

**INTEREST GROUPS,
CORRUPTION
AND
THE ROLE OF DEMOCRACY**

EFFECTS ON TRADE POLICY

Master of Arts in Law and Diplomacy Thesis

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Abstract

As the United States and multilateral institutions concurrently push both free trade and democracy on developing nations, questions emerge regarding the viability of advocating potentially divergent policies. Does free trade facilitate democracy? Or does democracy facilitate free trade? Can free trade and democracy be advanced simultaneously?

This paper examines the effects of interest groups and corruption on free trade and the role of democracy in enabling individuals to influence and distort trade policy. The author concludes that nations can advance both free trade and democracy and asserts that [1] Corruption and interest groups distort trade policies and current indices fail to calculate these effects; [2] There is need for a new system to address the effects of nontariff barriers on economic welfare and a greater role for the WTO in reducing these distortions; and [3] Without civil capacity building efforts and greater government “autonomy”, developing countries will have even more distorted trade policies and possibly political instability.

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Introduction

“We rail at trade, but the historian of the world will see that it was the principle of liberty; that it settled America, and destroyed feudalism, and made peace and keeps peace.” Ralph Waldo Emerson

Trade policy is not created in a vacuum. It involves the interplay of domestic and international forces. Research indicates that donations influence political decisions.¹ Whether contributions (legal or illegal) are made to influence a candidate’s choice or to elect a candidate friendly to one’s interests is irrelevant: the attempt to manipulate policy is. Interest groups and corruption both influence government policy by providing money or resources to government officials.

Citizens wanting to affect policy outcomes have limited options: they can attempt to bribe policymakers or voice their opinion through voting or working actively on policy issues, or contributing to the work of policymakers either by donating time or money to causes the groups espouse. In societies with little democracy, there is less opportunity for individuals to express their views. In this sense, democracies create an enabling environment for individuals to convey their thoughts. Therefore, individuals will tend to form more interest groups in democracies as they have greater opportunity to influence policy than in non-democracies.

If an individual chooses to voice his opinion, he has two options: voice alone or join a group. An individual with few resources may prefer to join an organization so as to magnify his influence. An individual with assets (wealth, prestige, etc.) may opt to access the policy-maker individually to air his concerns. An individual with resources often does not just represent himself, but rather a myriad of people from employees to stockholders. In this sense, an individual and a collection of individuals can both be

¹ See Gross and Helpman (1994) for overview.

classified as interest groups. In this study, interest groups are defined as a group of citizens that work for a common issue(s), express their beliefs without the direct transfer of money and are afforded the opportunity by the government to espouse differing ideologies. Furthermore, more democratic societies offer citizens greater opportunities to articulate their beliefs. This may amplify the effects of interest groups on policymaking.

Corruption involves the transfer of services or payments. Corruption is a departure from legal and public duty norms for intentional personal gain.² Interest groups and individuals can both corrupt. The distinction between the effect of corruption and interest groups on policy making could be defined as one of legality (at least in the American sense). Direct payments to an individual would be seen as corrupt. Alternatively, interest groups provide payments or services to a campaign or influence blocs of voters on behalf of a politician. The level of corruption in a country is affected by endogenous factors (e.g. rule of law, wealth disparity, institutional structures) not considered in this study.

Both corruption and interest groups distort policy formation. However, if an economy is highly distorted, corruption may paradoxically reduce the losses to national economic welfare from the existing inefficiencies. If there are “countervailing” interest groups in democratic societies, then the policy results may be optimal, though resources may be wasted in the lobbying efforts. Additionally, incipient corruption distorts government policy, as politicians reward those who offer compensation. Thus, governments need some autonomy in creating a long-term economic plan so that short-term interests do not hijack policy.

² Heidenheimer (1970).

Rodrik believes that nations cannot simultaneously develop both democratic institutions and free trade (or “deep economic integration”) policies as part of the political trilemma of the world economy.³ He feels that nations must choose either democracy or integration. Similarly, Friedman describes nations who choose integration as wearing the “Golden Straightjacket.”⁴ By putting it on, a nation’s economy grows while its political choices shrink. Countries can choose between “Coke and Pepsi,” picking policy options from a limited basket that does not allow them to respond to strictly domestic needs. Argentina’s recent experience clearly illustrates Friedman’s point.

