

Behind the Border Barriers: Puzzles and Challenges

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Outline of my comments

Technical Barriers to Trade (TBTs) Why Care?

- Liberalisation likely to create a 2-tier world trade system
 - with industrialising and poor nations in lower tier
- Economics is tricky
- Policy is proceeding with little economic analysis

2-Tier World Trade System: The Argument

First point: TBTs are important

- Direct evidence, Moenius (1999) PhD thesis
 - Standards for 471 industries, 12 W. European nations, 1980-1995
 - Results:
 - Shared standard raised bilateral trade significantly
 - Country specific standard raise trade in manufacturing sectors but lowered it in non-manufactured sectors
- Industry studies
- Indirect evidence: “Border Effect” literature
 - Helliwell (1998), Head & Mayer (1999), etc.

2-Tier World Trade System: The Argument

First point: TBTs are important

- Political Economy “Evidence”
 - Business continues to push for TBT liberalisation
 - European nations excluded from EU’s Single Market Programme pushed hard for inclusion
- Much more work needed
 - World Bank project underway
 - see WB web site “Standards and Trade”

2-Tier World Trade System: The Argument

Additional points

- Ignore SPS in this talk (but they're important)
- TBTs most important in most sophisticated manufactured goods
 - e.g. clothing versus electrical generating equipment
 - so, TBT protection has 'Cascading' effect
- TBTs allow 'mini-micro' protection
- Technical nature facilitates 'industry capture' of regulation process

2-Tier World Trade System: The Argument

Second point: TBT liberalisation will continue

- Background: TBT liberalisation is different
 - but the key is 'Obscurity' not 'Sovereignty'
 - All trade agreements restrict sovereign rights
 - Commercially balanced "Exchange of pledges" to use less trade restricting means
 - With tariffs and QRs, this is "easy"
 - With TBTs it is extremely difficult
 - Are there less trade restricting policies?
 - What is commercial impact?

2-Tier World Trade System: The Argument

Second point: TBT liberalisation will continue

- Tariffs near zero on big North-North trade flows, but politics of liberalisation continue to push
 - US-EU MRA, JAS-ANZ, WTO's TBT Agreement

2-Tier World Trade System: The Argument

Third point: “Hegamonic harmonisation” or “Mutual Regconition

- Longest Experience is in Europe
 - TBT liberalisation on-going since 1969 in Europe
- Old Approach 1969-1985: “Negotiated Harmonisation”
 - manifest failure, Michael Emerson “difficult to agree and quick to become obsolete”
 - 11 years to harmonise standards for mineral water

2-Tier World Trade System: The Argument

Third point: “Hegamonic harmonisation” or “Mutual Regconition

- 3 decades of experience in EU show *negotiated* harmonisation doesn't work
- Two ways forward:
 - 1. Hegemonic harmonisation
 - Central European nations, Norway, Switzerland
 - 2. Mutual recognition
 - Single Market Programme & MRAs

2-Tier World Trade System: The Argument

ERGO: Two-Tier Trading System

- Mutual recognition requires mutual trust in governance structures
 - Much harder for developing nations
- Likely outcome is continued north-north liberalisation
- Plus, perhaps, some hegemonic harmonisation by ‘southern’ nations adopt northern standards
- Historical Precedent:
 - EU vs non-EU in Europe after Single Market Programme

Tricky Economics

How to Model TBT liberalisation?

- Modeling of TBT liberalisation in Single Market Programme
 - Standard approach: Assume lower real trade costs by 2.5% points on a preferential basis
- Not good enough
 - Single Market Programme was a massive liberalisation
 - Little evidence of increased trade diversion in EU as result
 - Must look to other ways of modelling

Tricky Economics

Nature of 'barriers'

- Can involve one-off sunk costs
 - Product modification, learning about standards
- and/or repetitive fixed costs
 - Administrative overhead
- and/or variable costs
 - Delay product introduction
- Liberalisation can be:
 - Exclusionary (rules of origin)
 - Open (test once sell everywhere)

Tricky Economics

Nature of competition and technology

- Increasing returns
- Learning curves
- Rapid product innovation

Tricky Economics

Examples of odd results

- 1. A nation's unilateral adoption of a standard may increase imports
 - Makes foreign goods better substitutes (information problems more important for imported goods)

Tricky Economics

Examples of odd results

- 2. Regional MRAs may favour external trade
 - Turkish-based firm of skate boards versus French firm
 - Natural trade barriers imply Turkish firm would have smaller sales in each EU market
 - Proving conformity unprofitable for Turkish firm (15 fixed costs and small sales in each), but profitable for French firm
 - “open” mutual recognition means conformity must be proved in only one market to get access to all 15
 - Turkish firm starts selling in 15 markets
 - French firm was already selling in main EU markets

Tricky Economics

Examples of odd results

- 3. Small delays may have dramatic trade effects
 - Learning curves and/or short product cycles
 - Domestic firms may choose to source domestically despite large price differences

Need for analysis

- Trend towards MRAs continues
- Trade and welfare impact is unclear
 - Especially impact on outsiders -- developing nations
- Need systematic and large-scale evaluation of North-North TBT liberalisation on world trade
- World Bank is gathering a data set on TBTs by nation and sector

End

References

- Helliwell, J. (1998) How much do national borders matter? Brookings, Washington DC
- Moenius, J. (1999) “Information versus product adaptation: The role of standards in trade,” UC-San Diego, PhD Thesis
- Head, K. and T. Mayer (1999) “Non-Europe: The magnitude and cause of market fragmentation in the EU,” UBC mimeo.