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## Book review

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12 *Measurement of Nontariff Barriers*, Alan V. Deardorff and Robert M. Stern, 1998  
13 (Ann Arbor: University of Michigan Press)

14 To quote Robert Baldwin, the task of liberalizing trade is quite similar to that of  
15 draining a swamp. When draining a swamp as the water level falls obstacles such  
16 as rocks, tree limbs, and stumps appear. These heretofore unseen and unimportant  
17 impediments must be removed if we are to reap the rewards of the expensive  
18 drainage. Similarly, as average tariff levels have fallen, non-tariff barriers (NTBs)  
19 such as voluntary export restraints (VERs), antidumping duties, and a multitude of  
20 obscure government regulations have emerged as serious impediments to free  
21 trade. Removal of, or at least the restraint of, these previously irrelevant trade  
22 barriers is paramount if countries are to realize the benefits of the (politically)  
23 costly tariff reductions.

24 It was not until the mid-1970s that NTBs appeared on the radar screen. Before  
25 that time tariff levels were sufficiently high as to hide the NTB threat. By the  
26 mid-1980s the rapid growth of NTBs threatened (and in some cases reversed) the  
27 liberalization created by decades of hard fought tariff reductions. Their emergence  
28 made NTBs a crucial area of negotiation during the Uruguay Round of the GATT,  
29 and NTBs were among the handful of issues that held up the conclusion of the  
30 round for almost five years.

31 One of the difficulties in reaching an agreement was the lack of understanding  
32 of the economic impact of NTBs. For example, do preferential procurement  
33 policies (i.e., buy domestic goods unless imports are  $x\%$  cheaper) convey strategic  
34 advantage or merely alter the composition of government and private consumption?  
35 That is, does such a policy allow domestic producers to increase their overall  
36 market share or does it merely cause foreign suppliers to shift their sales to the  
37 private sector (with no loss of overall market share)? Clearly, one's negotiating  
38 position depends on what view is more accurate, but unfortunately little modeling  
39 (and less empirical work) has been done.

40 In fact, the problem is even more severe for many types of NTBs since the  
41 struggle is over their definition. An understanding of the economic impact of their

42 use is a secondary concern. For instance, are a country's health and sanitary  
43 standards NTBs? More broadly stated, are internal standards for product safety,  
44 durability, size, etc. reasonable topics for trade negotiators to bargain?

45 Their significance notwithstanding, NTBs remain a topic that is in dire need of a  
46 framework for discussion, let alone serious economic analysis. This monograph by  
47 Alan Deardorff and Robert Stern provides such a framework and serves as an  
48 excellent starting point for studying the economics of NTBs. Trade negotiators are  
49 not the only audience that would benefit from reading this study. I heartily  
50 recommend keeping a copy of this book on your shelf and lending it to those  
51 graduate students searching for a dissertation topic. If an intrepid graduate student  
52 cannot find an interesting unanswered question in this book, they should think  
53 about working in another field!

54 The book begins by presenting a typology of NTBs. As Deardorff and Stern  
55 note, there are numerous problems with NTBs that are not relevant for tariff  
56 barriers. The first difficulty is definitional: what is a non-tariff barrier? To a large  
57 degree, NTBs are defined by what they are not –that is, all barriers to trade that  
58 are not tariffs. In fact, the term is even broader than that, since it is often also used  
59 to refer to interventions that serve to stimulate trade (e.g., trade subsidies).  
60 Deardorff and Stern suggest that it may be more useful to categorize NTBs into  
61 those that are formal and those that are informal. By “formal” Deardorff and Stern  
62 mean barriers that are explicitly stated in legislation or government mandates.  
63 Examples of formal NTBs include import quotas, licensing restrictions, voluntary  
64 export restraints, exchange controls, prohibitions (e.g., embargoes and sanctions),  
65 domestic content requirements, antidumping and countervailing duties, govern-  
66 ment procurement policies, health and sanitary regulations, and packaging and  
67 labeling regulations. Informal NTBs are even more nebulous. For instance,  
68 administrative procedures can constitute a barrier to trade. Customs procedures  
69 may rely on specially constructed measures of price which asymmetrically raise  
70 the cost of servicing the domestic market. Market structure differences are also  
71 often perceived as a impediment to trade. Countries can vary in antitrust standards  
72 and the extent to which they rely on public ownership. There is bound to be  
73 conflict when national policies impinge on the interests of foreign producers.  
74 Institutional factors such as social and cultural institutions are another potential  
75 barrier to trade. For instance, countries can vary in the extent of central versus  
76 local government power. In Canada, for instance, provinces have their own  
77 procurement policies while in the United States state governments (in theory) are  
78 not allowed to institute policies that are at odds with those of the federal  
79 government. One can imagine foreign suppliers complaining the difference in  
80 Canadian province's rules constitutes an unfair impediment to trade.