Argentina’s dollarization efforts tied the hands of the central bank as it could no longer control monetary policy. Officials sought to appease international investors at the expense of domestic constituents. Unable to respond to a changing environment, Argentina imploded.⁵ In Friedman’s view, giving a nation’s citizens a voice while restricting the government’s choices creates a possibility of political upheaval. In this respect, the current push for free trade and democracy in nascent economies could be futile, as these policies may work towards divergent goals.

As the United States and multilateral institutions concurrently push both free trade and democracy on developing nations, are they also pushing divergent policies? Much of the literature on free trade asks the question, does free trade facilitate democracy? The

³ See Figure 1.

⁴ See Friedman (1999).

⁵ Rodrik believes free trade is one part of global integration. It also includes the harmonization of standards and policy. Furthermore, he illustrates that heterodox policies have been successful in many countries. China has achieved impressive growth rates using town-village enterprises. Likewise, Mauritius employed export processing zones and has seen tremendous growth over the past decade. He believes the standard orthodoxy of free trade and deep market assimilation may not have been as successful in the above instances. Alternatively, the IMF and others argue the restrictions Argentina employed are the medicine needed for countries to grow.

more pertinent questions, does democracy facilitate free trade or can they be pushed simultaneously, are less frequently addressed. The international community blindly believes they can.

Trade Policy

According to leading trade reports the European Union and United States appear to have a ‘clean’ trade policy.⁶ However, while current trade indices assess the effect of tariffs, quotas and some VERs, they fail to address deeper structural issues, including subsidies, environmental laws, national security and anti-dumping legislation which can warp market access. In recent years, many studies have tried to quantify these legal obstacles or nontariff barriers (NTBs).⁷ This report will illustrate that as economists become able to quantify these barriers, the trade environment of numerous “open” and democratic countries will appear less so.

Coordinated lobbying interests in many developing nations are forming as democracy sweeps through Asia and the former Soviet states. Many of these countries suffer from endemic corruption and warped domestic policies. Some countries (e.g. Lithuania and Estonia) have successfully addressed corruption. However, lobbying efforts may usurp the role corruption once had in leading to suboptimal policy formation. Without capacity building efforts to improve civic organizations and the government’s ability to understand their functions in a democratic society, introducing free trade initiatives and democracy simultaneously may be less beneficial than just legislating sound trade policy.

⁶ See Heritage Foundation, Fraser Institute , Global Competitiveness Report.

⁷ See Anderson and Neary (1995). They have been developing the Trade Restrictiveness Indicator to account for nontariff barriers. Others, including the Tuck School of Management and the United States International Trade Center, have been trying to calculate the affect of NTBs on market access.

More international focus needs to be given to hidden obstacles to trade. The WTO, whose mandate is to establish a forum to address trade concerns and reduce trade barriers, must become active in reducing policies that have developed “under the radar” of trade indices.

This study will address the effects of interest groups and corruption on free trade and attempt to show:

- Corruption and interest groups distort trade policies and current indices fail to calculate these effects;
- There is need for a new system to address the effects of NTBs on economic welfare and a greater role for the WTO in reducing these distortions;
- Without civil capacity building efforts and greater government “autonomy”, developing countries will have even more distorted trade policies and possibly political instability.

Protectionism

“Protectionism is the ally of isolationism, and isolationism is the Dracula of American foreign policy.” William G Hyland, former national security adviser

Economists, governments and international organizations expatiate about the benefits of free trade. Each nation wants access to markets. Nations from the United States to Indonesia are entering trade agreements in order to increase exports. Though nations expound upon the benefits of open markets, each is reticent to liberalize their own.

“The past year has been lousy for free trade. The Americans have ratcheted up farm subsidies and slapped new import duties on foreign steel. A European summit made little progress towards reform of the common agricultural policy (CAP); indeed, the French managed to secure agreement to preserve CAP spending

at present levels.”⁸ This year is not an anomaly. “There has been a blizzard of new trade laws in the past decade.”⁹ With the push toward free trade, one would believe new laws would liberalize trade regimes and make them more transparent. Contrarily, this legislation (mostly NTBs rather than tariffs) complicates the global marketplace.

