INTERNATIONAL TRADE AND WELFARE ANALYSIS

Non-tariff barriers

Policies affecting exporters

INTERNATIONAL TRADE AND WELFARE ANALYSIS

STRUCTURE OF PRESENTATION

- 1. Non tariff barriers
  - Import quotas
  - Variable levies
  - Economic rationale for public standards
- 2. Policies affecting exporters
  - Dumping and anti-dumping
  - Export subsidies
  - Optimal export tax
  - Export quotas and voluntary export restraints

1. NON-TARIFF BARRIERS (1/10)

NON-TARIFF BARRIERS = **all barriers** to trade that **are not tariffs**

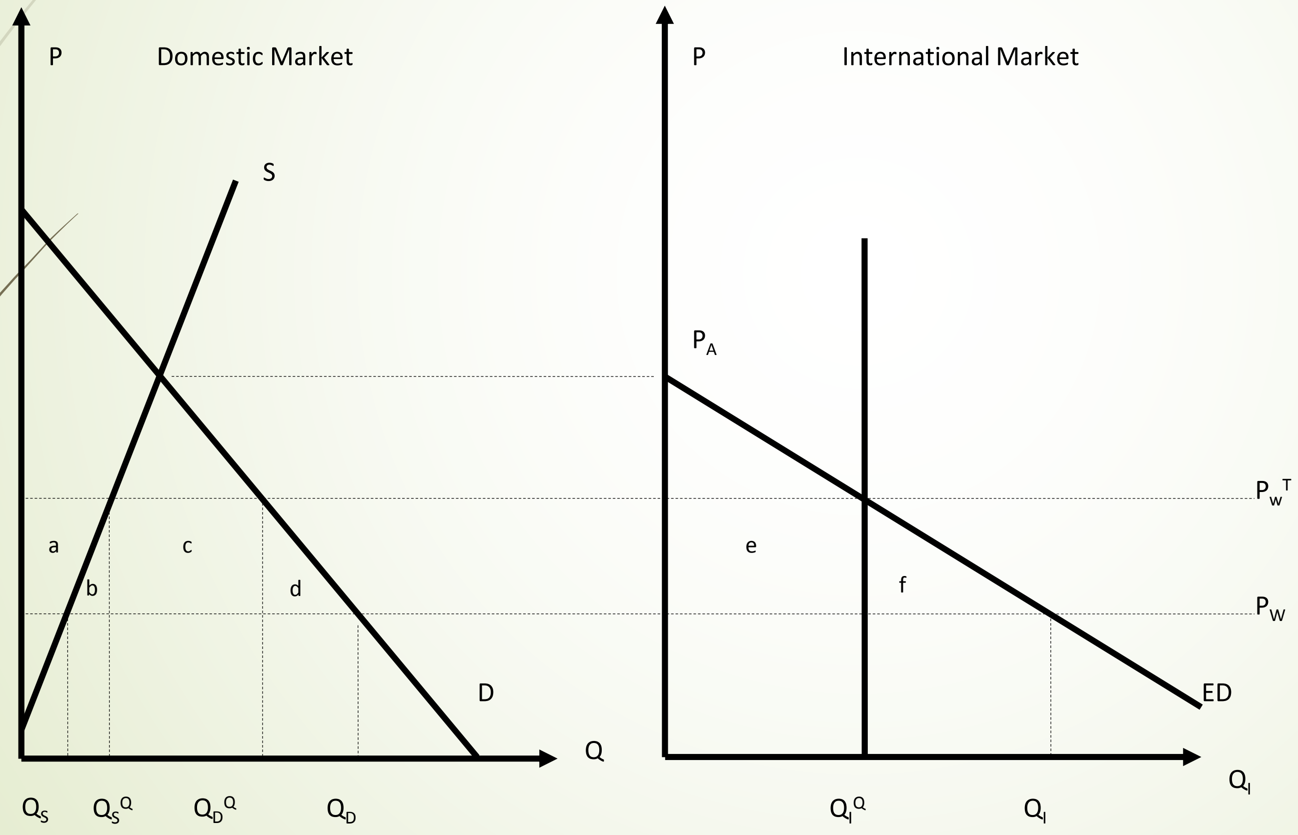
1. non-tariff charges
2. government policies affecting trade (like subsidies)
3. customs procedures
4. government standards

Import Quotas = a *quantitative restriction on imports*.

The World Trade Organization in its **Uruguay Round negotiations banned the use of quotas** in agricultural trade and ordered their **replacement with equivalent tariffs**.

