



天津外国语大学(天外)
**Tianjin Foreign Studies University
(TFSU)**

Global Economics

Online class starts at 08:00

(Beijing Time, GMT+8)

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March 07, 2023

Agenda for the online class

1. Lecture on the Analysis of a Nontariff barriers.
2. Questions and Q&A session

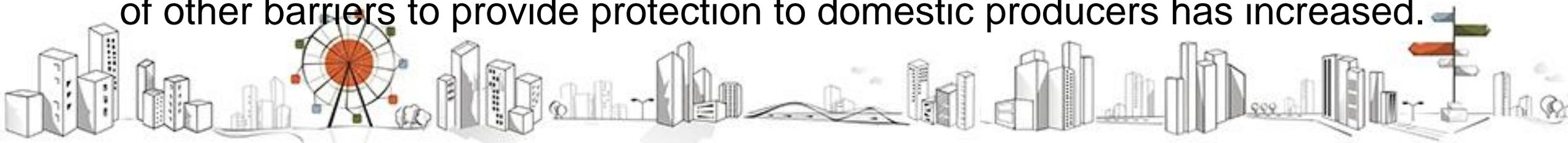


Nontariff Barriers to Imports

Protecting domestic producers against import competition

- Clearly helps those producers.
- Harms domestic consumers of the products.
- Probably hurts the importing nation as a whole.
- Almost surely hurts the world as a whole.

So, it is with a typical tariff barrier, and so it is with other kinds of barriers against imports that we will analyze in this lecture. In fact, as tariff rates have declined in industrialized countries and many developing countries, the use of other barriers to provide protection to domestic producers has increased.



Expected Learning Outcomes

The major purpose of this class is to examine various kinds of nontariff barriers to imports and their effects. We also look at how large are deadweight losses from protection, in relation to the size of the whole national economy or to the extra producer benefits created by the protection. In addition, we continue our examination of the activities of the World Trade Organization, first in a box that looks at WTO rules about nontariff barriers and at the failure of the Doha Round of multilateral trade negotiations, and then in a section at the end of the chapter that examines how trade disputes between countries can be resolved.



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TYPES OF NONTARIFF BARRIERS TO IMPORTS

Type	Description	Direct Effects
Import quota	Quantitative limit on imports	Quantity
Voluntary export restraint (VER)	Quantitative limit on foreign exports (based on threat of import restriction)	Quantity
Tariff quota	Allows imports to enter the country at a low or zero tariff up to a specified quantity; imposes a higher tariff on imports above this quantity	Quantity (if the tariff for potential imports above the specified quantity is so high that it is prohibitive, so that there are no imports above the specified quantity)
Government procurement	Laws and government rules that favor local products when the government is the buyer	Quantity (for instance, an outright prohibition); Cost of importing (for instance, special procedures for imports)
Local content and mixing requirements	Require specified use of local labor, materials, or other products	Quantity
Technical and product standards	Discriminate against imports by setting or enforcing standards in a way that adversely affects imports more than domestic products	Cost to conform to standards or demonstrate compliance; Uncertainty of approval procedures (if unclear)
Advance deposit	Requires some of the value of intended imports to be deposited with the government and allows the government to pay low or zero interest on these deposits	Cost (for example, interest)
Import licensing	Requires importers to apply for and receive approval for intended imports	Cost (of application procedures); Uncertainty of timing of, or even the approval of, licenses
Other customs procedures (classification of product, valuation of product, procedures for clearing)	Affect the amount of tariff duties owed or the quotas that applied; procedures can be slow or costly	Cost; Uncertainty

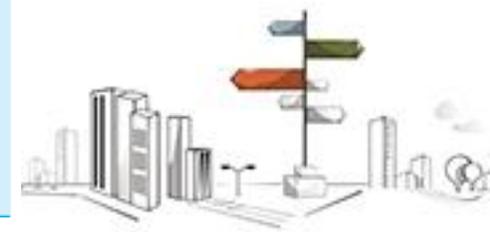
A nontariff barrier (NTB) to imports is any policy used by the government to reduce imports, other than a simple tariff on imports. Nontariff barriers can take many forms, including import quotas, discriminatory product standards, buy-at-home rules for government purchases, and administrative red tape to harass importers of foreign products.

An NTB reduces imports through one or more of the following direct effects:

- Limiting the quantity of imports.
- Increasing the cost of getting imports into the market.
- Creating uncertainty about the conditions under which imports will be permitted.



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Import licensing	Requires importers to apply for and receive approval for intended imports	Cost (of application procedure) Uncertainty (if timing of, or basis for, approval is unclear)
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THE IMPORT QUOTA

The best-known nontariff barrier is the import quota (or just quota), a limit on the total quantity of imports of a product allowed into the country during a period of time (for instance, a year). One way or another, the government gives out a limited number of licenses to import the quota quantity legally and prohibits importing without a license. **As long as the quota quantity is less than the quantity that people would want to import without the quota, the quota has an impact on the market for this product.**

