

Econ 340

Lecture 6 Nontariff Barriers

Outline: Nontariff Barriers

- What Are NTBs?
- Quotas
 - Effects Equivalent to Tariffs
 - Who Gets the Rents
- Other NTBs
 - Tariff-Rate Quotas
 - Voluntary Export Restraints (VERs)
 - Variable Levies
 - Government Procurement Regulations
 - Customs Procedures
 - Standards
 - Unfair Trade Laws
 - Export taxes
- Subsidies

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What Are NTBs?

- What Are They?
 - Any institutional or policy arrangement that interferes with trade, other than tariffs
 - Term NTB is also used more broadly to include policies that artificially expand trade
 - e.g., Export subsidy
 - Sometimes called “Nontariff Measures” (NTMs)
- Main Types of NTB
 - See outline above

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We'll go through some of these individually

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Quotas

- Definition: An import quota is a direct restriction on the quantity of an import
 - E.g., US might limit the imports of steel to some number of tons per year
 - Until Jan 1, 2005, US and EU had elaborate import quotas on many textile and apparel products from developing countries
 - We still have quotas on many agricultural products, e.g., sugar, cheddar cheese, dried milk, etc

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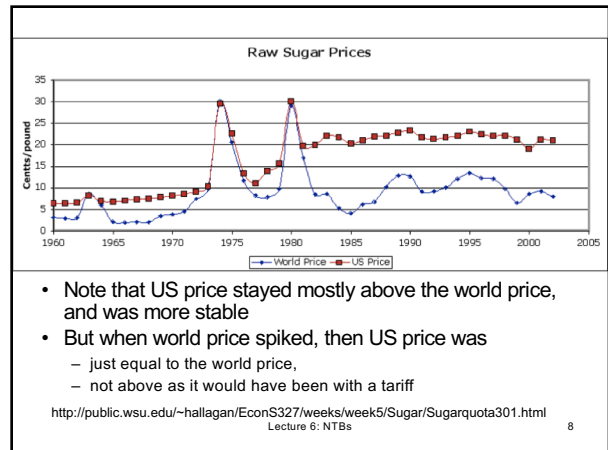
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Quotas

- Effects of a quota
 - If permitted quantity is above what would be imported anyway, then no effect at all. (True only with perfect competition)
 - Otherwise, quota creates scarcity and raises price
 - Quota raises domestic price above world price
 - For market to clear, domestic price must rise to the point that desired imports equal the quota
 - See this with supply and demand
 - But first note example of US quota on sugar..

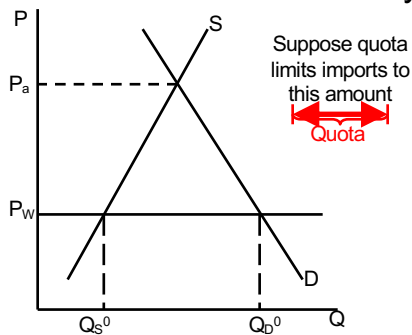
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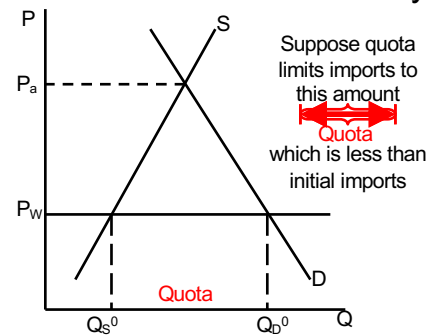
Effects of a Quota: Small Country