1. NON-TARIFF BARRIERS (2/10)

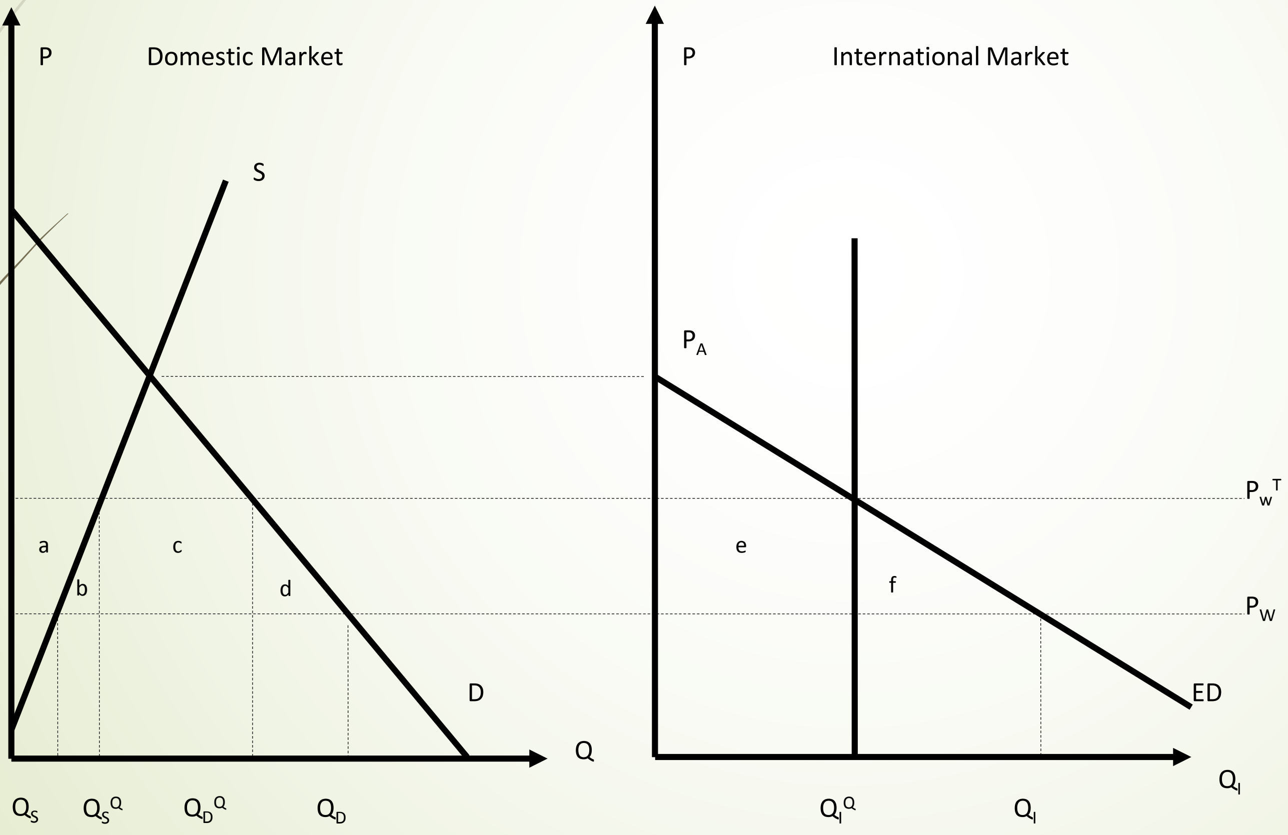
Import quotas



- import quota of $\mathbf{Q_I^Q}$ has the same impact on the domestic market as a specific tariff $\mathbf{t = P_W^T - P_W}$
- **quotas** are **less transparent** and **visible than tariffs**. It is the first step towards liberalization.
- **quota** is **a more protectionist instrument than a tariff** because it better isolates domestic markets if foreign producers become more competitive over time.