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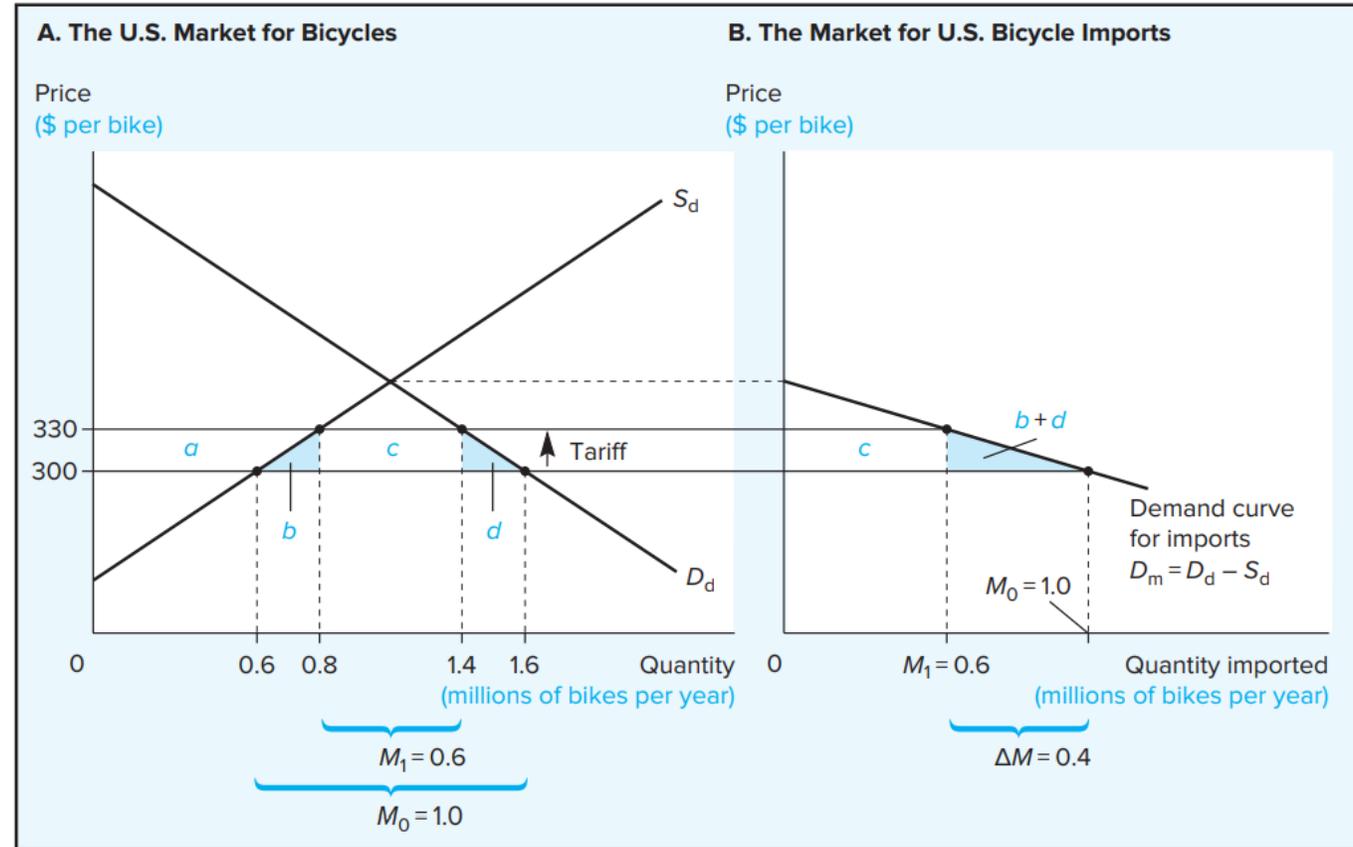
There are several reasons why protectionists and government officials may favor using a quota instead of a tariff. For instance,

- A quota ensures that the quantity of imports is strictly limited; a tariff would allow the import quantity to increase if foreign producers cut their prices or if our domestic demand increases.
- A quota gives government officials greater power. As we will see below, these officials often have administrative authority over who gets the import licenses under a quota system, and they can use this power to their advantage (for instance, by taking bribes).



