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Nontariff Barriers (NTBs)

I. What are NTBs?

Anything that restricts trade other than tariffs; also sometimes refers to policies that artificially expand trade (export subsidies).

II. Main Types

A. Quota

Definition: A quantitative restriction on imports (most often). Especially relevant for textiles and apparel in the U.S.

See graph 1. We see that at the initial domestic price, equal to the world price, when the quota is enacted, consumers can no longer purchase all they want, there is excess demand. This causes the domestic price to rise up to the point where there is no longer any excess demand.

All the effects on price, quantity and welfare are the same as a tariff: price expands, supply expands, and quantity demanded falls.

Welfare: domestic suppliers benefit (by the change in Producer Surplus), while demanders lose (pay a higher price). We can again measure their loss by the change in Consumer Surplus.

However, a tariff generates revenue for government and quota may or may not.

There are many ways to implement a quota:

-"First come, first served" (usually not implemented this way)

-Import licenses, that are often given away or sold (auction the rights to import).

RENT

$-(Q_S^1-Q_D^1)$*(Rent per unit)

P_q-P_w = competitive price for import licenses (rent per unit).

Often, quota rents go to foreign countries as compensation for importing less.

If, for example, there is a first-come-first-serve policy, people will race to import, they will engage in activities that use real resources in order to gain rents (the quota rents). This is called "rent-seeking" behavior. This type of behavior causes the welfare impact of the quota to be considerably worse than a tariff. Even with licenses, rent-seeking behavior occurs in competition for licenses.

B. VER: voluntary export restraint.

A nation may want to restrict imports of a good (maybe to help a domestic industry), they could use a tariff but maybe they have signed into WTO so they can't use tariffs or quotas, what are they to do? They could go to the foreign government and ask them to send less of the good (export less so home country can import less).

Example: in the early 1980s the U.S. had a VER with Japan in automobiles (Japan agreed to restrict its exports of automobiles to the United States).

What about the word "voluntary": typically exporting countries resist and often the US persuades them to use a VER by threatening them, so these are often not strictly "voluntary."

-These have exactly the same effects as a quota (quantity restriction).
Back to the 1980s Japan and US auto example: Japanese auto companies got the quota rents from the VER, so they may have gained from the VER. That they did was indicated later, in the late 1980s, when the US dropped the request for the VER, and Japan chose to continue it.
Who lost? Demanders of cars in the US lost.
Prior to the VER most Japanese cars were made in Japan. However, after the VER, much of their production shifted to the United States. As a result, sales were not cut because a large part of sales was now coming from cars produced in the United States.

C. Variable Levies

Levy = tariff. Normally with a tariff the domestic price moves when the world price does, but with variable levies, domestic price is fixed ($p_d = p_w + t$). In essence, tariffs are adjusted to keep domestic price at a fixed level. An example of this is the European Union's Commercial Agricultural Policy (CAP). The effects are, of course, very similar to tariffs.

The next three (D, E, F) all add a certain cost to imports, or act as though they do, so the effects are also very much like tariffs.

D. Government Procurement Regulations

A government will often require that various parts of government purchase domestic goods (or show a preference for them).

E. Customs Procedures

Make it difficult to import (e.g. make people wait at the border for a long time).

F. Standards

(E.g. electrical plugs, voltage, no poison in food). Sometimes these standards are specifically designed to restrict trade and are difficult for foreign countries to comply with. There also has to be a method for checking for compliance, and getting this done can also be made very difficult for foreign companies.

G. Local Content Regulations

Example: can sell cars in this country only if a certain fraction of the value of cars is produced domestically. The effects of these policies are often very complicated.

H. Unfair Trade Laws

-Tariffs used on imports that are priced "unfairly." This forces exporters to change their pricing behavior to avoid tariff, and it therefore restricts trade even if the tariffs themselves are not implemented.
The United States has two such laws:

1. Anti-Dumping Law: This law permits tariffs on "dumped" imports (tariffs are targeted at the firm that does the "dumping"). Dumping = a price below the "fair" price, where fair price can equal either the price in the exporter's home market or cost. Economists can find virtually nothing good about Anti-Dumping Laws.
2. Countervailing Duty Law: This law permits tariffs on subsidized imports (governments subsidize, so the tariffs are targeted at the foreign government).

Graph 1: Quota