1. NON-TARIFF BARRIERS (3/10)

Import quotas



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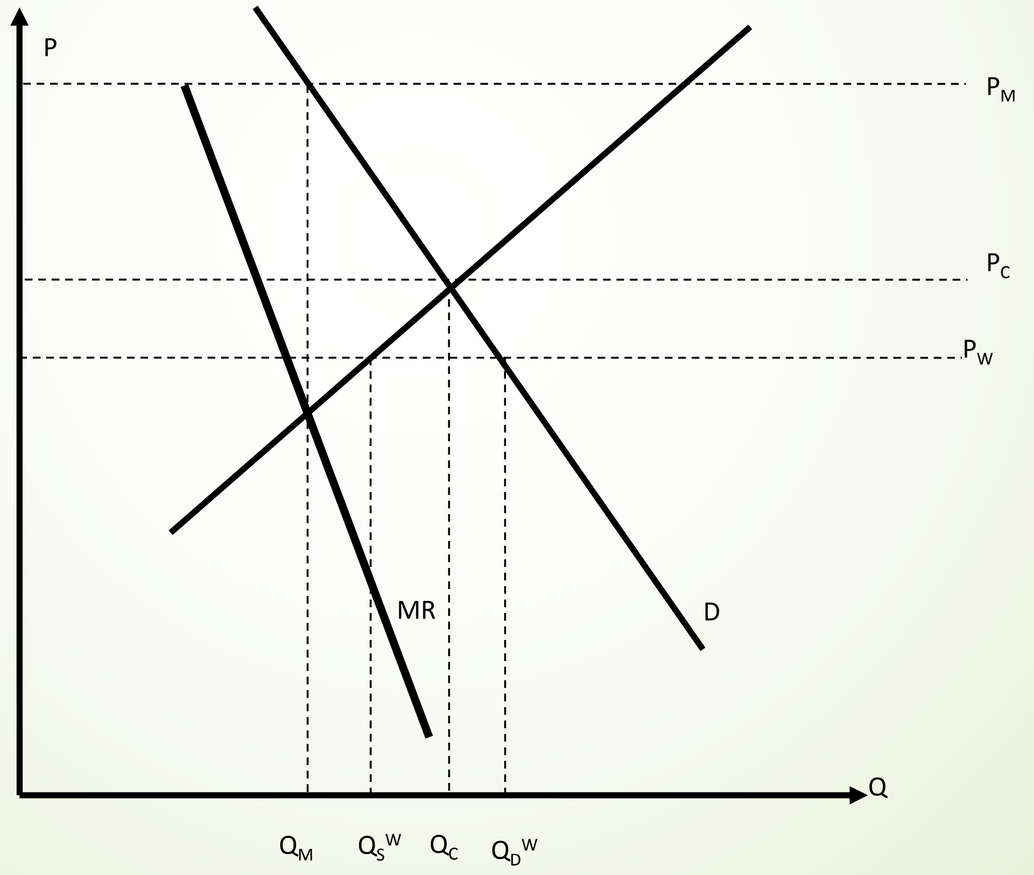
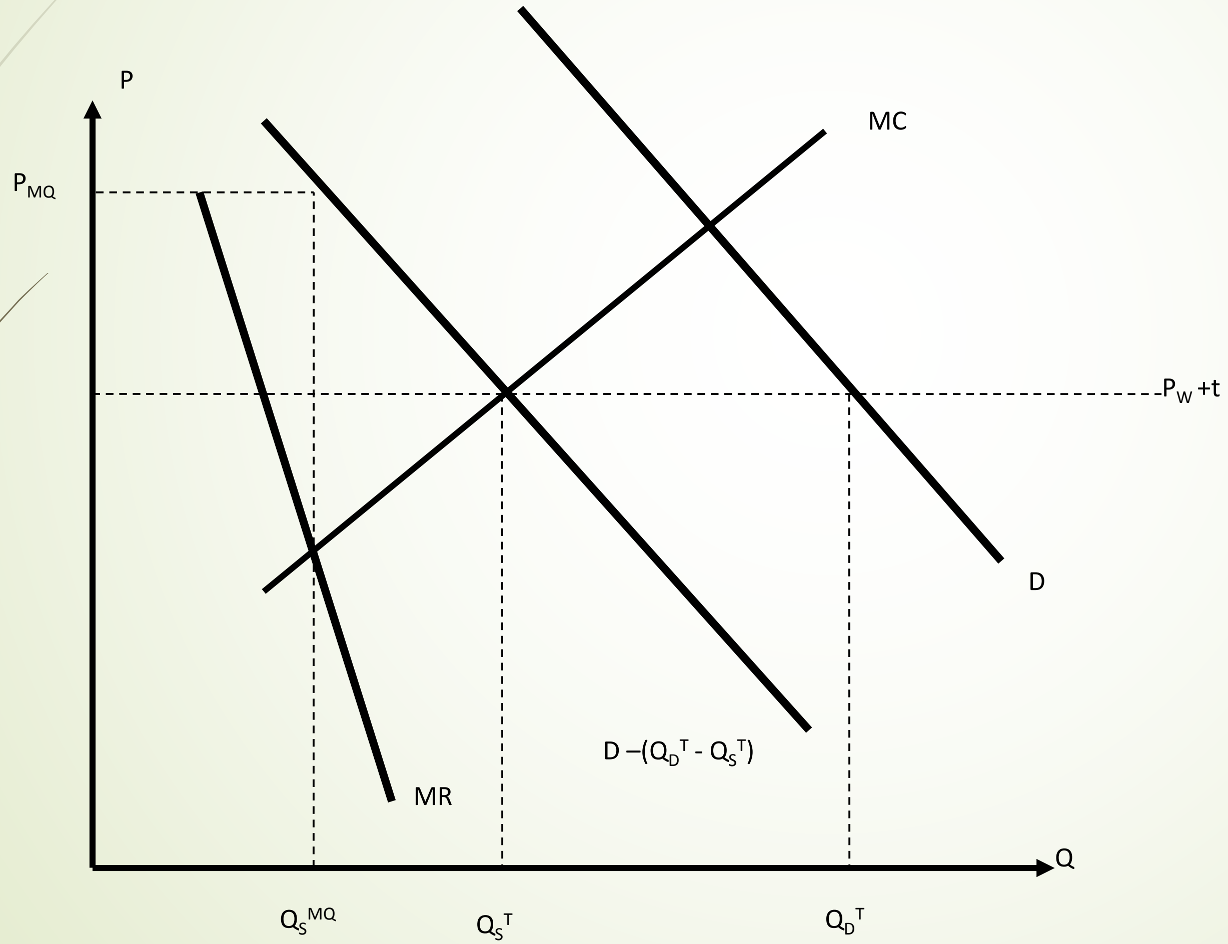
1. NON-TARIFF BARRIERS (4/10)

Comparison between monopoly and perfect competition in the absence of trade and with free international trade



