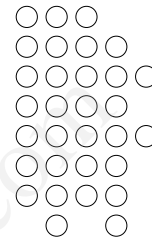


LECTURE 5

(Chapter 9 of the textbook)

Nontariff Trade Barriers

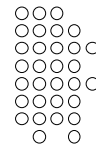
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Non-tariff barriers (NTB)

- 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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Lecture overview



Import quotas

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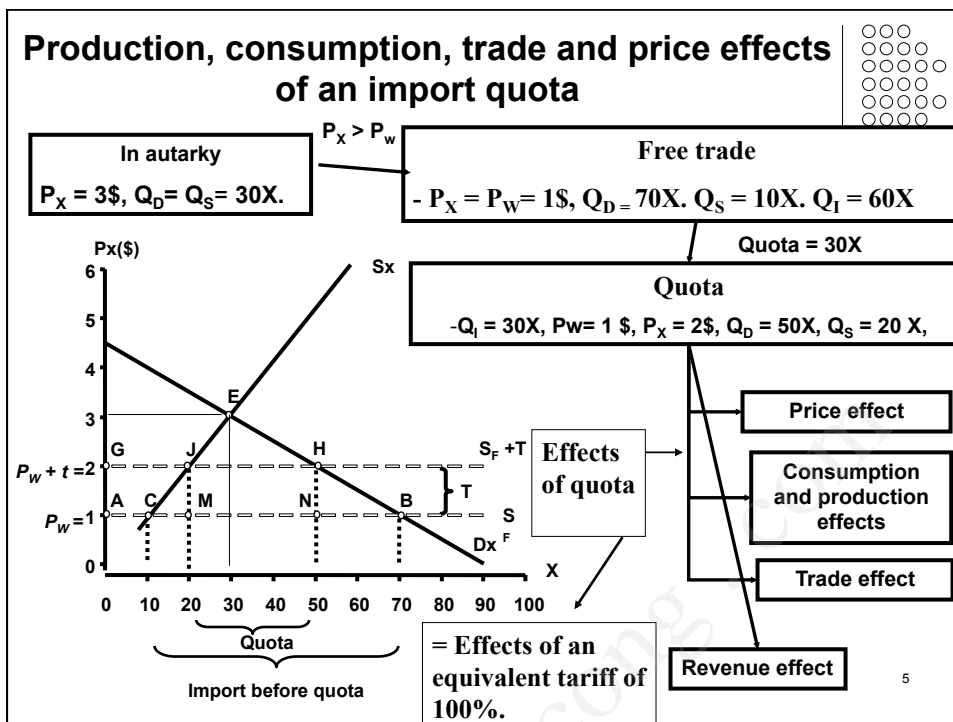
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Concept of Import Quota



- 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

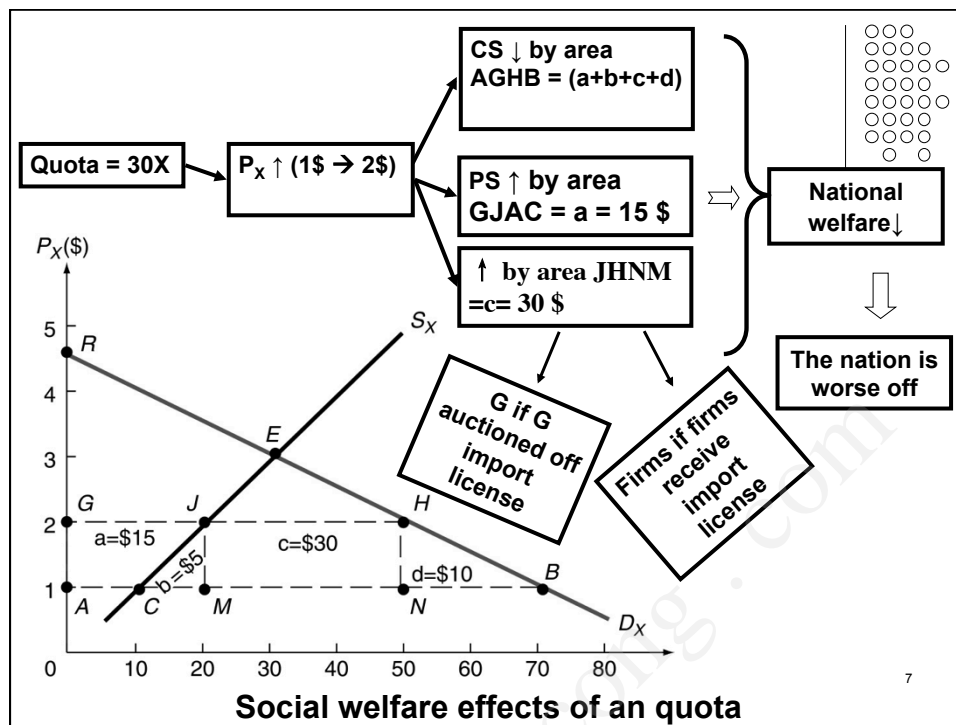
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Summary of production, consumption, trade and price effects of an import quota (cont.)

