Questions for PubPol/Econ 541
Oct 9

Non-tariff Barriers

KOM, Ch 9, pp. 229-241:

- Why is a tariff needed to accompany an export subsidy? **<a: Otherwise domestic demanders will buy only from the world market at the price below what the domestic suppliers are getting which includes the subsidy.>**
- Why does an export subsidy raise the price of the good inside the exporting country? **<a: Because producers receive for exports the world price plus the subsidy, and if the domestic price were any lower than that they would sell all of their output abroad and none at home. The domestic price must rise in order for supply to equal demand in the domestic market.>**
- Can an export subsidy benefit the country that uses it (in the perfectly competitive model of the text)? If so, how? If not, why not? **<a: No. A subsidy not only distorts supply and thus causes deadweight loss, but it also (if the country is large) worsens its terms of trade.>**
- How do the welfare effects of a VER compare to those of a tariff? **<a: Worse, since the rents from the quantitative restriction accrue to the foreign exporter.>**
- Why does a local content requirement raise the price of inputs to producers? **<a: They must buy a mix of higher-priced domestic inputs along with the cheaper imported inputs.>**
- If there is only a single firm in the domestic import-competing industry, is it able to act as a monopoly under free trade? Under an import tariff? Under an import quota? **<a: Certainly not, under free trade. Under an import tariff also no, unless the tariff is large enough to raise the domestic price above the autarkic monopoly price. Under an import quota, yes it has some market power, though not as great as if it had a prohibitive tariff.>**

Jackson, Ch 5, pp. 153-156:

- Countries are not allowed under the GATT/WTO to use quotas. How do they get away with it? **<a: GATT included exceptions for balance-of-payments reasons and for developing countries. Also, the US got a "waiver" from these rules for agriculture, and as a result other countries argue they should be allowed to use them as well, even without a waiver.>**
- Why is the EU's variable levy legal under the GATT/WTO? And why does Jackson nonetheless object to it? **<a: It's legal because the EU either has no tariff bindings on these products or has removed them. And I'd speculate that they might have bindings, but at high enough levels to permit the levies. JHJ objects because the variable levy defeats the purpose of having a trade barrier that sufficiently low-cost exporters can hurdle.>**

Deardorff, "Nontariff Barriers and Domestic Regulation," pp. 12-16, 1999.

- Suppose we are a small country and that foreign producers of imports to our country become more efficient, so that their costs fall. How will the effects of this change on the price and quantity of imports differ depending on whether we restrict imports with
  - a tariff, **<a: Price falls, imports increase.>**
  - a quota, **<a: Neither price nor quantity change.>**
  - a voluntary export restraint, **<a: Same as quota, if formalized in quantity terms.>**
  - a variable levy, or **<a: Also same as quota.>**
  - a government procurement regulation? **<a: Depends on how the regulation is structured. If it requires domestic sourcing unless imports are some percentage cheaper, then this may reduce price and increase quantity.>**
- If the import demand curve shifts to the right, how will a variable levy, a tariff, and a quota respond differently? **<a: Price will rise most with a quota, less with a tariff, and not at all with a variable levy. Quantity of imports will rise most with a variable levy, less with a tariff, and not at all with a quota.>**
- How do the welfare effects of a tariff and a VER differ for a small country and for a large country if they reduce imports by the same amount? **<a: The country may gain from a tariff if it is large, but cannot gain if it is small. It cannot gain from a VER, since the rents go to the foreign country, but it loses less if it is large than if it is small.>**
- Who is hurt and who is helped when the government of a small country uses a procurement regulation to restrict imports? **<a: Buyers other than the government an unaffected, since the price they pay does not change. Producers lucky enough to sell to the government may get a higher price, and thus benefit at the government's (taxpayers') expense. But if they are only able to sell to the government at an unchanged price, then nobody gains or loses. This depends on whether what the government buys is a perfect substitute for what the private sector buys.>**

Feenstra, "How Costly Is Protectionism?" 1992.

- How much more do consumers lose from protection than the country loses? Who gets the difference? **<a: In Figure 1, this excess is areas A+C. Producers get A. C goes to government if it's a tariff and to the quota rent recipients, at home or abroad, if it's a quota. In Table 1 you can't tell how much consumers lose.>**
- What determines who gets the quota rents? **<a: Whoever is given the rights to import under the quota. In U.S. dairy, the U.S. importers get them. In autos, it's the foreign auto companies.>**
- If foreign firms respond to a quota by "upgrading" their product, how can that be bad? **<a: They are increasing quality above the level determined by the market, which already maximized the excess of benefits from upgrading over costs. By upgrading further, they are wasting resources on improvements that cost more than consumers are willing to pay for.>**

- Why might foreign firms respond to protection by investing in the U.S., and what are the welfare effects if they do? **<a: They invest here to avoid paying a tariff and/or to sell more than permitted by a quota. This is costly because their cost of production must be higher here than abroad, or else they would have invested here before.>**

Beattie, "Mind your TRQs: a Brexit lesson in global trade," 2017.

- What is a tariff-rate quota? **<An "arrangements, which admit a fixed quota … at a duty set at zero or reduced from the normal level."**
- Why are TRQs inefficient and harmful? **<a: They are not likely to go to the least-cost producers, and they induce rent-seeking behavior by those wanting to get allocations of the quota.>**
- Who benefits most from a TRQ, and why? **<a: Those who are allocated rights to import under the quota gain a lot, since they are able to sell their product for the tariff-inclusive price even though they don't pay the tariff. Domestic producers within the importing country also gain from the higher price due to the tariff, just as if it were only a tariff.>**
- What was tariffication? When was it done? **<a: "The conversion of purely quantitative measures to numerical percentage duties." Done as part of the Uruguay Round.>**
- The article lists a number of products on which countries have used TRQs. Are any of them manufactured products? **<a: No, with the possible exception of ethanol.>**
- How was China hurt by TRQs in a case they took to the WTO in 2015? **<a: The quotas were allocated based on historical shares, but the date chosen was during the bird-flu epidemic when China was unable to export, so that it got an unfairly low share.>**

Economist, "Buying local is more expensive than it looks," 2017.

- Why is buying local seen as "sensible – wholesome even"? **<a: Because it "fosters thriving local communities and jobs.">**
- Why does this article disagree? **<a: Because it increases the costs of things, mainly. Also it may cause retaliation, as in the case of Mexico's response to US demand for it in NAFTA. And lastly, it says it fosters a sense of "them" versus "us," which is not good.>**
- Is the use of buy-local rules becoming more common? **<a: Yes, according to the information here. The share of imports covered by them has increased five-fold since 2009.>**
- What are some examples of these rules that have been used? **<a: Ones mentioned include: Argentina's requirement that 30% of music broadcast must be local; Obama's requirement that the US government buy US-made steel; Canadian restrictions on wind turbines that cost provincial governments more than if they'd been able to buy from the US.>**