1. NON-TARIFF BARRIERS (5/10)

Non-equivalence of tariff and quota with imperfect competition

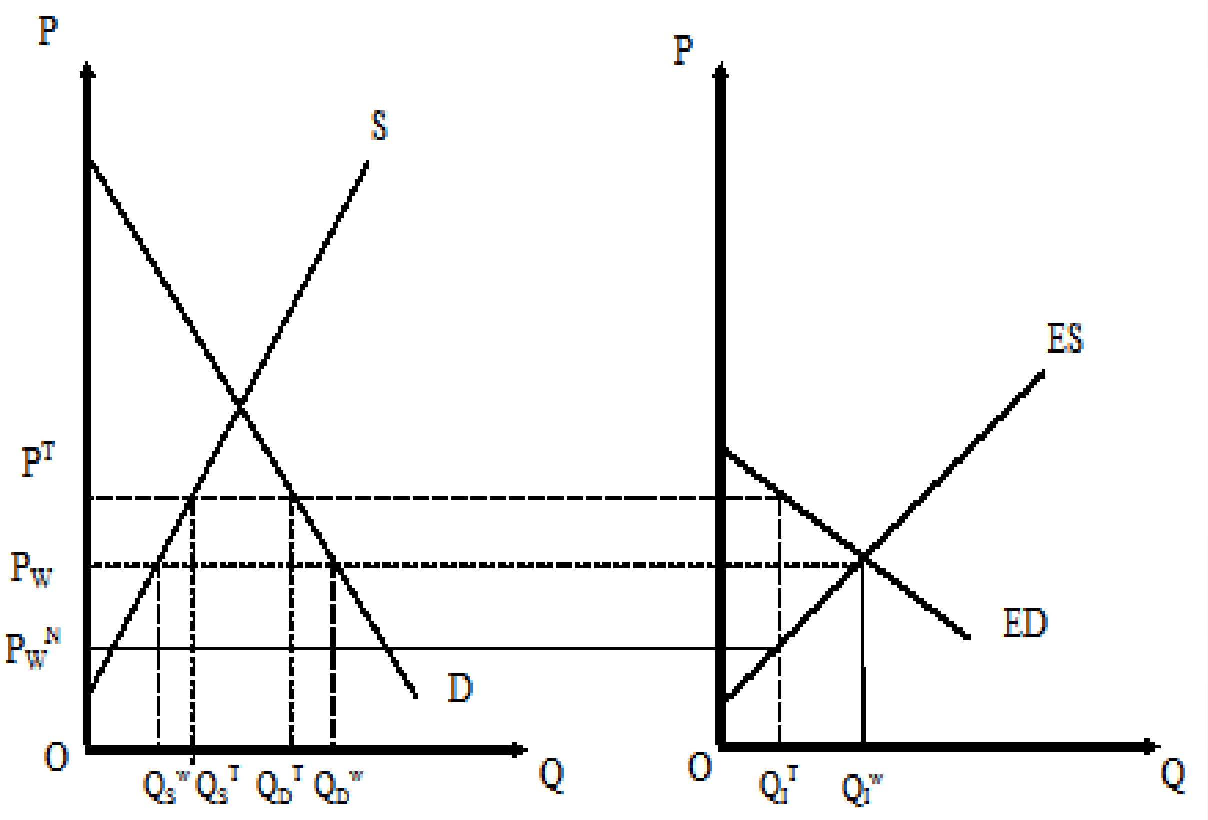


$Q_S{}^{MQ}$ = optimal level of production for the domestic monopolist, MC = MR
P_{MQ} = profit maximizing price

$P_{MQ} > P_W + t$ = import quota leads to higher domestic prices than an equivalent tariff if there is imperfect competition in the domestic market.
A quota thus involves a higher cost to society.

1. NON-TARIFF BARRIERS

Variable Levies

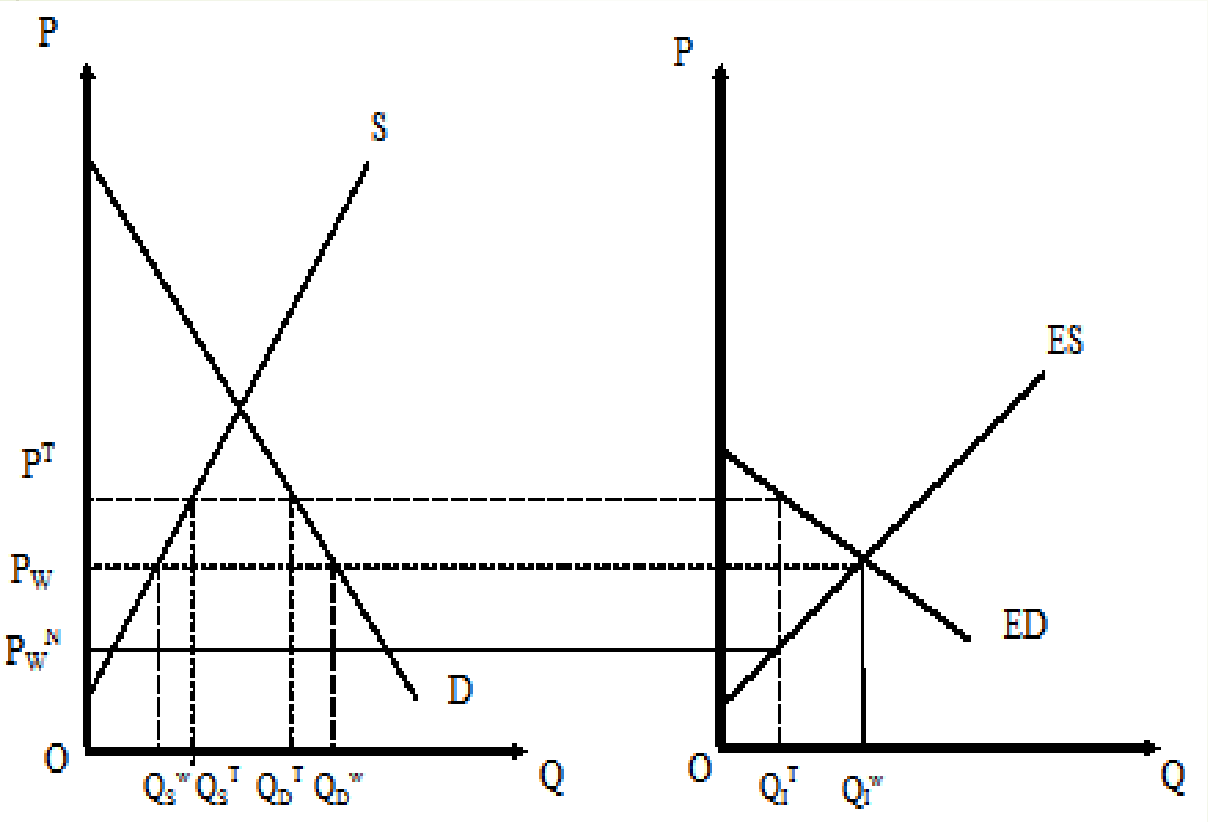


Variable Levies are used to **isolate domestic prices from the fluctuation of world prices**.
The Uruguay Round GATT forced the EU to replace variable levies with ordinary tariffs.

A major difference between a quota and a variable levy is observed in a dynamic situation when either supply or demand changes with time.