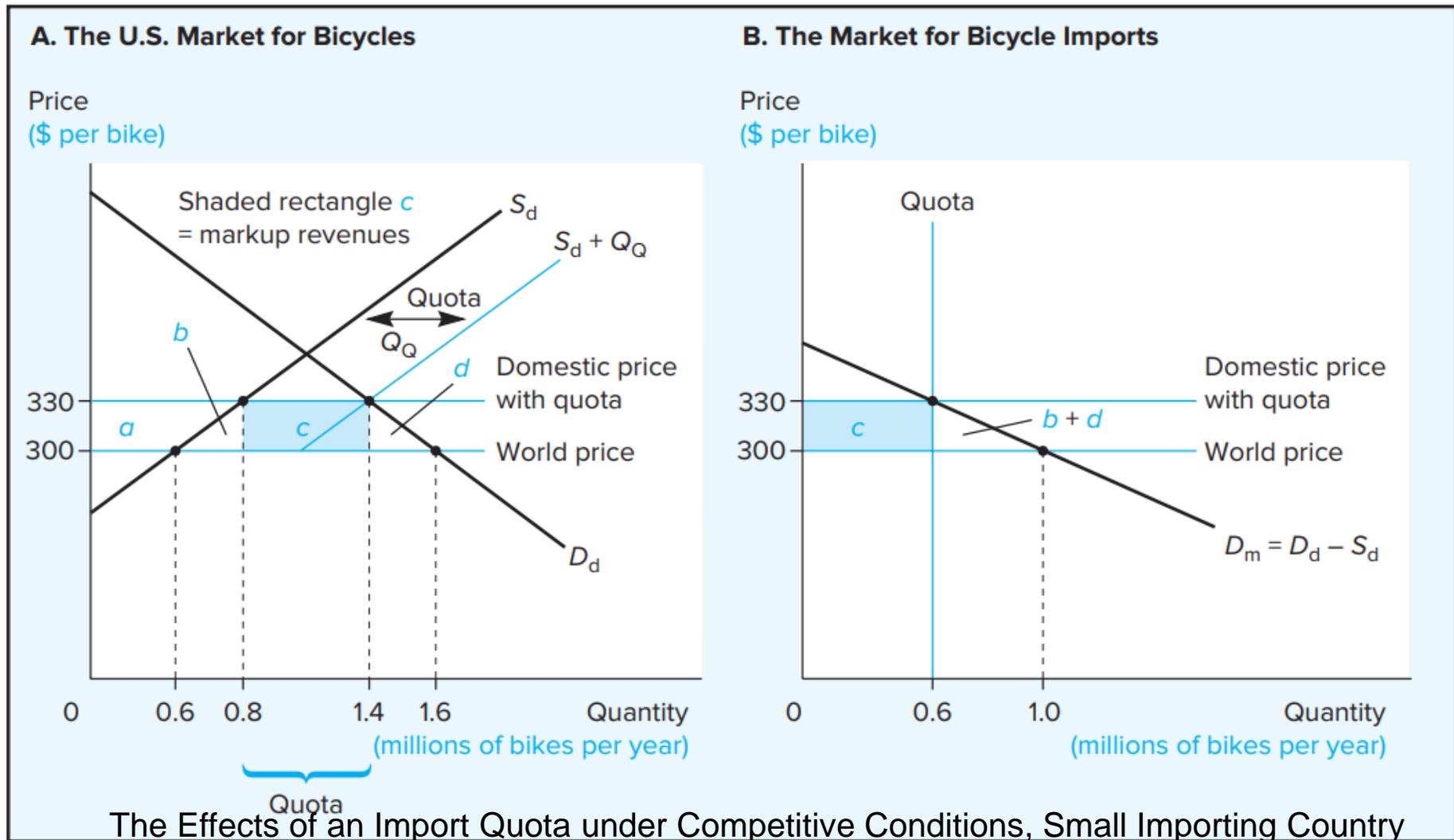
Previous class

FIGURE 4 The Net National Loss from a Tariff in Two Equivalent Diagrams

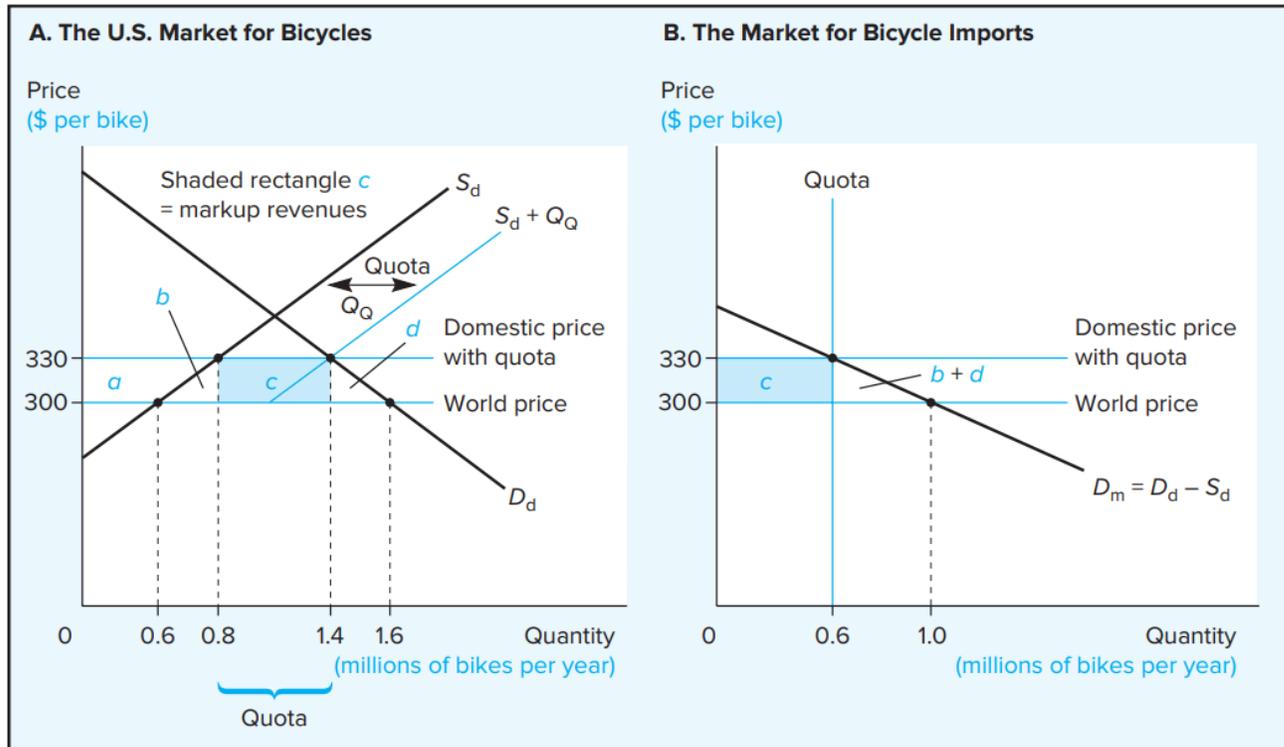


Consumers lose	Area $a + b + c + d$	= \$45 million (loss)
Producers gain	Area a	= \$21 million
Government collects	Area c in tariff revenue	= \$18 million
Net national loss from the tariff	= Area $b + d$	= \$6 million

Figure 2 Quota versus Tariff for a Small Country



Quota versus Tariff for a Small Country

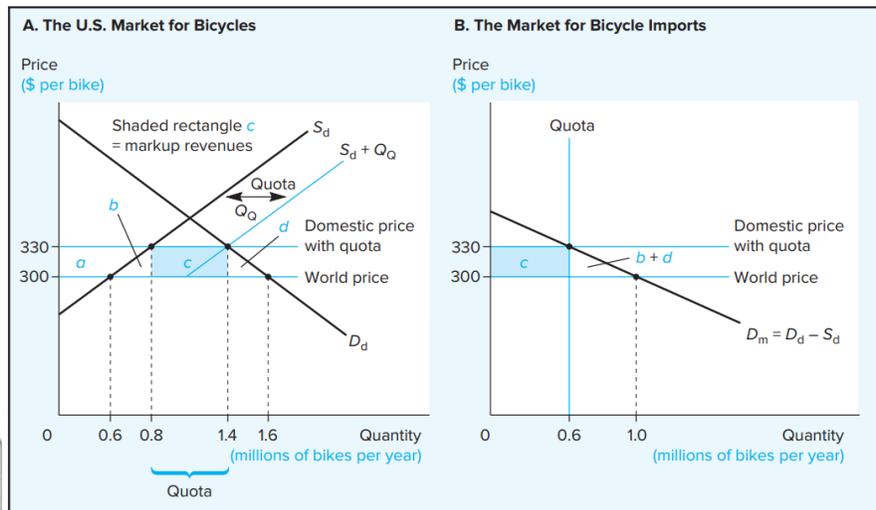


- The quota results in a higher price and larger production quantity, so domestic producers gain surplus equal to area a .
- With the higher price and smaller consumption quantity, domestic consumers lose surplus equal to area $a + b + c + d$.
- Area b is a loss to the country. The quota induces domestic producers to increase production from 0.6 to 0.8 million. The marginal costs of producing these additional bicycles at home rise up to \$330 (along S_d), when these additional bicycles instead could be purchased from foreign exporters for only \$300.
- Area d is also a loss to the country. The quota reduces quantity consumed from 1.6 million to 1.4 million. The consumer surplus lost on these bicycles is not a gain to anyone else.



Ways to Allocate Import Licenses

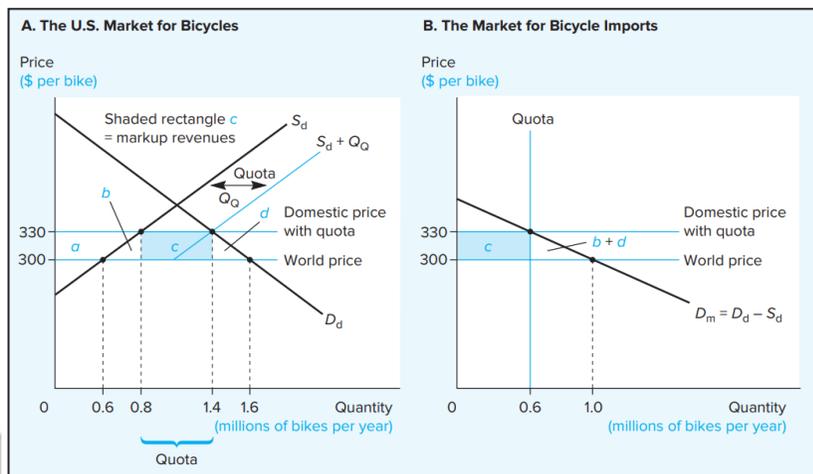
The quota license to import is a license to buy the product from foreign suppliers at the world price of \$300 and resell these units at the domestic price of \$330. The quota results in a price markup (or economic rent) of \$30 per unit imported. For all units imported with the quota, the markup totals to rectangular area c. **Who gets this rectangle of price markup?**