81 Given the vast array of NTBs, it is unlikely that a single analytical methodology  
82 could be capable of measuring their effects. The most common measure for  
83 “quantifying” NTBs is simply counting. For example, the OECD often reports  
84 that country A has 143 NTBs, country B has 125 NTBs, etc. In policy circles such

86 counts “logically” lead to the conclusion that country A is more protective than  
87 country B, as if coverage, cost, and incidence are irrelevant.

88 Deardorff and Stern argue that we should begin by looking at the (potentially)  
89 measurable effects of NTBs in the context of a static, deterministic partial  
90 equilibrium analysis. Using the well-known tools of supply and demand, Deardorff  
91 and Stern formalize the impact of the imposition of a NTB in terms of elasticities,  
92 price and quantity effects. While overly simplistic, the supply and demand analysis  
93 is nonetheless a marked improvement over simply counting the number of NTBs.

94 The impact of some NTBs, such as VERs, import quotas, and domestic content  
95 requirements, can largely be understood within a standard microeconomic frame-  
96 work (e.g., tariff/quota analysis). The “size” of the NTB can be reasonably  
97 captured by a tariff-equivalent measure and the effect can be captured by producer  
98 and consumer surplus. Yet, even in these “best case” examples, we know from the  
99 work of Rob Feenstra (1984) NTBs can induce quality upgrading which implies  
100 the standard price-comparison measure is inexact.

101 With other NTBs such as health regulations, procurement policies, antidumping  
102 and countervailing duties, standard approaches are inadequate. Consider, for  
103 instance, the most widely investigated NTB, antidumping duties. At first pass it  
104 seems as if the tools of standard tariff analysis are adequate to understand  
105 antidumping’s effect. In particular, antidumping duties are typically thought to be  
106 much like ad valorem tariffs: the government levies the tariff creating a wedge  
107 between the domestic and world price, and deadweight losses and (possibly) rents  
108 are created. Unfortunately, applying this approach inadequately captures the  
109 effects of antidumping protection. First, the foreign suppliers can raise their price  
110 and avoid paying the tariff. As Gallaway, et. al. (1999) show, this oft-ignored  
111 feature implies that antidumping protection is far more costly than typically  
112 estimated. Second, antidumping protection is endogenous in the sense that their  
113 imposition depends on certain preconditions being met. In particular, antidumping  
114 duties are (supposedly) only applied if the foreign firms have priced “unfairly” in  
115 foreign markets. Economists can measure their impact when they are imposed, but  
116 little can be done to quantify how import prices have been distorted in an attempt  
117 to avoid an antidumping investigation. Once again, standard methods are in-  
118 adequate. Similar arguments can be made with respect to other common NTBs,  
119 such as countervailing duty actions, intellectual property disputes, safeguard  
120 actions, etc.

121 In other cases it appears that standard methods are irrelevant. Product safety  
122 standards can seem arbitrary are perhaps designed to favor domestic suppliers. But  
123 the use of price comparisons in assessing inter-country differences in standards are  
124 of limited use, since these price differences may not in themselves reflect barriers  
125 to trade. Moreover, such price comparisons would give little guidance to what  
126 would happen under alternative circumstances. What would happen if standards  
127 were unified or were eliminated? Which alternative (if either) is superior? This is  
128 just one example of an issue that Deardorff and Stern fail to address, primarily

130 because it remains unresolved in the literature (hint: graduate students get  
131 working!)

132 In general, Deardorff and Stern do a nice job discussing the limitations of using  
133 standard economic tools to measure and assess NTBs. Yet, for many NTB policies  
134 a superior alternative to the standard supply-demand approach has not yet been  
135 formulated. Hence, in the last half of the book the authors document the use of  
136 NTBs by O.E.C.D. countries and assess their impact using standard tariff analysis.  
137 For many types of NTBs Deardorff and Stern also report the number of NTBs, a  
138 useful accounting exercise that helps convey the scope but not the costs of the  
139 problem.

140 Yet, as one reads this book, it becomes clear that Bob Baldwin's swamp analogy  
141 is not perfect. When draining a swamp new obstacles do not appear as soon as the  
142 rocks and stumps are removed. It often appears, however, that new NTBs emerge  
143 when long-standing NTBs are brought under G.A.T.T./W.T.O. discipline. For  
144 example, just when VERs are brought under W.T.O. discipline, phylo-sanitary  
145 disputes become more and more common. In practice, beef imports can just as  
146 effectively be limited with a health standard as with a VER. Thus, the task of  
147 reigning in NTBs is likely to be far more difficult than lowering most-favored-  
148 nation tariffs.

149 All in all, I enjoyed reading this monograph. It serves as an excellent primer on  
150 NTBs and provides an excellent framework for further study of the issues. While I  
151 would have preferred more modeling of the issues, I am optimistic that over the  
152 next decade many dissertations will be devoted to deepening our understanding of  
153 NTBs.

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