1. NON-TARIFF BARRIERS

Variable Levies

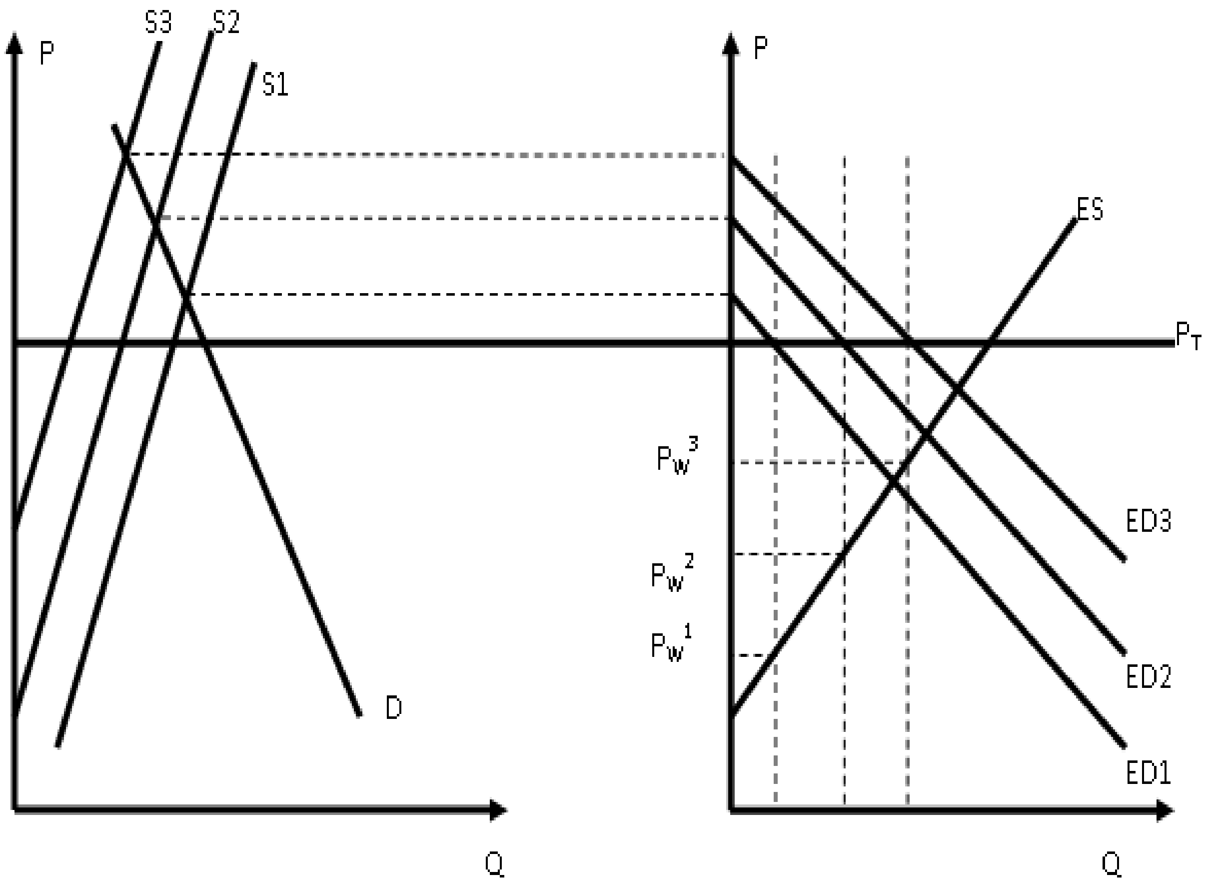


Variable Levies are used to **isolate domestic prices from the fluctuation of world prices**. The Uruguay Round GATT forced the EU to replace variable levies with ordinary tariffs.

The **tariff revenue** collected **from the variable levy is lower than the tariff revenue from the ordinary tariff**, because the importer knows that the levy changes to allow the domestic price to achieve the target price.

1. NON-TARIFF BARRIERS (8/10)

Variable levy and the fluctuation of world prices



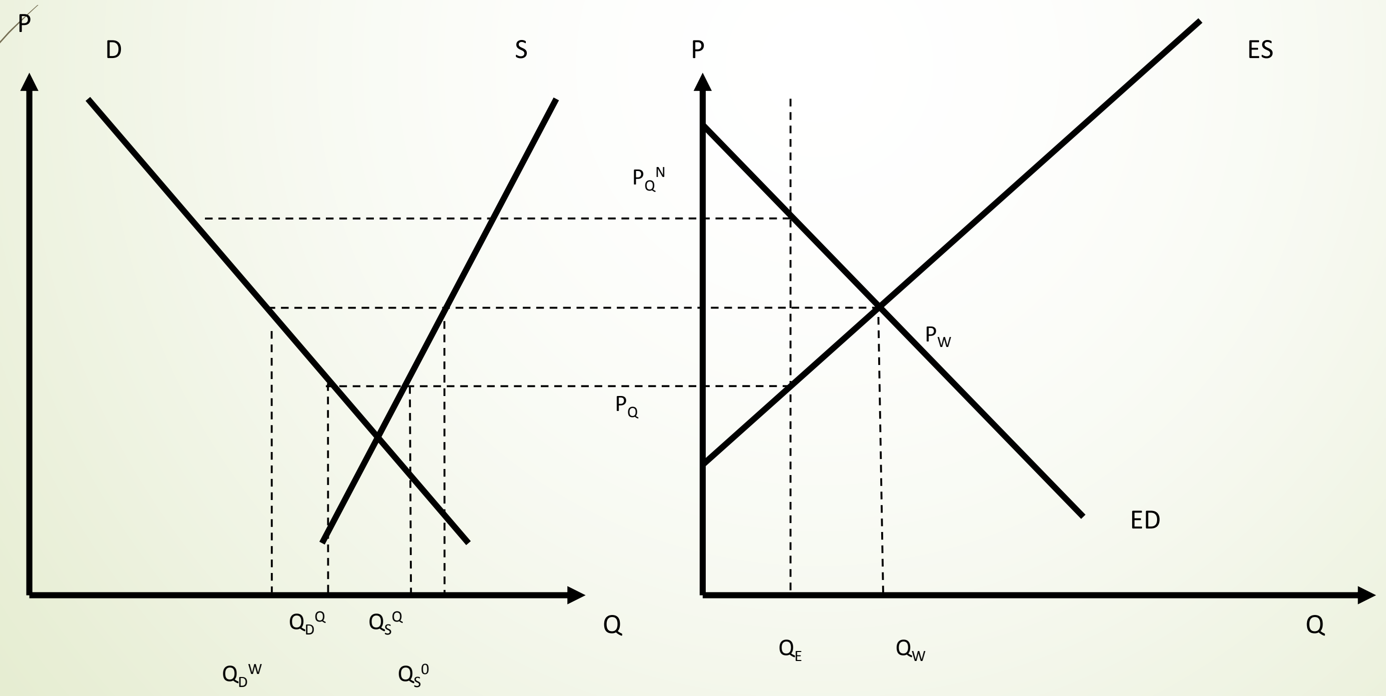
A **variable levy** imposed by a large country **makes world prices more volatile than an ordinary levy.**
In fact domestic price stability is achieved at the expense of higher world price fluctuations. This negative impact of a variable levy was the primary reason behind the GATT/WTO changing all such levies into ordinary tariffs.

