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

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
What’s Special about Non-Tariff Barriers?

- Tariffs affect 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.

Basic Analysis of a Quota (1 of 2)

Begin with the case of a small country, “price-taker”.

- US can import unlimited number of bicycles at $300.
- US manufacturers produce 0.5 million/yr.
- US consumers demand 1.5 million/yr.
- 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)

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) ↑ $330$
- Consumer demand ↓ 1.25 mm
- Consumer surplus is now $\Delta BCD$, lower by $a+b+c+d$
- Right to import worth $30/unit, sold competitively ⇒ 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?
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

Other Non-Tariff Barriers

- **Technical standards**
  - 110 vs. 220 volts
  - Withstand a 5 mph crash?
  - Steering wheels R or L?
  - FDA approval?
- **Quality standards**
  - What is beer?
  - What is Champagne?
  - Pesticides on apples?
  - Hormones in beef?
  - Genetically engineered __?
  - Made by oppressed workers?
- **Customs practices**
  - Is it a rug or is it “art?”
  - Is it a truck or an SUV?
- **Government procurement**
  - Preferences toward domestic suppliers - of tanks, bridges, airports
- **Trading preferences**
  - Most-Favored-Nation (US)
  - Regional trade blocs
  - Trade with former colonies (European bananas)
- **Local content**
  - French movies for French TV
  - Is this an “American” car?
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 [US Trade Representative](https://ustr.gov/)
- 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

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
## 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)

## 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