	Importing Country	*Foreign Exporters*	*World as a Whole*
Net Gains from Trade			
With free trade	$c + (b + d) + h$	zero	$c + (b + d) + h$
Import quota	$c + h$	zero	$c + h$
With VER	h	c	$c + h$
Net Gains from VER Versus Two Alternatives			
VER versus free trade	$-c - (b + d)$	c	$-(b + d)$
VER versus quota	$-c$	c	zero

If restricting trade affects the world price, as in Figure 8.2B:

	Importing Country	*Foreign Exporters*	*World as a Whole*
Net Gains from Trade			
Free trade	$c + (b + d) + h$	$e + f + g$	$c + (b + d) + e + f + g + h$
Import quota	$c + e + h$	g	$c + e + g + h$
VER	h	$c + e + g$	$c + e + g + h$
Net Gains from VER Versus Two Alternatives			
VER versus free trade	$-c - (b + d)$	$c - f$	$-(b + d) - f$
VER versus quota	$-c - e$	$c + e$	zero

Effect of VER compared with quota and free trade(3)

Voluntary export restraints (VERs)

- Importing and exporting countries negotiate agreements for the exporter to "voluntarily" restrict exports.
  - Autos, steel, textiles/apparel.
- VER has effects similar to a quota. Major difference is in its administration:
- Quota: importing country handles the administration.
- VER: exporting country handles the administration.
- Increases likelihood that foreign producers or exporters will capture a large share of the rents.

Other Non-tariff Barriers

- Product Standards:
  - Examples: Restrictions of Beef and chicken imports from US by Europe and Japan
- Domestic Content or mixing Requirements
  - Examples: An importing country might impose restriction stating that it allow importers to import the good if the product uses part of the inputs (I.e., raw materials or labor etc.) of the importing country.

How big are the costs of Protection?

- Not covered for this course.

Thank you, and Good night.