1. NON-TARIFF BARRIERS (9/10)

Economic Rationale for Public Standards

PRODUCT STANDARDS = requirements that products must fulfill.

The impact of product standards imposed



1. NON-TARIFF BARRIERS (10/10)

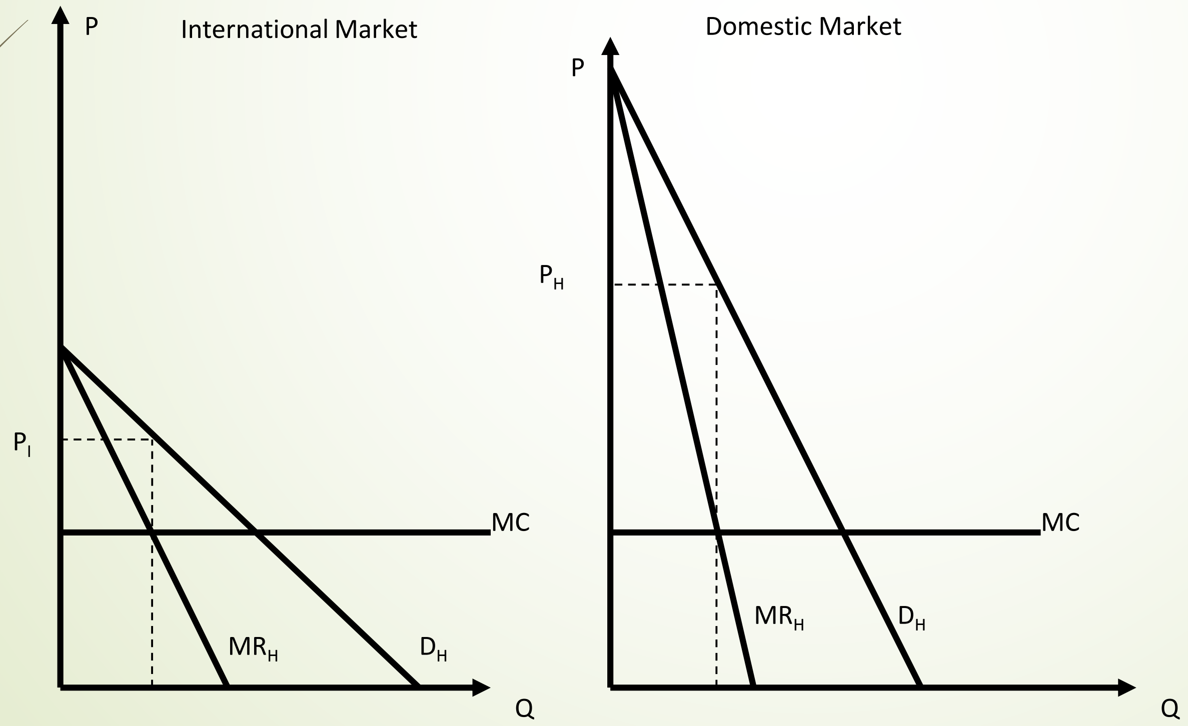
Economic Rationale for Public Standards

PUBLIC STANDARDS = standards and regulations that are **mandatory requirements imposed by public authorities**.
They are imposed to **maximize social welfare.**

1. incomplete information
2. public goods (non-rivalry and non-exclusion)
3. standards and trade

2. POLICIES AFFECTING EXPORTERS (1/5)

<u>**DUMPING**</u> **=** an example of **price discrimination** -- selling the **same product at different prices to different groups of consumers** - between different countries.



The <u>more inelastic</u> is the <u>demand</u> for a good, <u>the higher</u> will be <u>the profit maximizing price</u>.