Protection encompasses various forms from subsidies to quotas and technical requirements. Simply, protection can be divided into two subheadings: tariffs and nontariff barriers. Deardorff and Stern simply identifies NTBs as what they are not- “all barriers to trade that are not tariffs.”¹⁰

James Lutz noted in 1987 “Nontariff barriers have become a more important form of protectionism in the United States.”¹¹ The US is not alone. Deardorff and Stern suggest that there are four reasons explaining NTBs growth in popularity:

- Institutional constraints, such as GATT/WTO rules which limit the use of tariffs, are written into national constitutions and other binding legal codes
- The increased role of firms and workers in influencing policy decisions
- Governments fear retaliation if they increase formal trade barriers
- Governments perceive that tariffs will not work as effectively in reducing imports¹²

NTBs use has become prolific because the cost of NTBs tends to be difficult to value, the protection provided by tariffs has shrunk and NTBs use can be excused as non-economic protection. Thus because NTB use is prolific, this report addresses NTBs rather than tariff rates.

⁸ The Economist, Nov. 28 2002 “Trading insults”.

⁹ Gartner (2003).

¹⁰ Deardorff and Stern (1997), p. 4.

¹¹ See Lutz (1988). Bhagwati (1988) in his book of the same name, concurs.

¹² Deardorff and Stern (1997), p. 3.

NTBs are disproportionately underrepresented in previous studies because protectionism through subsidies, health and safety regulations are difficult to address empirically. Some research has indicated that groups protected by tariffs will have less incentive to ask for more protection (tariff or nontariff) if they are afforded some security.¹³ NTBs may be used when tariff protection has been lost. Thus, there is concern that these restrictions are exercised not as a protective measure to ensure the health and safety of a nation's citizen but rather as a defensive measure to limit import markets access.

Low-income countries cannot find export markets. It is not just tariffs and quotas. Standards are seen as a greater problem. An OECD survey given to government officials in 65 low and middle income countries indicated that SPS (health and safety) requirements, technical requirements, transport fees and direct export costs were greater impediments to trade than tariffs or quantitative restrictions.¹⁴ Another OECD study indicates that over 50% of low-income country exports to the EU markets were prevented from entering due to their inability to meet standards.¹⁵ As a result EU consumers are forced to pay higher costs for these primary products while developing countries deal with a reduction in foreign exchange and international demand for their product. This leads to a reduction in the price received for their goods. Simply stated, this is a decline in national economic welfare for the developing country because of a decrease in both their terms and volume of trade.

It would be imprudent to think that all NTBs are for the sole benefit of domestic producers. National welfare is an important consideration. For example, non-native

¹³ Busch and Mansfield (2000).

¹⁴ IMF (2003).

¹⁵ IMF (2002).

plant species can wreak havoc on domestic vegetation if there is no protection from natural or man-made herbicides. Additionally, phytosanitary regulations are in place to ensure the safety of the food supply and ensure the population's health.¹⁶ Nontariff barriers can ensure that domestic market imperfections do not allow the importation of goods that reduce national welfare.

Causes of Distortions in Trade Policy

“National trade policy—and national positions taken at the WTO—should represent a careful balance among the legitimate interests of stakeholders in society.”¹⁷

Vested individuals and politicians can hijack the process. The economic gain for domestic producers can be large if the nation employs tariffs or NTBs.¹⁸ Nations often must choose between protecting an industry and letting it die. Though the reduction on consumer welfare may be larger in absolute terms if the government provides protection, the repercussions will be spread over a larger population thus minimizing impact and visibility. Therefore, shrewd politicians may serve the interests of the vocal minority rather than the passive majority and offer protection.

Previous political economy and economic models indicate that political contributions impact public policy decisions.¹⁹ Some studies indicate that, “politicians sell trade policy in exchange for campaign contributions.”²⁰ Others indicate that a politician's willingness to offer protection depends on the degree of expected reaction by

¹⁶ Phytosanitary regulations are governed at the international level through the Agreement on the Application of Sanitary and Phytosanitary measures (SPS) of the WTO. They are often administered by the FAO. The WTO affords sovereignty to nations in utilizing phytosanitary bans. However, there should be transparency in the laws. Therefore, nations should publish these regulations.

¹⁷ WTO (1999).

¹⁸ See Box 3 for a discussion on measuring the effect of NTBs on a society and importers.

