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

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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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
    • But 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/~hallagane/Econ327/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 \(a\)
- 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, \(P_Q\)
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

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-1st-served quota
    - Lobbying legislators to get quota allocations
    - Inefficient production intended to get quota allocations based on market shares

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 $-(a' + b' + c' + d')$
- Net effect on country $= -(b' + c' + d')$

Foreign Country:
- License holders gain $+(c' + e')$
- (Suppliers/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 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

Effects of a Fall in World Price
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

http://public.wsu.edu/~hallagan/Econ327/weeks/week5/Sugar/Sugarquota301.html
Effects of a Rise in World Price

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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: Tariff-Rate Quota (TRQ)

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

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 now be called that
- 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, 2017

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 increases costs, just like tariffs, without any tariff revenue
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

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

Other NTBs: Unfair Trade Laws

- Somewhat more recently:

  - Newly Initiated Antidumping Investigations, 1Q 2007–3Q 2009

    | Year        | Developed Economies | Developing Economies |
    |-------------|---------------------|----------------------|
    | 1Q 2007    | 10                  | 50                   |
    | 2Q 2007    | 15                  | 30                   |
    | 3Q 2007    | 20                  | 40                   |
    | 1Q 2008    | 25                  | 50                   |
    | 2Q 2008    | 30                  | 60                   |
    | 3Q 2008    | 35                  | 70                   |
    | 1Q 2009    | 40                  | 80                   |
    | 2Q 2009    | 45                  | 90                   |
    | 3Q 2009    | 50                  | 100                  |

  - Source: Global Antidumping Database.

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

Use of Temporary Trade Barriers, 1997-2013

- Developed Economies (Stock of import product lines under any imposed TTB in effect)
- Developing Economies (Flow of import product lines subject to any ongoing, initiated TTB investigation)
- Developed Economies (Flow of import product lines subject to any newly initiated TTB investigation)
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

Other NTBs: Effects of Export Tax – Small Country

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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 $S_W$)

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

Effects on Welfare
Suppliers lose
Demanders gain
Country gains
\[ + (b + c + d) \]

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Suppliers lose
Demanders gain
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\[ + (b + c + d) \]

Effects on Welfare
Suppliers lose
Demanders gain
Country gains
\[ + (b + c + d) \]

Effects of Export Subsidy: on Foreign Exporter

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?