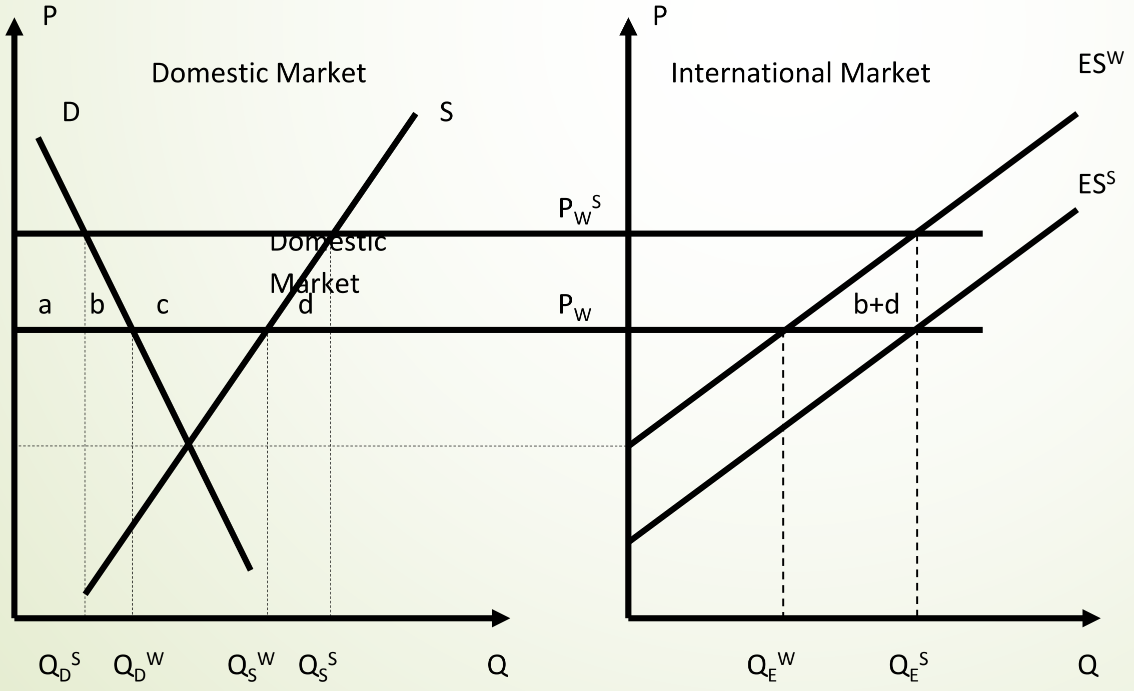
The <u>company</u> that wants to price discriminate must be <u>able to set its prices</u>.

Anti-dumping duties eliminate the effects of price discrimination that is being conducted by a firm. **Countervailing duties** offset a government supported export subsidy.

2. POLICIES AFFECTING EXPORTERS (2/5)

<u>EXPORT SUBSIDIES</u> = payments to a firm or an individual **for exporting products abroad.**
Can be <u>specific</u> or <u>ad valorem</u>.

<u>Export subsidy by a small country</u>



ES = export supply curve

$Q_E^W \equiv Q_S^W - Q_D^W$

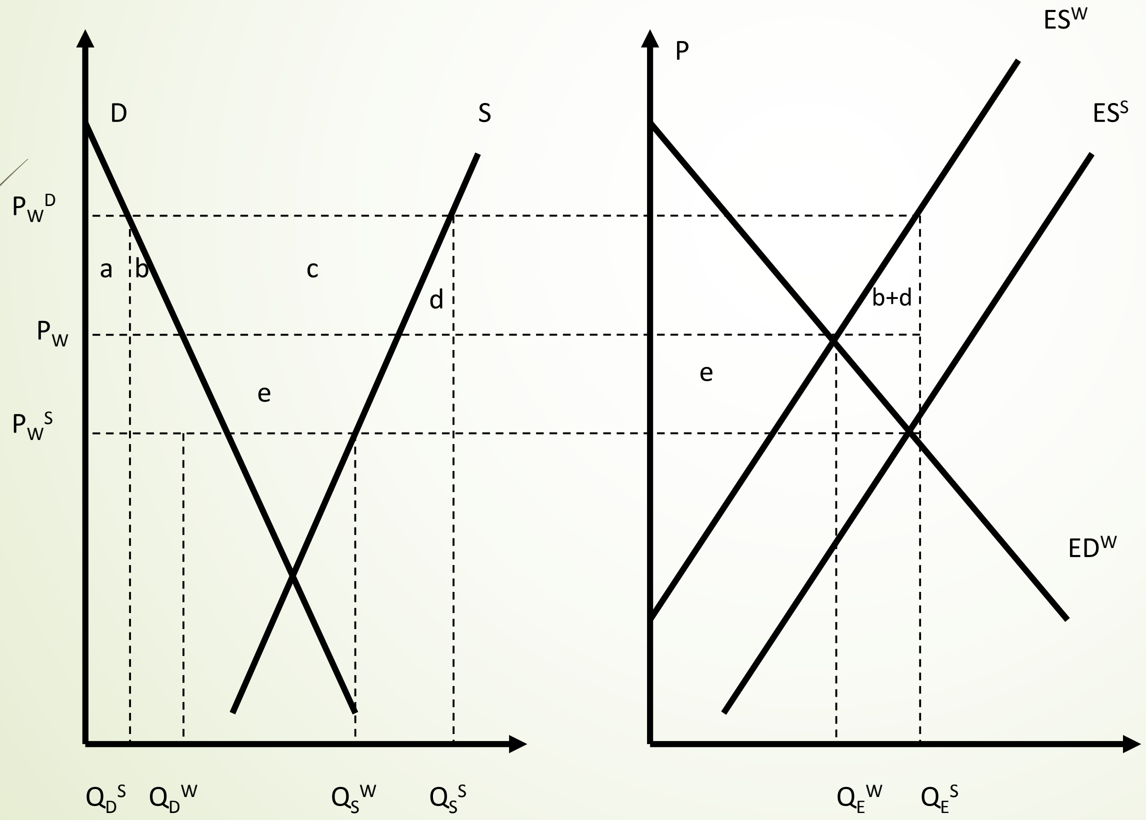
Export subsidy:
$\mathbf{s = P_W^S - P_W}$

$Q_E^S \equiv Q_S^S - Q_D^S$

The export subsidy creates a **deadweight cost** equal to **b+d**.

