2 Quantitative Approaches to Trade-Barrier Analysis

A point that must be addressed before any analyses can be undertaken is to define what constitutes a 'nontariff barrier'. This problem is complicated by the fact that different definitions have previously been advanced. Robert Baldwin (1970), for example, suggests that a nontariff trade distortion is 'any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real world income'. Potential world income is defined as that level attainable if resources were allocated in the most economically efficient manner. Clearly difficulties exist for applications of this definition since it requires an estimate of 'potential real world income' or, at a minimum, knowledge of directional movements in income under alternative policy measures. While there may be agreement on the directional movement for removal of (say) a rigorously enforced quota there are measures whose effects may be more difficult to assess. For example, it may be difficult to determine if removal of some sanitary requirements for imports would increase or decrease income if the resulting trade expansion was accompanied by a decline in health standards and rising medical costs.

In search of a workable definition, Ingo Walter (1972) proposed that NTBs broadly encompass all private and government policies and practices that distort the volume, commodity-composition or direction of trade in goods and services. Walter recognises that this is a weak operational definition, however, in that it requires judgement on what constitutes a 'trade distortion'. Specifically, firms may influence the volume and composition of trade by actions which affect supply and demand conditions. Measures aimed at lowering production costs and prices, or increasing product differentiation through advertising may reduce imports if practised by domestic firms. Most economists would not classify such actions as NTBs since they are normally not assumed to convey and 'unfair' competitive advantage. However, firms may engage in practices, such as dumping or predatory pricing, which should be classified as nontariff distortions due to their intent. Similarly, government policies may influence the

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volume and composition of trade, sometimes as a remote side-effect not connected with the primary purpose of the action. In other cases, a specific policy measure may be implemented solely to control the level of international trade.¹ As such, Walter proposed that the intent of different measures be a factor used for the identification of non-tariff barriers.

While the difficulty in defining a nontariff barrier may be partially reduced by adopting Walter’s suggestion that NTBs be classified on the basis of their intent, there are various measures like standards requirements, liberal licensing procedures, or labelling and packaging regulations that can be used to affect the level of imports depending on how they are applied. In other words, there are regulations whose intent cannot be determined without a difficult and potentially inconclusive investigation of their nature and actual operation. In recognition of this point, UNCTAD found it convenient to distinguish between nontariff measures (NTMs) and nontariff barriers. The term ‘measures’ is wider than ‘barriers’, since it encompasses all trade instruments which may be used as barriers, although their restrictive effects, if any, may vary between countries, or even at different points of time in a specific country. Moreover, the restrictiveness may lie in the way the measure is applied rather than in the basic properties of the measure itself.² In the UNCTAD scheme, product-specific nontariff measures (i.e. those that are applied to specific items down to the level of the tariff line) are grouped into five broad categories depending on their method of operation: fiscal measures, volume restraining measures, import authorisations, measures to control price levels, and a miscellaneous group of restrictions. Table 2.1 provides the broad outline of the UNCTAD classification scheme for product-specific NTBs, while a glossary for these measures is given in Appendix 4. Separate records are also maintained by UNCTAD for measures like state trading, general entry and exit control procedures, or foreign exchange controls that influence the general level of imports.

While the preceding discussion shows it is generally necessary to distinguish between nontariff measures and nontariff barriers, it should be noted that two different approaches have been employed for these instruments’ quantification. These alternative approaches differ considerably in their methodology and in the nature of their empirical results. The first, often referred to as the ‘inventory’ approach, has been used primarily to produce descriptive statistics on the kinds, pattern and frequency of use of NTMs. The second general approach attempts to quantify the trade and other economic effects