Trade Flows and Trade Policy Analysis

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Analyzing trade policy

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a. Overview and learning objectives

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a. Overview and learning objectives

- How to present a tariff profile that summarizes the salient features of a country's tariff structure
- How to aggregate tariffs into simple and weighted averages and what biases are possibly created by aggregation
- How to define and calculate Effective Rates of Protection
- How to measure and interpret tariff escalation
- How to calculate Non-Tariff Measures (NTM) import coverage ratios and what biases are possibly involved in their calculation
- How to calculate the ad-valorem tariff equivalent of a Quantitative Restriction (QR) using the price-gap method
- How to assess the overall trade restrictiveness of a trade policy stance
- How tariff and NTM data is presented in the main databases available

b. Analyzing trade policy

- Trade policies are the policies that governments adopt toward international trade
- They may involve a variety of different actions and the use of a number of different instruments
- Two broad categories: tariffs and non-tariff measures (NTMs)

Tariffs

- Tariffs are taxes on imports or exports of goods, levied at the border
- A tariff raises the price of the imported (exported) product above its price on the world (domestic) market
- 2 types:

1. *Ad valorem*. Expressed as a percentage of the value of the imported (exported) good (usually as a percentage of the CIF value)
2. *Specific*. Stated as a fixed currency amount per unit of the good
    - Example: Australia's 2005 schedule includes a tariff of $1.22/kg on certain types of cheeses and the United States charges $0.68 per live goat

- Combinations of *ad valorem* and specific tariffs
- Mixed tariffs are expressed as either a specific or an *ad valorem* rate, depending on which generates the most (or sometimes least) revenue
    - For example, Indian duties on certain rayon fabrics are either 15 percent ad valorem or Rs. 87 per square meter, whichever is higher
- Compound tariffs include both ad valorem and a specific component
    - For example, Pakistan charges Rs. 0.88 per liter of some petroleum products plus 25 percent ad valorem

a. *Ad valorem* equivalent (AVE) of specific tariffs

- *Ad valorem* tariffs are much more widely used than specific tariffs, because they are easier to aggregate and to compare and are thus more transparent
- One way to compare them, however, is to calculate their *ad valorem* equivalent

$$\tau_{AVE} = 100 \frac{\tau_{specific}}{p}$$

  Where *p* is the international price per unit of the good
- The challenge is to compute *p*. It can be calculated by dividing trade values by volumes (to get unit values), but the result often varies across time and countries and systematic biases are likely
  - Since poorer countries export, on average, goods of lower quality and hence price, even if they face the same specific tariff as higher priced exports, their exports face higher protection in AVE terms than these higher priced exports

a. Ad valorem equivalent (AVE) of specific tariffs (ct'd)

- World Bank WITS proposes four methods to compute unit values in AVE estimation

1. Using import unit values for the reporter calculated at the national tariff line level (8-10 digits). If those are not available, replace them with import unit values for the reporter calculated at the HS-6 digit level. If neither 1. or 2. are available, use import unit values for OECD countries
2. Using only import unit values for OECD countries
3. Using the methodology for the calculation of AVEs of agricultural non *ad valorem* duties referred to in the draft modalities for agriculture that are currently negotiated at the WTO
4. Using the methodology for the calculation of AVEs of non agricultural non *ad valorem* duties referred to in the draft modalities for non agricultural