2. POLICIES AFFECTING EXPORTERS

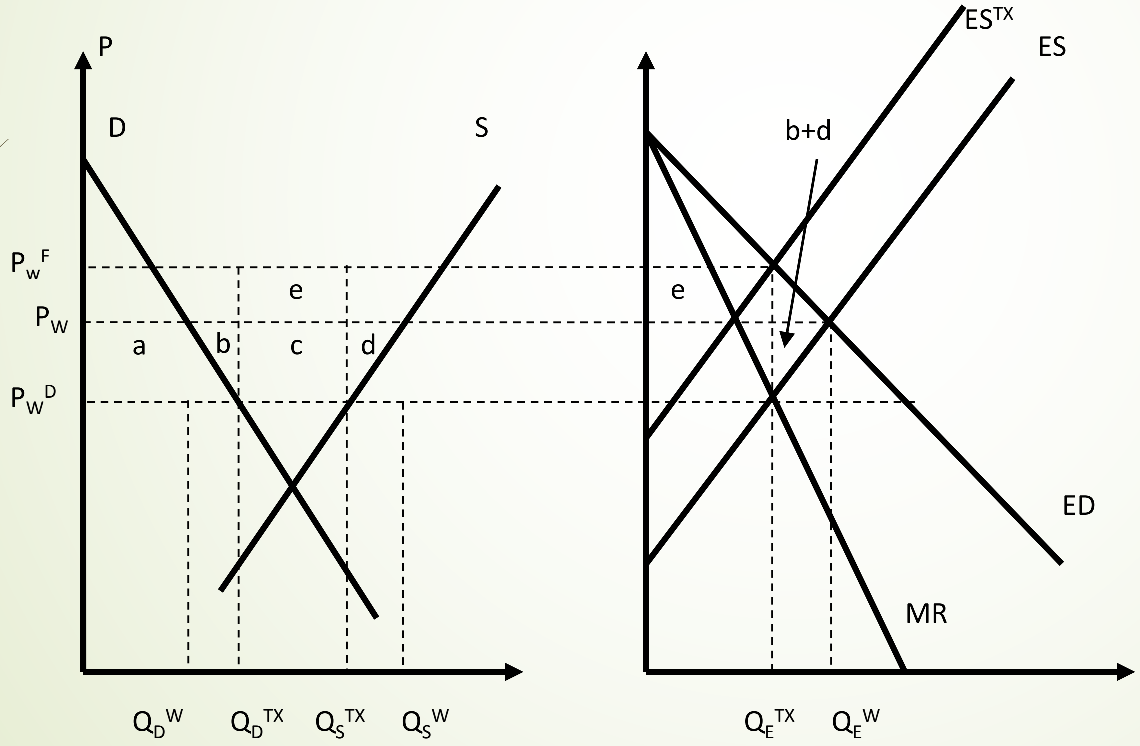
Export subsidy by a large country



The **difference between** the **domestic price** and the **world price** is equal to **export subsidy**, which results in an **overall welfare decline** of **b+d+e**.

2. POLICIES AFFECTING EXPORTERS

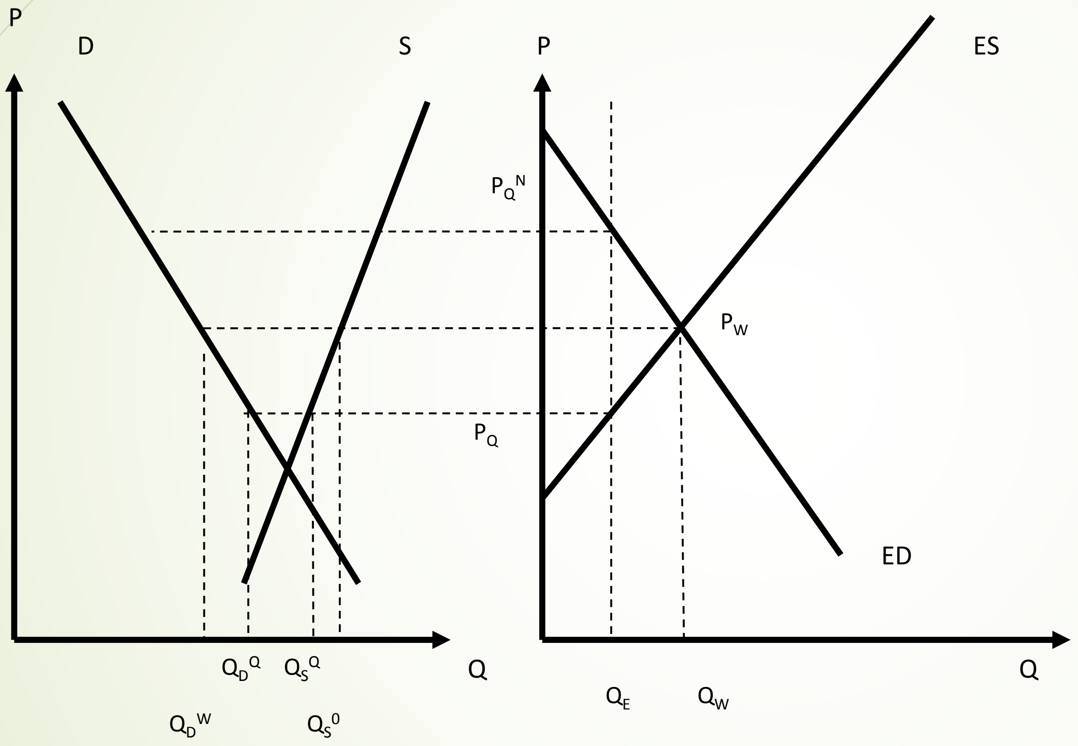
Optimal export tax **= a tax placed on exports** of a country's goods and services.



Export tax = $P_W^F - P_W^D$

Global welfare, **declines** when an export tax is applied. The export tax increases prices in importing countries.

2. POLICIES AFFECTING EXPORTERS



Export quotas = **quantitative restraints on exports**, which means that their application either **reduces exports or leaves exports unaffected**.

Export licenses are often used to **limit exports** to Q_E

The effects of "***voluntary export restraint***" are **similar** to those of **export quotas** (or an equivalent import quota or import tariff).

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THANK YOU FOR YOUR ATTENTION!