¹⁹ Gross and Helpman, (1994), Baldwin and Magee, (1998).

²⁰ Baldwin and Magee (1998).

the opposition group or the public.²¹ Politicians often work for those who offer both financial and electoral support. In return for this assistance, interest groups expect politicians to advance their agenda. In the United States the legal system lends itself to abuse by special interests who may influence the wording of legislation or abuse statutes created by Congress in unintended ways.²²

In a competitive market, free trade would bring maximum world welfare.²³ However, politicians are rarely economists strictly concerned about national economic welfare. National security, health and wellness concerns, domestic industry protection, human rights and environmental interests drive trade policy. National economic welfare is one factor. Nations where constituents can voice their concerns, through their voice or wallet, will have a greater impact on trade policy formation than in societies with little access to the government regardless of world welfare.

Democracy/Interest Groups²⁴

“Washington has seldom seen so numerous, so industrious or so insidious a lobby. There is every evidence that money without limit is being spent to sustain this lobby.... I know that in this I am speaking for the members of the two houses, who would rejoice as much as I would to be released from this unbearable situation.” Woodrow Wilson

“With all their faults, trade-unions have done more for humanity than any other organization of men that ever existed. They have done more for decency, for honesty, for education, for the betterment of the race, for the developing of character in man, than any other association of men.” Clarence Darrow, US lawyer, writer

²¹ Falvey and Lloyd (1991).

²² Jackson (1984).

²³ However, with restrictions, there can be optimal tariff levels. Calculating this level for each product or even sector would be a daunting challenge. These levels tend to be low. The current push is to reduce all distortions so there is no need for any tariffs and encourage large markets not to use their size to influence world prices. See Obsfeld and Krugman (2002), Caves, Frankel and Jones (2001) for further discussion.

²⁴ This study makes no assumptions if democracy is better for growth. Our assumption is that interest groups create noise which creates distortion in trade policy. According to Przeworski, A. and Limongi, F. (1993) social scientists now cannot conclude if democracy fosters or hinders growth.

Democracy is “a government in which the supreme power is vested in the people and exercised by them directly or indirectly through a system of representation usually involving periodically held free elections.”²⁵ Citizens, in an attempt to manifest their authority, form groups to more powerfully voice opinions to their leaders. Interest groups flourish in democracies because they encourage participation. Conversely, in autocratic or communist societies, citizens cannot express their opinions to the government. Interest groups, if they do exist according to this study’s definition, have little legal opportunity to influence policy making.

This study assumes that the greater the democracy, the larger the total number of interest groups reside in the country. Furthermore, these interest groups which focus on their narrow agenda will attempt to influence legislators. Pencavel notes that labor unions, in particular, customarily restrict the amount of goods and services that travel across borders and are not known for their pro-free trade stance.²⁶ This influence ultimately creates distorted policy as dominant interest group can more effectively express its view.

Conversely, it can be argued that in order to balance opposing views there needs to be an optimal number, or equally weighted, lobby groups in a country. For example if the lobby for steel producers asks for protection, steel consumers will fight the policy. Hence, the only policy outcome should be Pareto optimal.

In this study, it is assumed that policy choices are influenced by the myopic view of the powerful or most powerful interest groups. Countervailing interest groups can

²⁵ Merriam-Webster (1993).

²⁶ See Pencavel (1997). Furthermore, he states, “labor unions constitute a pressure group on government that, by imposing impediments on market processes, tends to increase the incomes of unionized workers at the expense, primarily, of nonunion workers, consumers, and future generations.” p. 47.

mitigate these distortions. However, asymmetries in power, size and financial support between groups or a lack of countervailing interests leads to distortion. The benefits of lobbying accrue to those who partake and have the greatest influence. Democracy in this sense may represent a proxy for interest groups because egalitarianism creates a dynamic of rewarding those who participate.

Corruption

“Corruption is worse than prostitution. The latter might endanger the morals of an individual, the former invariably endangers the morals of the entire country.” Karl Kraus, Austrian writer

Corruption accelerates bureaucratic delay and acts as an incentive for bureaucrats to work harder.²⁷ In this respect, corruption does not distort trade policy. Rather, such incentives make the government more effective, if the bureaucrats aim is to increase national welfare. However, most economists and politicians fail to take this sanguine view of corruption.

