

Chapter 9

Nontariff Trade Barriers and the New Protectionism



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Lecture overview



- Import quotas
- Voluntary Export Restraints
- Administrative regulations
- International Cartel
- Dumping
- Export Subsidies

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Non-tariff barriers (NTB)



- After the WW2
 - a lot of negotiations have been conducted
 - ⇒ the reduction in tariff
 - ⇒ increase in **non-tariff trade barriers**.
- NTBs:
 - any trade barrier other than tariffs
 - such as **quotas**, **voluntary export restraints (VERs)**, government regulations, **international cartels**, **dumping**, and **export subsidies**.
- The effects of NTBs are similar
 - either restrict imports or stimulate exports
 - cause a misallocation of resources in the world.

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IMPORT QUOTA

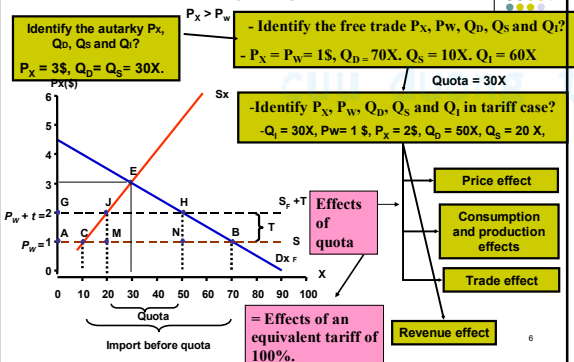
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Concept of Import Quota

- A import (export) quota: a direct quantitative restriction on the amount of a commodity allowed to be imported (exported).
- Why use import quota?
 - Protect domestic industry
 - Protect domestic agriculture
 - Balance-of-payment reasons

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Production, consumption, trade and price effects of an import quota



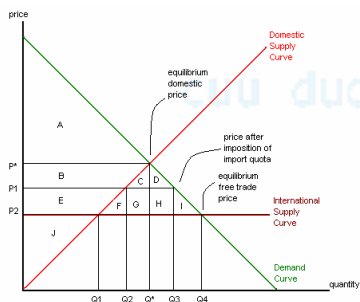
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Summary of production, consumption, trade and price effects of an import quota (cont.)

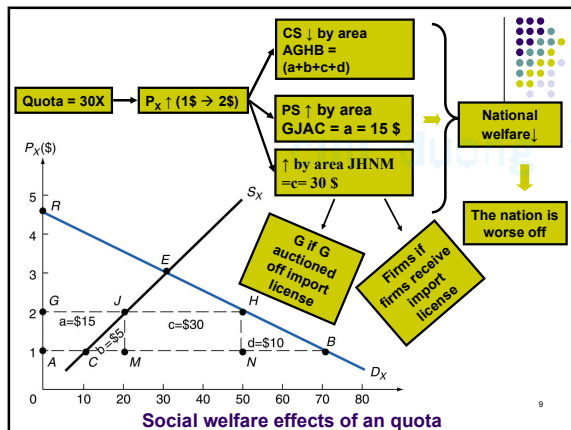
| | Autarky | Free trade | Quota | Effect |
|-------|---------|------------|-------|----------|
| Q_s | 30 | 10 | 20 | Decrease |
| Q_D | 30 | 70 | 50 | Increase |
| Q_I | 0 | 60 | 30 | Decrease |
| P_x | 3 | 1 | 2 | Increase |

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Production, consumption, trade and price effects of an import quota



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Summary of welfare effects of a quota

Question: Who will be losers and winner of a tariff?

- **Winners:**
 - Government/Firms + c
 - Producers + a
- **Losers:**
 - Consumers - (a+b+c+d)

⇒ So, quota are unambiguously pro-producer and anti-consumer.
- **National welfare effects?**
 - If domestic firms receive import license free of charge or government auction off the import license:
 - National welfare effect = - (b+d)
 - If foreign firms receive import license free of charge:
 - National welfare effect = - (b+d+c) => loss more

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Comparison of an import quota to an import tariff

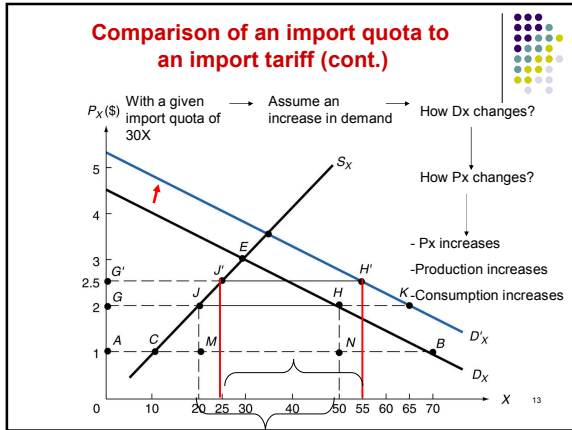
- **Similarities:**
 - Barrier to trade
 - Import quota and an equivalent import tariff has similar effects on
 - Quantity imported
 - Domestic price
 - CS
 - PS
 - Government revenue

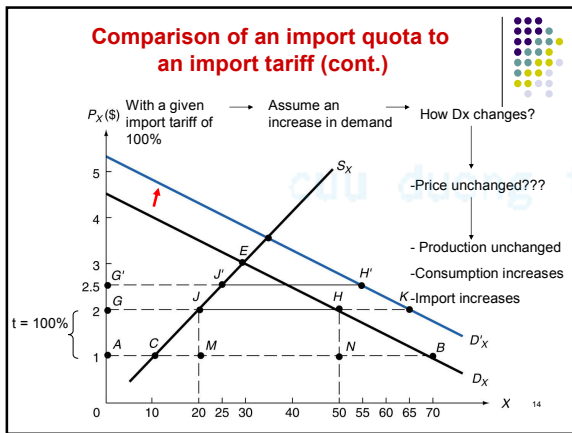
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Comparison of an import quota to an import tariff (cont.)