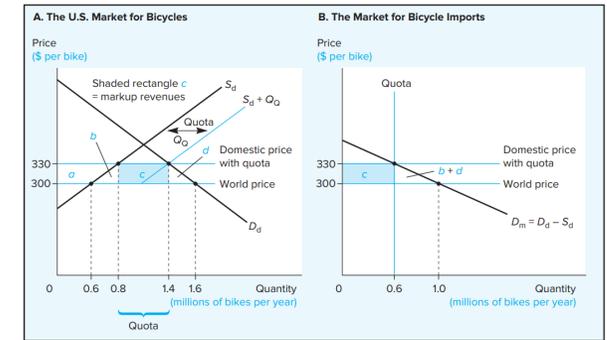
- The government allocates the licenses for free to importers using a rule or process that involves (almost) no resource costs.
- The government auctions off the licenses to the highest bidders.
- The government allocates the licenses to importers through application and selection procedures that require the use of substantial resources.

Fixed Favoritism

Import licenses adding up to the total quota can be allocated for free on the basis of fixed favoritism, in which the government simply assigns the licenses to firms (and/or individuals) without competition, applications, or negotiation. In this case the importers lucky enough to receive the import licenses will get area c .



Auction



The government can run an import license auction, selling import licenses on a competitive basis to the highest bidders. Would someone be willing to pay something to buy a quota license? Yes, because the right to acquire imports at the low world price and sell these imports at the higher domestic price is valuable. How much would some individuals be willing to pay in a competitive auction? An amount very close to the price difference—in our example, an amount very close to \$30 per bike. **If the winning bids in the auction are very close to this price difference, who gets area c?**

Note, Public auctions of import licenses are rare.



Resource-Using Procedures

Instead of holding an auction, the government can insist that firms (and/or individuals) that want to acquire licenses must compete for them in some way other than simple bidding or bribing. Resource-using application procedures include allocating quota licenses on a first-come, first-served basis; on the basis of demonstrating need or worthiness; or on the basis of negotiations. With first-come, first-served allocation, those seeking the licenses use resources to try to get to and stay at the front of the line. An example of allocation by worthiness is awarding quota licenses for materials or components based on how much production capacity firms have for producing the products that use these inputs.



<https://www.istockphoto.com/en/photo/real-estate-law-and-house-auction-concepts-a-judge-hammer-and-a-house-on-a-blue-gm1283726170-381076185?phrase=auction>



Figure 3

Quota versus Tariff for a Large Country

- Figure 3 shows the effects of a quota for a country whose import demand for this product is large enough to affect world prices. A large country faces an upwardsloping foreign supply-of-exports curve.