Bribe payments help gain access to officials and influence policy outcomes. In this respect, corruption could produce beneficial, ambiguous or detrimental outcomes. However, rarely are the corrupt individuals’ goals in line with the welfare of citizens (or more accurately, the goals of the politician). If they were, there would be little incentive for bribe payments. Therefore, corruption occurs when the goals of the corrupt individual are not aligned with the objectives of the politician or national welfare. Assuming that the policy outcome is affected by the bribe payment, we could deduce that the outcome would be suboptimal with respect to national welfare.

Economic Size

²⁷ See Mauro (1995) for an exhaustive review of corruptions effects on the economy

Smaller nations have less motivation for protectionism. According to trade theory, these countries cannot affect world price and will raise national economic welfare by removing existing barriers. Furthermore, from a mercantilistic perspective, smaller nations will not erect barriers fearing retribution from larger nations will limit market access for their exports. Mansfield and Busch find that larger countries have fewer restrictions in using tariffs because of their market power.²⁸ Additionally, countries with larger markets tend to be members of the WTO. Though the WTO encourages the reduction of all barriers to trade, it fails to adequately address NTBs. Therefore, larger markets focus on reducing tariffs. As many tariffs have been reduced to low levels or removed, domestic industries are thought to receive protection through equivalent NTBs.

Wealth of a Nation

In nations where tax collection agencies are inefficient, tariffs are an effective means of collecting revenue. More developed nations can successfully employ value added or income taxes and expect receipt of funds. However, many developing nations lack the infrastructure and enforcement agencies to collect these taxes. As a result, governments focus on raising revenue wherever it is easiest. As tariffs are often collected at centralized locations (ports, airports, border crossings), it is more effective for governments with few resources to focus tax collecting efforts in these locations. Therefore, we expect poorer countries to employ more protectionist measures if for no other reason than to raise revenue.

Economic Conditions

²⁸ Mansfield and Busch (2000).

Public officials are influenced by the immediate needs of constituents or voters. The electorate often votes with its pocketbook. Mansfield and Busch established empirical support for this. They found that as the unemployment level rises, so will protection in the form of nontariff barriers.²⁹ Also an appreciated real exchange rate, making imports more affordable, encourages higher levels of protection.³⁰ Hence, this study believes that sustained economic malaise should give rise to increases in protective trade measures.

Data Selection

This paper does not look at the degree of protection given to industries, but rather the number of protective measures. I argue that the quantity of NTBs in a country is a more accurate means of assessing the effect of interest groups (and the democratic process) and corruption because it shows the extent to which policy is influenced. Conversely, measuring the size of NTBs indicates the degree to which these actors distort policy. Therefore, NTB coverage ratios are used.

Non Tariff Measures

The UNCTAD TRAINS database is the most exhaustive database on trade. It contains the broadest measure of NTB.³¹ The database requires nations to self-submit regulations that distort market access.³² There are two shortcomings in using the

²⁹ Ibid.

³⁰ Ibid.

³¹ See Rozanski, Kuwahara and Amjadi (2002). "The information on the UNCTAD data base on Trade Control Measures is collected from governmental sources, official journals and circulars, and are continuously reviewed in order to identify changes in trade practices and restrictions. Many governmental authorities have contributed to the data base by making comments and submitting information on trade laws or by verifying the information compiled by the secretariat." p.2. See Appendix 4 for further discussion on this database.

³² See Box 1 for NTB definitions and Box 2 for extended discussion on the UNCTAD TRAINS Database.

TRAINS database model. First, UNCTAD does not have the resources to verify each NTB or investigate non-reported distortions. Though it is easy for exporters to identify non-trade barriers - ineffective customs, quotas and health standards - they are difficult to compile.

Second, the European Union has only one score for nontariff barriers. This poses a statistical problem. The independent variables were averaged to form a mean EU score to be used as regressors. In some cases, like Polity there was little change in the variable, but in others, including corruption, there were marked differences.

Counting the European Union as one country may bias these results. By counting fifteen nations as one, the sample size is reduced and skewed towards poorer less democratic countries. Furthermore, averaging the independent variables without weight according to a nations' size or impact misrepresents the trade policy formation process of the EU. However, these problems were evaluated against creating 14 independent variables that may not be formed by the hypothesized true model. It is felt that creating 14 distinct variables would be misleading though EU nations have similar NTB coverage ratios. It is more statistically honest to present the EU as one variable. However, regression results from both methods are included in the appendices.