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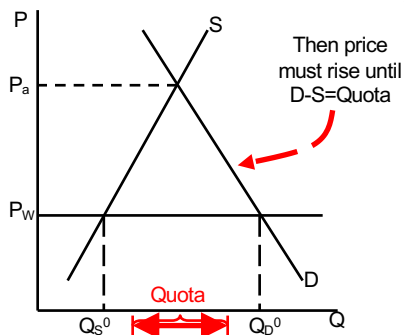
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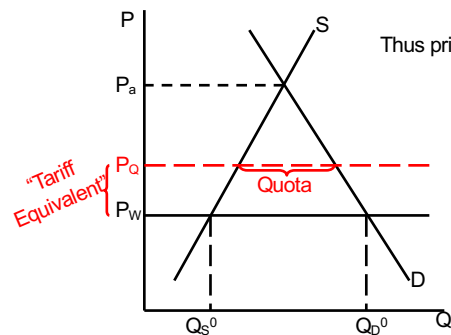
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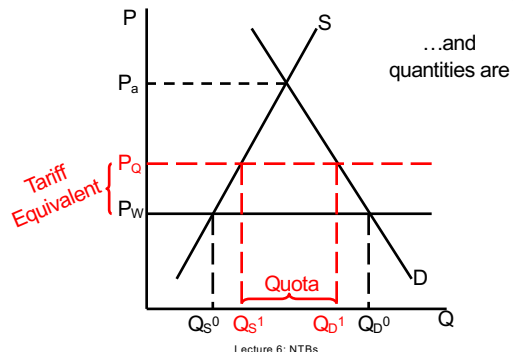
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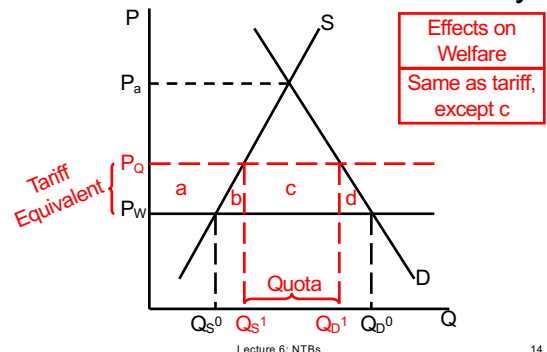
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Effects of a Quota: Small Country



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Effects of a Quota: Small Country



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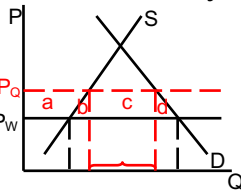
Effects of a Quota: Small Country

• Results

- Suppliers gain area +a
- Demanders lose area $-(a+b+c+d)$
- Somebody gets area c, but who?

• Area c is called “quota rents”

- It is the profit from buying at world price, P_w , and selling at higher domestic price, P_q



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Effects of a Quota: Small Country

• Who gets quota rents?

• Depends on how quota is administered:

- First-come, first-served: Rents go to whoever gets there before quota is exhausted
- Sell (or “auction”) import licenses: Rents go to government as revenue from sale of licenses
- Give away import licenses to domestic people or firms: those people or firms then get the rents
- Give away licenses to foreign firms or governments: foreigners get the rents
- Most common is the last: Give away to foreigners in proportion to their historical exports

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Effects of a Quota: Rent Seeking

• “Rent Seeking”

- Defined as the use of resources in effort to get rents
- Examples
 - Faster (thus more costly) transport to win race to border for 1st-come-1st-served quota
 - Lobbying legislators to get quota allocations
 - Inefficient production intended to get quota allocations based on market shares

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Effects of a Quota

• Effects of quota compared to tariff

- Effects on price and quantity at a given time are the same
 - Hence “tariff equivalent”
- Effect on welfare is different if quota rents are lost to rent seeking and/or accrue to foreigners:
 - In that case, importing country loses more from quota than from equivalent tariff

• What if country is large?

- Picture is also same as for tariff
- But if quota rent is lost or goes to foreigners, importing country cannot gain

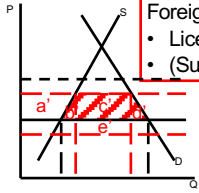
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Effects of Quota: Large Country (if Rent given to foreigners)

Summary:

Domestic Country:	
• Suppliers gain	$+a'$
• Demanders lose	$-(a'+b'+c'+d')$
• Net effect on country =	$-(b'+c'+d')$
Foreign Country:	
• License holders gain	$+(c'+e')$
• (Suppliers/Demanders also lose)	