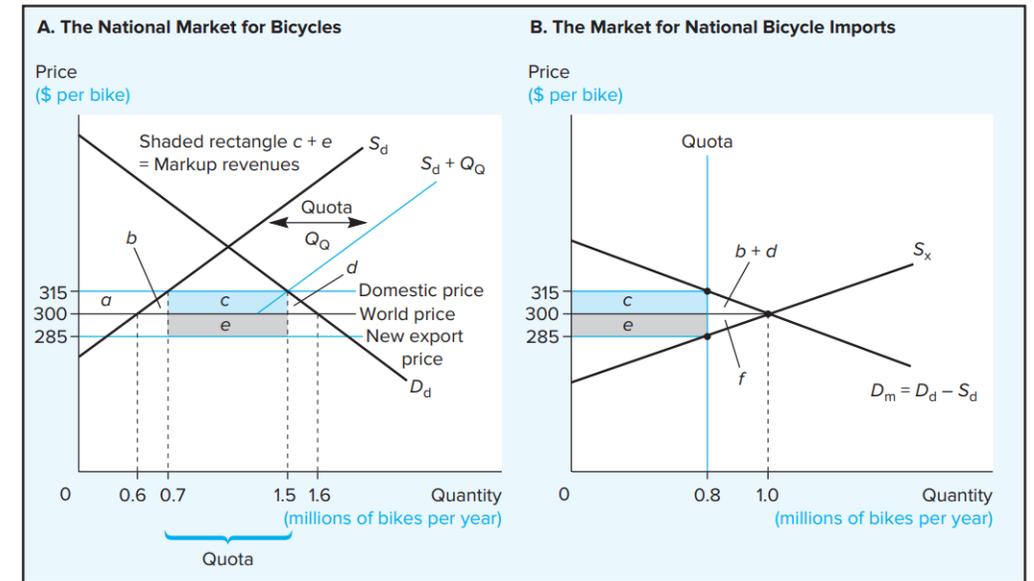
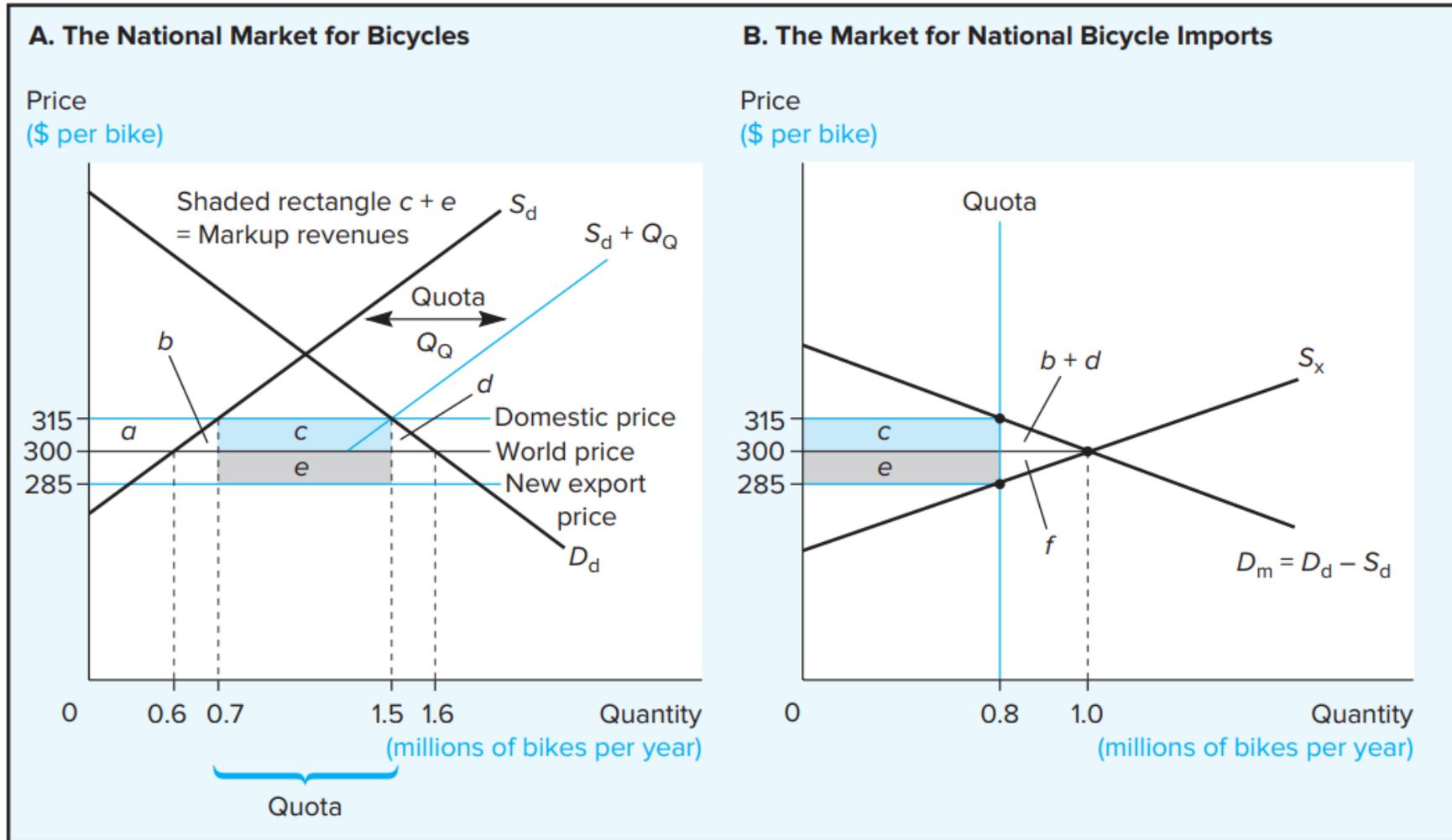
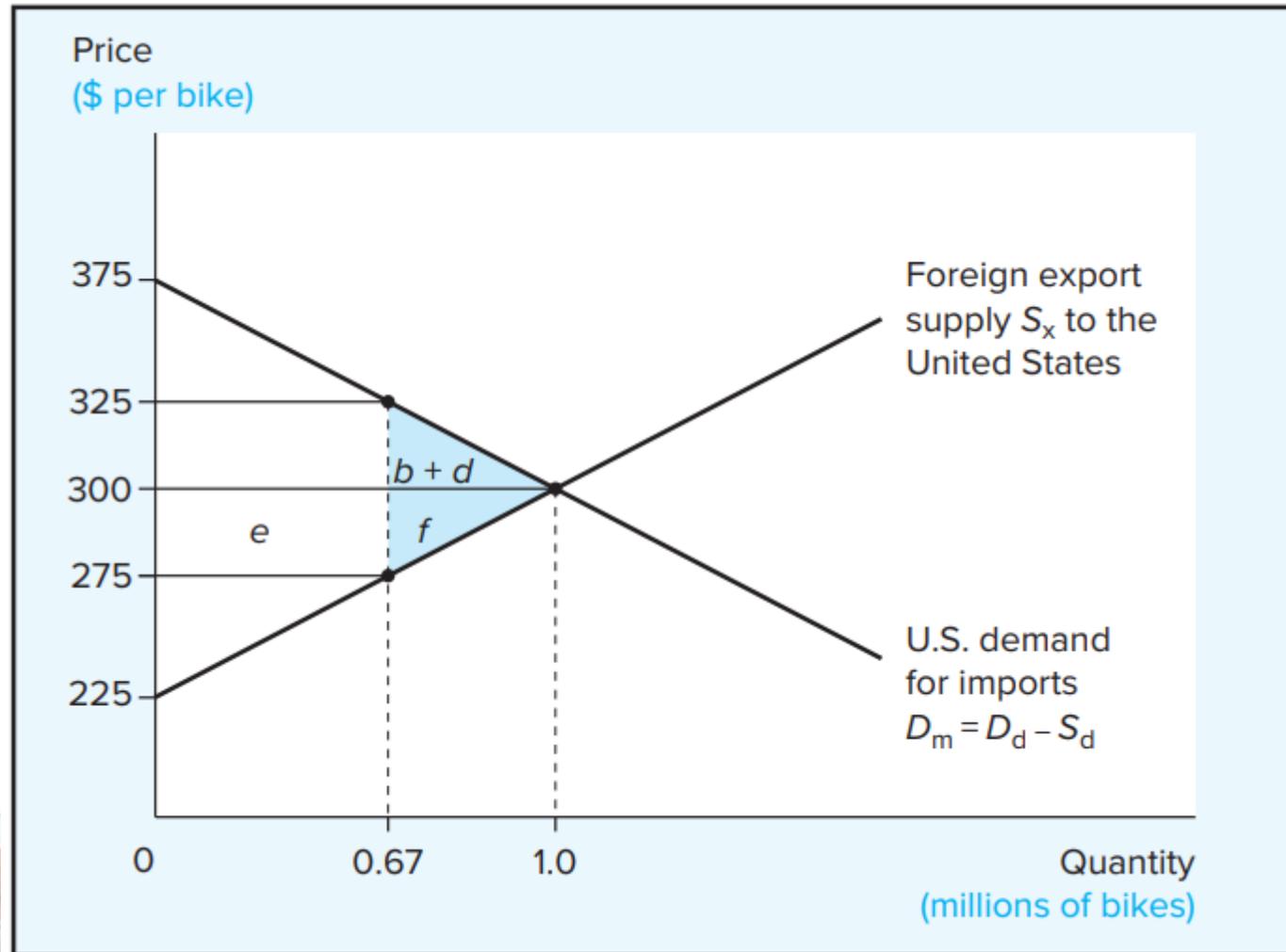