- **1st Difference:**
 - Quota: increase in demand
 - ⇒ higher domestic price
 - ⇒ higher domestic production
 - Import tariff: an increase in demand
 - ⇒ leave the domestic price and domestic production unchanged
 - ⇒ higher consumption and imports

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- Comparison of an import quota to an import tariff (cont.)**
- Fairness in trade
 - Quota:
 - Depending on the distribution of import licenses
 - Firms receive import licenses will get monopoly profit.
 => rent seeking activities
 - Tariff:
 - As for import tariff, the government collects it for all the imports.
 - Certainty of import limits
 - Import quota limits import to the specified level with certainty
 - while the trade effect of an import tariff may not be uncertain.
- => What does a domestic producer likes: import tariff or import quota? Why?

Voluntary export restraints

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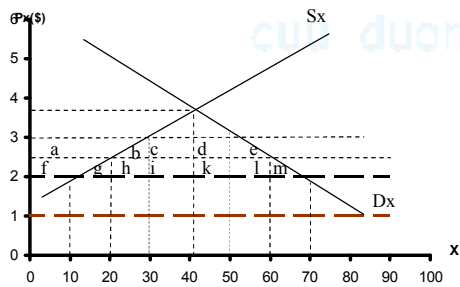
Voluntary Export Restrains

- a nontariff barrier
- importing country induces another nation to reduce its export of a commodity “voluntarily”, under the threat of higher all around trade restrictions

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Effect of VERs

they have all the economic effects of equivalent import quotas



Technical, Administrative, and Other Regulations



- Administrative
 - Customs
 - Buy domestic products
 - Technical
 - Other Regulations
 - Safety regulations
 - Health regulations
 - Labeling requirements
 - Packing of imported products
 - Environmental regulations
- => A lot of technical regulations are disguised tools to limit the imports

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International Cartel



- An organization of suppliers of a commodity located in different nations (or a group of governments) that agrees to restrict output and export of the commodity with the aim of maximizing or increasing the total profits of the organization.
- E.g: OPEC
- Conditions for success:
 - Few international suppliers
 - Essential commodity for which there are no close substitutes

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Dumping



- Definition:
 - the export of a commodity at below cost
 - or at least the sale of a commodity at a lower price abroad than domestically

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EXPORT SUBSIDIES

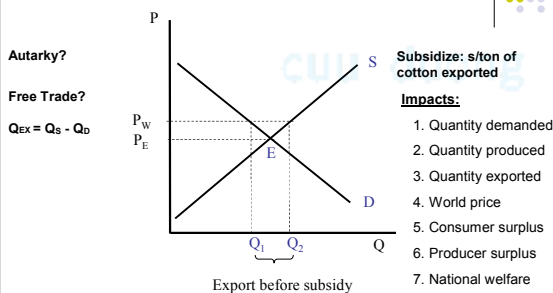
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What is an export subsidy?

- Export subsidies:
 - Payments/Assistance given by the government
 - to producers of exported goods or exporters.
 - to encourage export
- What are goods often subsidized?
- The United States:
 - Export Enhancement Program (EEP)
- Vietnam

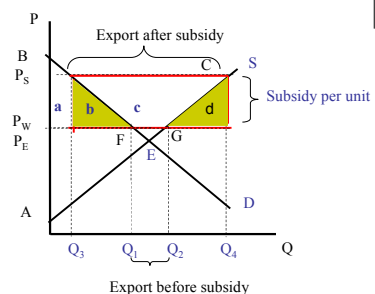
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The effects of export subsidies in a small country



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The effects of export subsidies in small country



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Results for discussion

| Criteria | How change | How much change? |
|------------------------|------------|---------------------|
| Domestic Price | Increase | From P_W to P_S |
| World price | Unchanged | 0 |
| Quantity produced | Increase | $Q_4 - Q_2$ |
| Quantity consumed | Decrease | $Q_1 - Q_3$ |
| Quantity exported | Increase | $Q_3Q_4 - Q_1Q_2$ |
| Consumer surplus | Decrease | $(a+b)$ |
| Producer surplus | Increase | $(a+b+c)$ |
| Government revenue | Decrease | $-(b+c+d)$ |
| Total national welfare | Decrease | $-(b+d)$ |

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The effects of export subsidy in small country

An export subsidy results in an unambiguous **net loss in national welfare** consisting of efficiency loss due to production and consumption distortions ($b+d$)

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Key words

- Non-tariff trade barriers
- Quota
- Welfare effects of quota
- International cartel
- Technical, administrative and other regulations
- Dumping
- Voluntary Export Restraint
- Export subsidies
- Welfare effects of export subsidies

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