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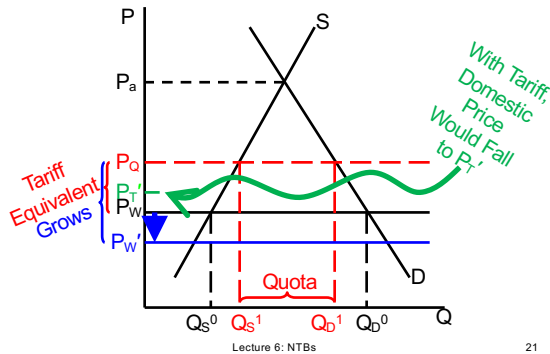
Effects of a Quota

- Other effects of a quota
 - Quality upgrading
 - Limited to a fixed quantity, foreign exporters seek higher value by improving quality and charging higher price
 - Like a tariff, quota may induce foreign firms to produce here
 - Unlike a tariff, the quota becomes more restrictive if foreign supply increases or world price drops

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Effects of a Fall in World Price



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Effects of a Fall in World Price

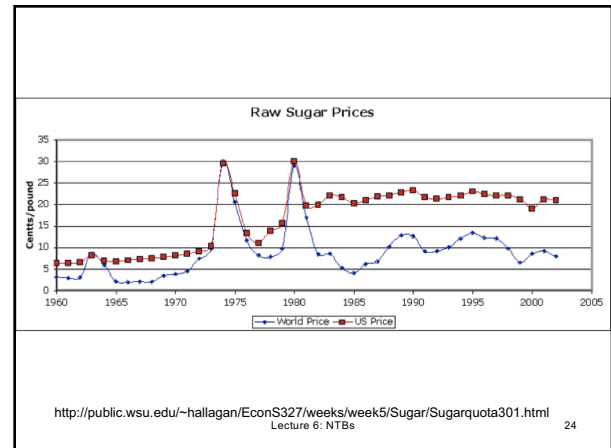
- Many things do not change:
 - Domestic price
 - Domestic quantity supplied
 - Domestic quantity demanded
 - Quantity of imports (fixed by quota)
- What does change?
 - Tariff equivalent increases
 - Rents from quota increase

Effects of a Rise in World Price

- If the rise is small, this is just the reverse of what happened with a fall in world price
- But if the rise in world price is large enough, then
 - The quota ceases to be binding
 - Tariff equivalent of quota becomes, and stays, zero
 - Domestic price becomes
 - Equal to world price, and
 - Rises with it
- This last is what we saw in the graph of the price of sugar

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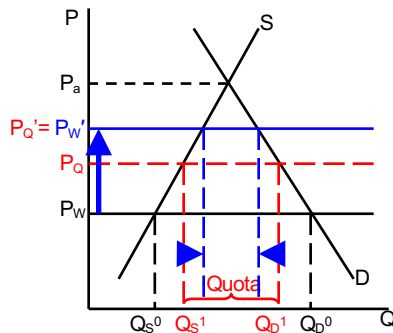


<http://public.wsu.edu/~hallagan/EconS327/weeks/week5/Sugar/Sugarquota301.html>

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Effects of a Rise in World Price



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Outline: Nontariff Barriers

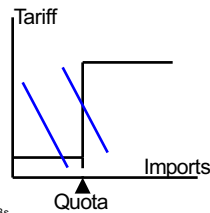
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Other NTBs: Tariff-Rate Quota (TRQ)

- This is two tariffs, separated by a quota
 - Low (or zero) tariff applies to imports below the quota
 - High tariff applies to imports above the quota
- Used by US on many agricultural products
- Effect is like
 - a low tariff,
 - a quota,
 - or a high tariff,
 depending on levels of supply and demand



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Other NTBs: Tariff-Rate Quota (TRQ)

- This is what Trump used against imports of solar panels and washing machines

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Other NTBs: Voluntary Export Restraint (VER)

- Restriction of exports
 - At request of importing country
 - Usually specified as maximum quantity
- This was the major form of protection for the US auto industry in the 1980s: US persuaded Japan to limit exports of cars to US
- Illegal since 1995 under WTO rules
 - But how to enforce
 - There were examples in 2012 that look like VERs
 - Now the US has gotten S. Korea to limit its exports of steel
 - It look like VERs are back, but may not be called that
- Effect is exactly like a quota allocated to foreigners

