Econ 340
Lecture 6
Non-tariff Barriers

Outline: Non-tariff 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

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 “Non-tariff Measures” (NTMs)
- Main Types of NTB
  - See outline above
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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
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
    • First note example of US quota on sugar.

• Note that US price stayed mostly above the world price, and was more stable
• But when world price spiked, then US price was
  – just equal to the world price,
  – not above as it would have been with a tariff

http://public.wsu.edu/~hallagan/Econ3327/weeks/week5/Sugar/Sugarquota301.html

Effects of a Quota: Small Country

Suppose quota limits imports to this amount
Suppose quota limits imports to this amount which is less than initial imports.

Then price must rise until \( D-S=\text{Quota} \).

Thus price is...
Effects of a Quota: Small Country

- Results
  - Suppliers gain area $+ a P_D$
  - 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, $P_D$
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 import licenses away to domestic people or firms: those people or firms then get the rents
  - Give licenses away to foreign firms or governments: foreigners get the rents
- Most common is the last: Give away to foreigners in proportion to their historical exports

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 market-share-based quota allocations

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

Summary:
- **Domestic Country:**
  - Suppliers gain: \(+a'\)
  - Demanders lose: \(-a'\)
  - Net effect on country: \(-c'\)
- **Foreign Country:**
  - License holders gain: \(+c'\)
  - (Supplier/Demanders also lose)

Effects of a Quota

- **Other effects of a quota**
  - Quality upgrading
    - Limited to a fixed quantity, foreign exporters seek higher value by improving quality
  - 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

Effects of a Fall in World Price

- With Tariff, Domestic Price Would Fall to \(P_w\)
- Tariff Equivalent Grows
- Quota
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 become, 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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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

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
  – Examples in 2012 that look like VERs
• Effect is exactly like a quota allocated to foreigners
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

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

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
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 \textit{ad valorem} tariffs

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

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”)
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
    - 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

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

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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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)
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 $S^{W0}$)

\[
\begin{align*}
D^W & \quad P^W \quad Q^W \\
S^W & \quad \downarrow P^W \quad \uparrow Q^W \\
S^{W1} & \quad \downarrow P^W \quad \uparrow Q^W \\
\end{align*}
\]

Effects of a Subsidy on Foreign Countries

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

See this in the following figures…

Effects of Export Subsidy: on Foreign Importer

- Suppliers lose
- Demanders gain
- Country gains $+(b+c+d)$
Effects of Export Subsidy: 

- Foreign Exporter

Suppliers lose
Demanders gain
Country loses $-c$

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

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
Next Time

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