Figure 3 Quota versus Tariff for a Large Country



Previous class

FIGURE 6 The Nationally Optimal Tariff



VOLUNTARY EXPORT RESTRAINTS

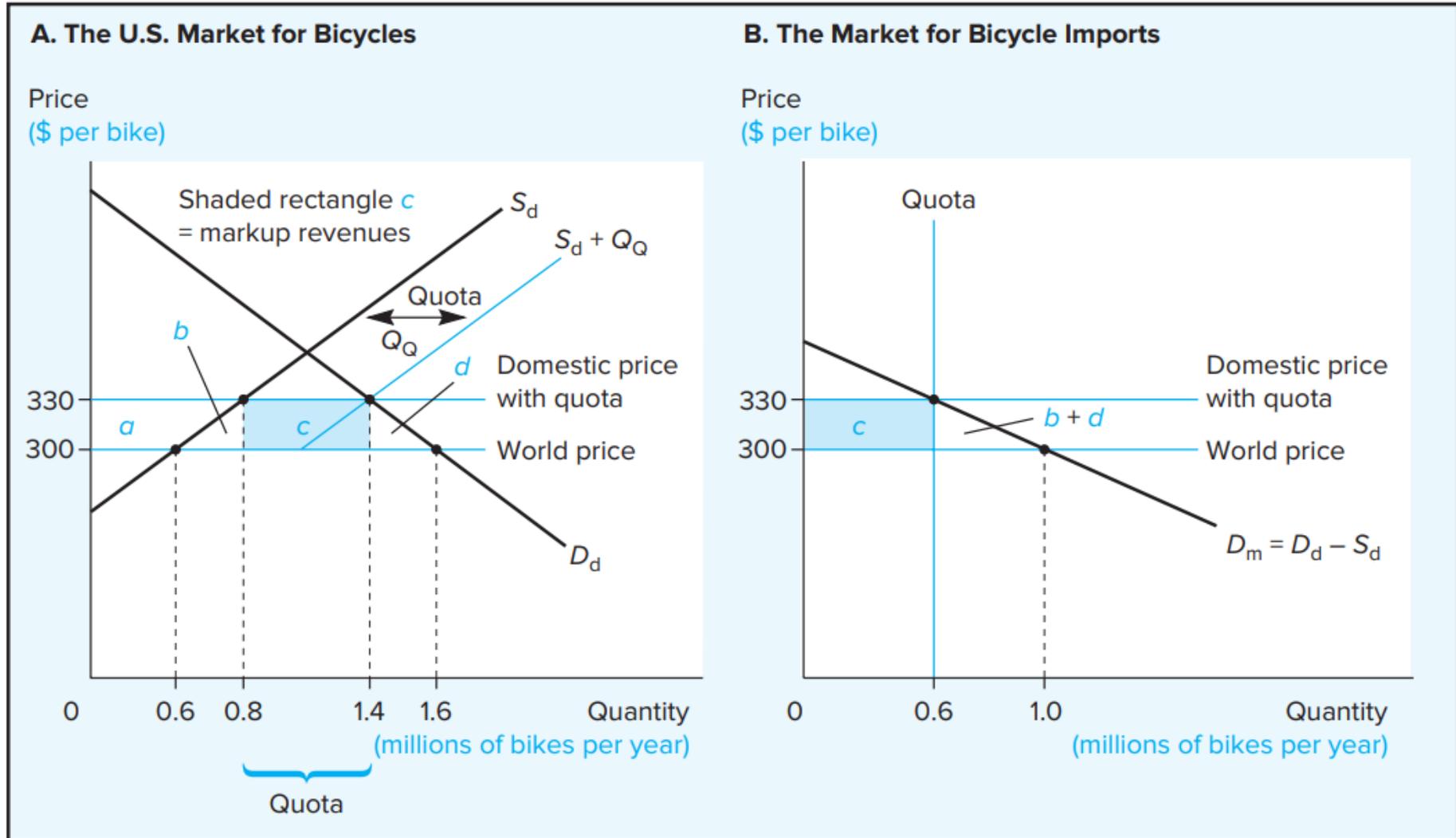
A voluntary export restraint (VER) is an odd-looking trade barrier in which the importing country government compels the foreign exporting country to agree “voluntarily” to restrict its exports to this country. The export restraint usually requires that foreign exporting firms act as a cartel, restricting sales and raising prices.



<https://pixabay.com/photos/confused-muddled-illogical-880735/>



The Effects of an Import Quota under Competitive Conditions, Small Importing Country



OTHER NONTARIFF BARRIERS

In addition to quotas and VERs, there are many other kinds of nontariff import barriers. Indeed, we should be impressed with governments' creativity in coming up with new ways to discriminate against imports. Let's look more closely at three other NTBs from the vast toolkit used against imports.

- Product Standards
- Domestic Content Requirements
- Government Procurement



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Product Standards

If you are looking for rich variety and imagination in import barriers, try the panoply of laws and regulations pertaining to product quality, including those enforced in the names of health, sanitation, safety, and the environment. Such standards can be noble efforts to enhance society's well-being, by addressing market failures that lead to unsafe conditions and environmental degradation.

Standards that accomplish these goals need not discriminate against imports. **But**, if a government is determined to protect local producers, it can always write **rules that can be met more easily by local products** than by imported products.



Example 01

- In an obvious effort to protect domestic ranchers, the U.S. government in the past has found hidden health hazards in the way beef cattle are raised in Argentina. Similarly, the European Union (EU) has banned imports of beef from cattle that have received growth hormones, claiming that it is responding to public concerns about health dangers. The United States asserts that this is actually protection of European beef producers because the scientific evidence indicates that beef from cattle that receive growth hormones is safe and poses no risk to human health.



Examples

- The U.S. government has complained that Japan's procedures for approving pharmaceuticals and medical devices is slow. For instance, the Japanese government often requires clinical trials on Japanese patients, even though such trials simply duplicate those completed successfully in other countries.
- Since the mid-1990s, South Korea has imposed many new standards for automobiles, including a unique antipinch requirement for electric windows and a unique emissions standard, that are costly for foreign automakers to meet. In addition, in May 2006 the Korean tax authority took actions implying that owners of foreign cars would be more likely to be subject to tax audits. Automobile imports into Korea are remarkably low.
- China reclassified kimchi, a fermented Korean cabbage product that naturally has a high bacteria count, to be regulated as a pickled product. Pickled products must be sterilized and have little bacteria. South Korean kimchi exports to China collapsed.

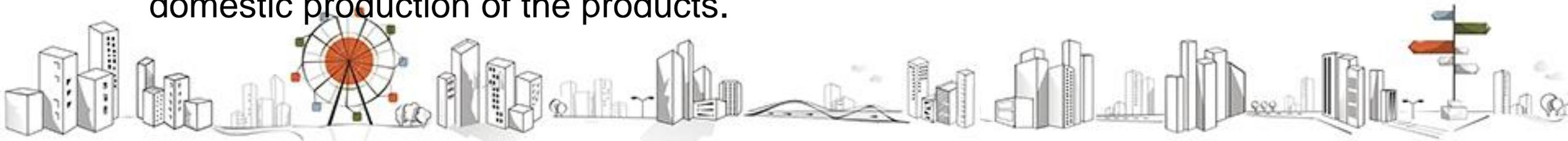


Domestic Content Requirements

- A domestic content requirement mandates that a product produced and sold in a country must have a specified minimum amount of domestic production value, in the form of wages paid to local workers or materials and components produced within the country. Domestic content requirements can create import protection at two levels. They can be a barrier to imports of the products that do not meet the content rules. And they can limit the import of materials and components that otherwise would have been used in domestic production of the products.