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Other NTBs: Variable Levies

- A tariff that is changed as necessary to keep domestic price at a specified level
- These are used extensively by the European Union as part of its Common Agricultural Policy (CAP)
- Effects are same as a tariff, except for behavior over time

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Other NTBs: Government Procurement Regulations

- Government favors domestic suppliers in buying goods and services
 - Buys only from domestic firms,
- or
- Buys from domestic firms unless imports are, say, 10% cheaper
- US used to have a “Buy American” law
 - Some say we need it again, but would violate WTO
- Effect is like a tariff, except that loss to demander is now loss to government and thus taxpayer

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Other NTBs: Government Procurement Regulations

- “Buy American” was part of the Stimulus Package of the US in 2009
 - Congress would have imposed broad restrictions
 - Obama got them to restrict only when not contrary to US commitments under trade agreements
 - Even so, result was broadly restrictive, because purchasers were not sure of rules, so avoided imports
 - Result was also that other countries included similar provisions in their stimulus packages
 - See reading by Hufbauer and Schott.
- “Buy American” was said in President Trump’s Inauguration Speech, Jan 20, 2017

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Other NTBs: Government Procurement Regulations

- Not just in US. There is an increasing use of “Buy Local” requirements by US and other governments
 - See *Economist*, “Buying local is more expensive than it looks”
 - The share of imports covered by buy-local requirements has increased five-fold since 2009
 - But... they increase costs, just like tariffs, without any tariff revenue

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Other NTBs: Customs Procedures

- All countries have customs procedures for maintaining border security and collecting tariffs
- They become NTBs when
 - Excessive difficulty, or red tape, limits imports
 - Rules impose artificially high valuation for *ad valorem* tariffs

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Other NTBs: Standards

- All countries also have standards, for
 - Health and safety (e.g., no lead paint)
 - Compatibility (e.g., 110 volt appliances)
- They become NTBs when biased against imports in
 - Substance of the requirement
 - Procedures for certifying compliance

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Other NTBs: Unfair Trade Laws

- The (legal) threat and use of
 - Anti-Dumping Duties
 - Countervailing Duties
- We’ll say more about this later, in lecture about U.S. Trade Policies
- These are NTBs if
 - “Unfair trade” is actually normal trade (it usually is)
 - The threat of action discourages trade, even when duties are not levied (the “chilling effect”)

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Other NTBs: Unfair Trade Laws

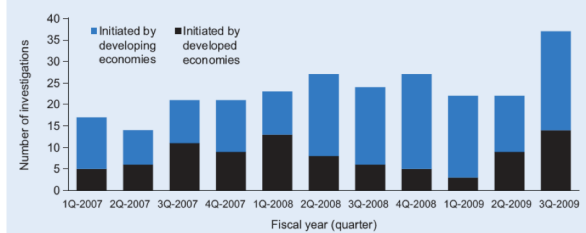
- Use of these laws is increasing rapidly by other countries. See Lindsey and Ikenson
 - In 1990s, antidumping use increased 50% over the '80s.
 - Developing country AD cases:
 - 7 in 1980-87
 - Over 700 in 1995-2000
 - Leading users of AD (1995-2000)
 - US (323), EU (143) (out of 976 total)
 - Targets of AD cases (1995-2000, per year):
 - Leading: China (179), Japan (78), US (65)
 - Developed countries 355; Developing countries 656

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Other NTBs: Unfair Trade Laws

- Somewhat more recently:
- Newly Initiated Antidumping Investigations, 1Q 2007–3Q 2009

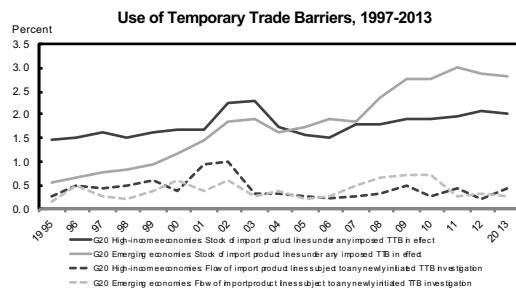


Source: Global Antidumping Database.