	Autarky	Free trade	Quota	Effect
Q_S	30	10	20	Increase
Q_D	30	70	50	Decrease
Q_I	0	60	30	Decrease
P_X	3	1	2	Increase

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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 licence:
 - National welfare effect = - (b+d)
 - If foreign firms receive import license free of charge:
 - National welfare effect = - (b+d+c) ⇒ lose more

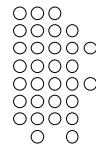
Comparison of an import quota to an import tariff



- Similarities:
 - Barrier to trade
 - Import quota and an equivalent import tariff has similar effects on
 - Quantity imported, produced and consumed
 - Domestic price

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



1st Difference:

Quota: increase in demand

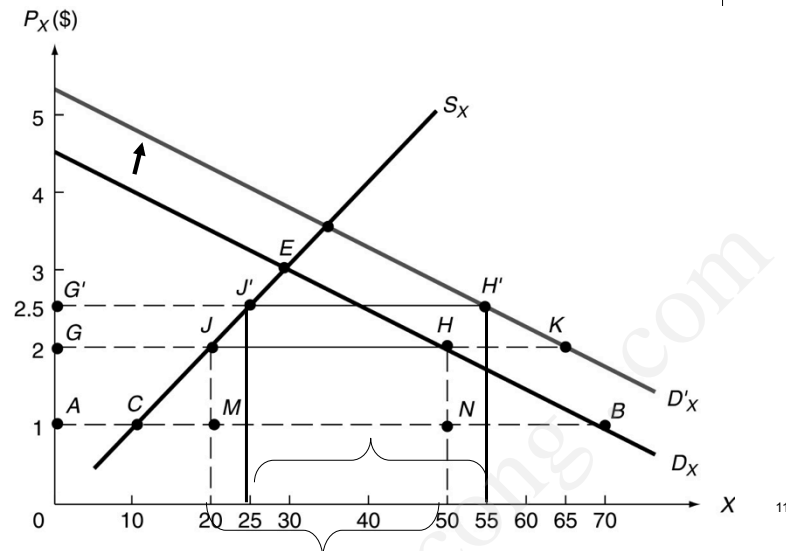
- => higher domestic price
- => higher domestic production

Import tariff: an increase in demand

- the domestic price and domestic production unchanged
- higher consumption and imports

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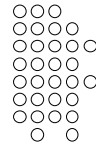
Comparison of an import quota to an import tariff (cont.)



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

- Second difference: Fairness in trade
 - Quota:
 - Depending on the distribution of import licenses
 - Firms receive import licenses will get monopoly profit.
 => rent seeking activities, lobbying and even bribing actions
 => contain the seeds of corruption.
 - Tariff:
 - As for import tariff, the government collects it for all the imports.
- Third difference: 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.

Lecture overview



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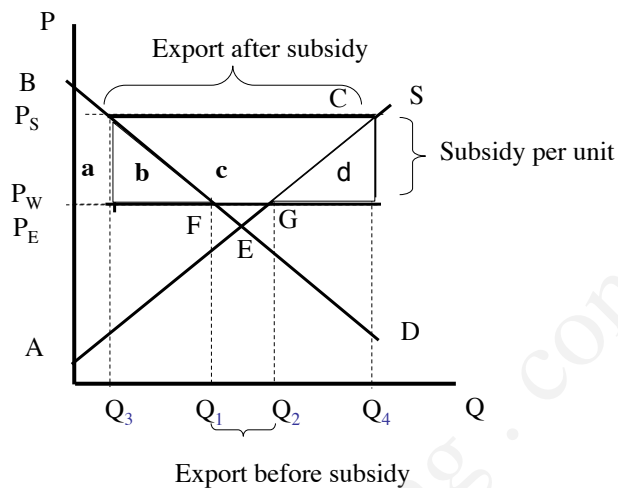
What is an export subsidy?



- Export subsidies:
 - Payments/Assistance given by the government
 - to producers of exported goods or exporters.
 - to encourage export

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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	$Q_3 - Q_2$
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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Lecture overview



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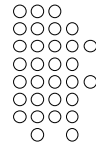
Technical and Administrative regulations

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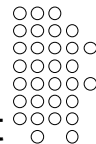
Concept of Voluntary Export Restraints (VER)



- 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
- Common since the 1950s among industrial nations to curtail exports of textiles, steel, electronic products, automobiles, and other products from Japan, Korea, and other nations.

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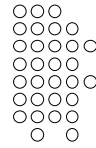
Effect of VERs



- Have all the economic effects of equivalent import quotas, except that they are administered by the exporting country.
- VERs are less effective in limiting imports than import quotas
 - The exporting nations agree only reluctantly to curb their exports.
 - Foreign exporters also tend to fill their quota with higher quality and higher-price unit of the product or from transshipment through third country
 - Leaving the door open for other nations to replace the exports of the major suppliers who are restricted by VERs

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Lecture overview



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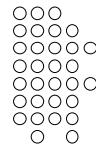
Technical and Administrative regulations

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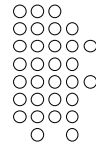
Technical, Administrative, and Other Regulations



- Administrative regulations
 - Customs/ Number of documents presented at the border gates
 - Buy domestic products
 - Technical and 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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Lecture overview



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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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Lecture overview



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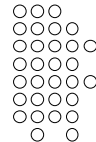
Technical and Administrative regulations

International Cartels

Dumping

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Dumping

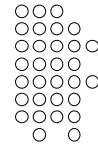


- Definition:
 - the export of a commodity at below cost
 - or at least the sale of a commodity at a lower price abroad than domestically

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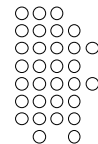
Objectives

- **At least three different reasons that a exporter would dump**
 - **Predatory dumping** is the temporary sale intended to drive out rivals, after which prices are raised to take advantage of the newly acquired monopoly power.
 - **Sporadic dumping:** temporary sale to unload an unforeseen or temporary surplus
 - **Cyclical dumping** occurs during an industry downturn in demand, with sales below average cost.
 - **Seasonal dumping** unloads excess inventories, especially on products that are perishable or going out of fashion.
 - **Persistent dumping**
 - Continuous tendency
 - is international price discrimination, with the exporting firm facing a less elastic demand curve in the home market, and having some way to limit or prevent reimport back into its home market.



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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END OF LECTURE 5



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