<https://pixabay.com/photos/flat-500-automobile-trees-4322521/>



10-minute break till 09:55

Domestic Content Requirements

- A closely related NTB, sometimes called a mixing requirement, stipulates that an importer or import distributor must buy a certain percentage of the product locally. For instance, in 2012 and 2013 Indonesia adopted regulations that at least 80 percent of sales by modern retail stores must be domestic products. Such mixing requirements have also been used to restrict imports of foreign entertainment.
- Canada has imposed “Canada time” requirements on radio and TV stations, forcing them to devote a certain share of their air time to songs and shows recorded in Canada.
- Argentina requires that 30 percent of music broadcast on its radio stations must be local.
- Similarly, the EU, led by France, has waged a sustained war against American entertainment, partly by stipulating that minimum percentages of various forms of entertainment must be from domestic studios.



<https://pixabay.com/photos/man-tv-watching-room-office-3774381/>



Government Procurement

- Governments are major purchasers of goods and services. One estimate is that government purchases of products that could be traded internationally amount to close to one-tenth of all product sales in the industrialized countries. Government procurement practices can be a nontariff barrier to imports if the purchasing processes are biased against foreign products, as they often are. In many countries the governments buy relatively few imported products and instead buy mostly locally produced products.
- In the United States, the Buy America Act of 1933 is the basic law that mandates that government-funded purchases favor domestic products.



Government Procurement

- Many other countries have similar rules and practices. For instance, in Japan the U.S. government has complained that the Japanese government has limited foreign sales of telecommunications products and services to the government and government-owned companies by using both standards that are biased toward local products and short time periods for bidding.
- In India the government requires that the computers it purchases have a minimum proportion of locally produced components.
- In Greece the specifications for the goods and services that the government plans to buy are often vague and tend to favor local suppliers. It also appears that the Greek government informally favors Greek and other EU firms when making purchasing decisions.



HOW BIG ARE THE COSTS OF PROTECTION?

We have examined the effects of tariffs and nontariff barriers to imports. How important are these effects? Are the costs large or small? Large or small relative to what? We'll look first at their importance for the whole national economy, and then at their size in relation to producer benefits from the protection.

- As a Percentage of GDP
- As the Extra Cost of Helping Domestic Producers



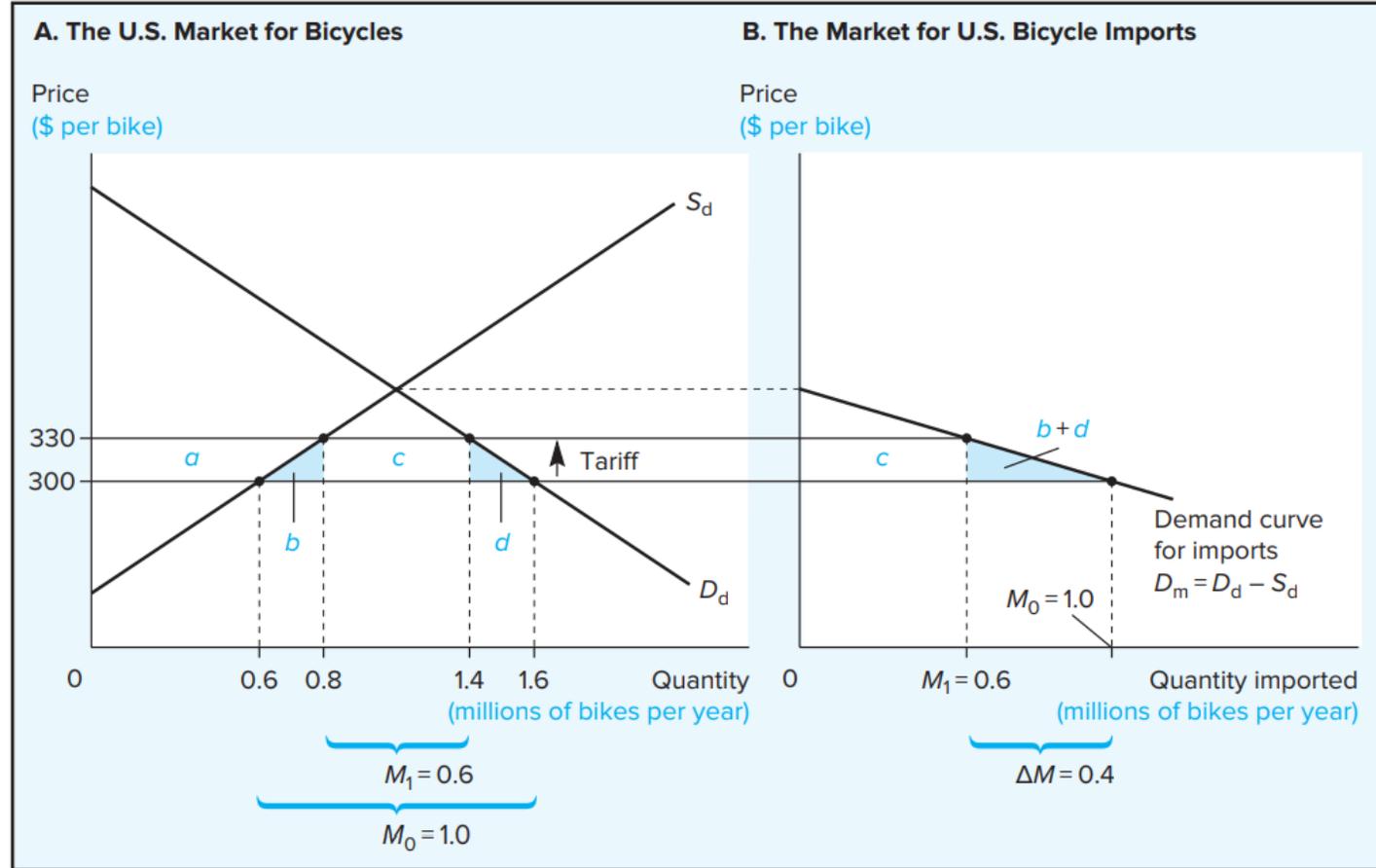
As a Percentage of GDP

One popular way of weighing the importance of any economic cost or benefit is to see whether it is a big part of the national economy, which we usually measure by the value of domestic production (gross domestic product, or GDP). Surprisingly, our basic theory indicates that the costs of protection for a typical industrialized country may be small, even if we ignore any favorable changes in the country's terms of trade (the small country assumption).