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Other NTBs: Temporary Trade Barriers (AD, CVD, etc.)



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Other NTBs: Export Taxes

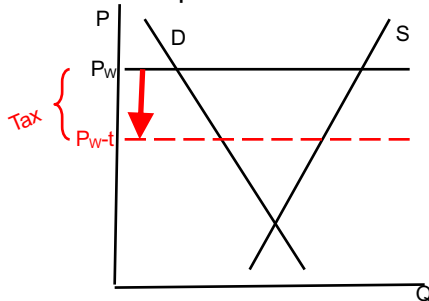
- Simply a tax on exports, analogous to tariff on imports
 - Effects are similar
 - Not common, until recently, because countries think exports are good
 - Became common in mid-2008, as high world prices for agriculture led food exporters to protect their own consumers
 - Also used recently by China on certain minerals used in high-tech devices

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Other NTBs:

Effects of Export Tax – Small Country



Lecture 5: Tariffs

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Subsidies

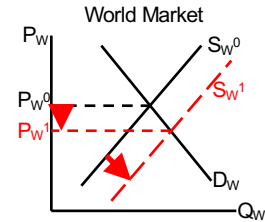
- Government assistance to producers
 - Export subsidy: paid only for exports
 - Domestic subsidy: paid for all production (but still increases exports or reduces imports)
- Effect on the subsidizing country
 - In competitive industries, country loses
 - Subsidies usually are intended to benefit producers, not country
 - In non-competitive industries, result may be different (recall Boeing-Airbus example)

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Effects of a Subsidy on Foreign Countries

- Effect, if country is large, is to reduce the world price of the exported good
- Subsidy expands supply in subsidizing country (which is part of S_W^0)



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Effects of a Subsidy on Foreign Countries

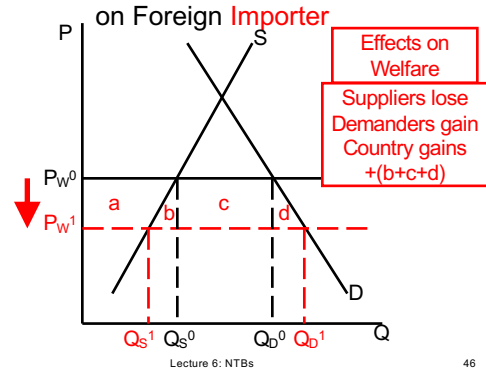
- Effects on other countries depend direction of their trade:
 - If they import the good, they gain
 - If they export the good, they lose

See this in the following figures...

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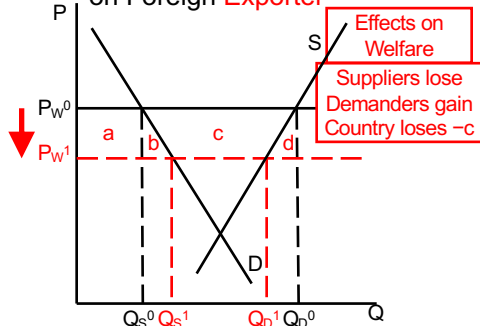
Effects of Export Subsidy: on Foreign Importer



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Effects of Export Subsidy: on Foreign Exporter



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Effects of a Subsidy on Foreign Countries

- In both cases
 - Foreign suppliers lose
 - Foreign demanders gain
 - Net effect on countries depends on
 - Whether they are net importers or exporters
 - Thus whether price change is improvement or worsening of their terms of trade
- Optimal policy response for foreign countries
 - Importers: Write "thank-you note" (Krugman)
 - Exporters: Not much they can do

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Subsidies: Are They Used?

- YES!!
- US, EU, Japan all have large subsidies on many agricultural products
- These reduce world prices and hurt producers of these products in developing countries
- Examples of US subsidies and whom they hurt:
 - Corn: Mexico
 - Sugar: Caribbean countries
 - Cotton: Certain African countries

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Next Time

- Reasons for Protection
If tariffs are such a bad idea, why are they used?

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