FIGURE 4 from Previous class

The Net National Loss from a Tariff in Two Equivalent Diagrams



$$\frac{\text{Net national loss from the tariff}}{\text{GDP}} = \frac{1}{2} \times \text{Tariff rate} \times \frac{\text{Percent reduction in import quantity}}{\text{Import value}} \times \frac{\text{GDP}}{\text{GDP}}$$

Here are five ways in which the true cost is probably bigger than the calculation above shows:

- Foreign retaliation. If our country has introduced barriers, other governments may retaliate by putting new barriers against our exports.
- Enforcement costs. Any trade barrier has to be enforced by government officials.
- Rent-seeking costs. Local firms seeking protection may use techniques such as lobbying that also use resources.
- Rents to foreign producers. VERs encourage foreign exporters to raise their export prices.
- Innovation. Protection can mute the incentive to innovate new technology because there is less competitive pressure.



2. As the Extra Cost of Helping Domestic Producers

The political reason for import barriers is often to enhance the incomes of a threatened domestic industry. How much does it cost society for each dollar of additional producer surplus for the protected industries?



INTERNATIONAL TRADE DISPUTES

Each country's government sets its own trade policies, but these policies also have effects on other countries. With regularity policies enacted by one country incite complaints from other countries that the policies are harmful or unfair. We mentioned this issue at the end of the previous chapter. If one country enacts an optimal tariff, the benefits to this country come at the expense of other countries, who are worse off because their terms of trade decline and their firms lose export opportunities. These other countries should complain and may take actions in response. Disputes about nontariff barriers are at least as likely. NTBs raised by one country hurt other countries, just as tariffs would. In addition, actions that one country takes for some other reason (for instance, the adoption of rigorous product standards to protect public health) can be viewed as unfair trade barriers by other countries.



Dispute Settlement in the WTO

- During the Uruguay Round of multilateral trade negotiations, governments recognized both the shortcomings of the then-existing GATT dispute process and the concerns about the unilateral approach embodied in U.S. Section 301. The World Trade Organization that came into existence in 1995 has a much stronger dispute settlement procedure than the GATT had.
- If the government of a member country believes that another member country government is violating a commitment or WTO rule, it can file a complaint. The goal of the WTO is then to find a resolution to the dispute, including removing any violation that exists. The first step is consultations between the governments. If discussions cannot resolve the dispute, a panel of experts examines the case and reaches a decision. A country can appeal the decision by this panel, but it cannot block it just by objecting.



Summary

1. Nontariff barriers (NTBs) reduce imports by limiting quantities, increasing costs, or creating uncertainties. An import quota sets a maximum quantity of imports. If markets are competitive, a quota has the same effects as a tariff that results in the same import quantity, with one possible exception. Just as for imposing a tariff, imposing a quota raises the domestic price, reduces domestic quantity demanded, increases domestic quantity supplied, reduces domestic consumer surplus, increases domestic producer surplus, and, if the importing country is large, reduces the world price by reducing demand for the foreign product. The exception is what happens to what would be government revenue with a tariff. With a quota this amount is a markup of the domestic price over the world price for each unit imported. If the government freely gives away licenses to import under the quota, the lucky importers get this amount as extra profit. If the government auctions or sells the import licenses, the government can get the amount as revenue. If the government has a complicated process for obtaining import licenses, then some of this amount is lost to resource-using application procedures. For a small country, a quota is just as bad as a tariff, and it can be worse if resources are used up in pursuit of licenses to import or if the quota creates domestic monopoly power.



Summary

2. A form of protection that became important in the 1980s, especially in the United States and the EU, is the voluntary export restraint (VER) arrangement. Here the importing country threatens foreign exporters with stiff barriers if they do not agree to restrict exports by themselves. Under a negotiated VER arrangement, the main foreign exporters form a cartel among themselves, agreeing to cut export quantities. At the same time, they are allowed to charge the full markup on their limited sales to the importing country, where the product has become more expensive. A curious result is that the importing country, which insisted on the VER in the first place, loses even more than if it had collected a tariff or quota markup itself.



Summary

Other important nontariff barriers include domestic content requirements, mixing requirements, government procurement favoring domestic products, and a host of quality and safety standards that have protectionist effects.

Task 1.

Please, read the word document shared in our chat

Key Terms

Nontariff barrier (NTB)
Import quota (quota)
Fixed favoritism
Import license auction

Resource-using application
procedures
Voluntary export restraint
(VER)

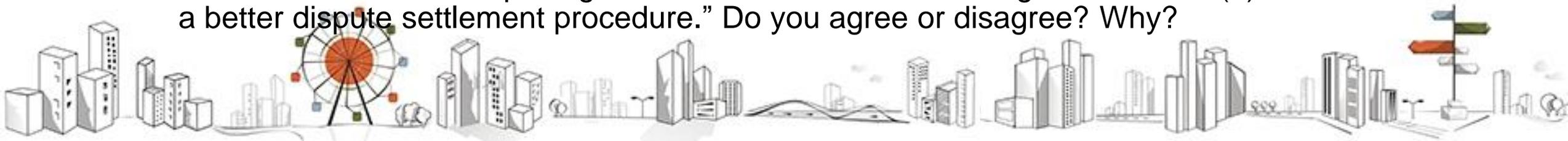
Domestic content
requirement
Mixing requirement
Section 301



Task 2

Questions

- ~~1. What are import quotas? Why do some governments use them instead of just using tariffs to restrict imports by the same amounts? Is it because quotas bring a bigger national gain than tariffs?~~
- ~~2. Under what conditions could an import quota and a tariff have exactly the same effect on price and bring the same gains and losses (given a tariff level that restricts imports just as much as the quota would)?~~
3. To protect American jobs, the U.S. government may decide to cut U.S. imports of bulldozers by 60 percent. It could do so by either (a) imposing a tariff high enough to cut bulldozer imports by 60 percent or (b) persuading Komatsu and other foreign bulldozer makers to set up a VER arrangement to cut their exports of bulldozers to the United States by 60 percent. Which of these two policies would be less damaging to the United States? Which would be less damaging to the world as a whole? Explain.
4. “In comparison to the GATT, two advantages of the WTO are that (a) the WTO has been more successful in completing rounds of multilateral trade negotiations and (b) the WTO has a better dispute settlement procedure.” Do you agree or disagree? Why?



Thank you