Democracy/Interest Groups

No reliable cross-country data on interest groups was found. Therefore a polity score was used since a democracy should contain more interest groups, as argued previously. Ted Robert Gurr originally created the Polity IV Project. "The Polity contains coded annual information on regime and authority characteristics for all

independent states (with a population greater than 500,000) in the global state system.”³³ It is scored from a 10 to -10 scale with 10 being highly democratic and participatory (the USA, Lithuania). Conversely nations with a –10 score are highly autocratic with no citizen participation (Saudi Arabia). Similar to corruption scores, Polity indicators were averaged over the most recent three-year period as to more accurately assess the environment in which trade policy is formed. Furthermore, the index does not score nations in the midst of transitions. To keep scores consistent, Cote d'Ivoire, Nigeria and Peru were removed because of incomplete scores due to transitions.

Corruption

The corruption data are taken from the 2002 Transparency International Global Corruption Perception Index (CPI). The index ranks 102 countries and measures the perceived degree of corruption as judged by businessmen, academics and domestic and international risk analysts.³⁴ It ranges from 10 (highly clean) to 0 (highly corrupt). Though no index on corruption is completely objective, the CPI is the most widely used measurement of corruption and is generally accepted as the best cross-country analysis.

The CPI scores over the past three years were averaged to form one score. It is felt that this score is a more accurate assessment than using the most recent year's data as trade policy is not static but formed over time.

Statistics from the Competitiveness Report published by Harvard University and The World Economic Forum, which measure the amount of illegal payments made to government officials in export and import, were considered. As the use of these results lead to similar conclusions as the CPI, they are not included in our results section.

³³ Polity IV, Center for International Development and Conflict Management at the University of Maryland, College Park maintains the Polity IV Website.

³⁴ Transparency International website.

Market Size

This study used GNP statistics from 1999 to assess the relative size of domestic markets. Market size remains somewhat constant so, there is no need to average market size data. For simplicity, the quantity and value of import and export markets were not included.

Wealth of a Nation

GNP per capita statistics were used to indicate the wealth of a nation. In a sense, this variable serves as a proxy to measure the effectiveness of tax collection agencies. Similar to market size statistics, this data is taken from one year, as wealth per capita does not fluctuate widely over several years.

Economic Condition

Economic condition is a dummy variable. If GNP growth over the past two years is greater than over the past twenty years then the variable is 0. If recent conditions were worse, the variable is 1. These estimates of economic condition are less precise than Mansfield and Busch used in their study. However, accurate cross country data on unemployment is unreliable because it is calculated differently across nations and less accurately in developing countries. Furthermore, due to the limited size of the sample, more variables could not have been added to accurately replicate the true model without sacrificing statistical integrity.

Model Specification³⁵

$$\ln\text{NTM}=\beta_0+\beta_1*\ln\text{POL}+\beta_2*\ln\text{CRPT}+\beta_3*\ln\text{GNP}+\beta_4*\ln\text{YPRCP}+\beta_5\text{Econdum}+\mu$$

The model does not specify an interaction effect between democracy and interest groups. As we would expect greater distortions in policy where interest groups have more access to the political processes. In this model, since a measure of democracy acts as a proxy for interest groups, an interaction effect between democracy and interest groups would be the squaring of democracy. It was felt that the inclusion of this interaction effect might bias the results. Therefore, the only account for the effect of interest groups on democracy is incorporated into the assumption that there are more interest groups in democracies.

Results

Democracy/Interest Groups

There is a significant robust positive effect on the number of interest groups on nontariff barriers, at the 99% confidence level for all regressions. These results indicate that for every 10% a country becomes “more democratic” NTBs levels rise by over 10.6%. These results lend also lend credibility to the hypothesis that the greater the number of interest group the more distorted the trade policy.

I believe that if these coefficients directly measured interest groups rather than democracy the coefficient would be even higher for two reasons. First, Costa Rica, Lithuania and the USA all have the same relative number of interest groups. Lithuania,

³⁵ Using a log-log model discards countries that were not listed as having any nontariff barriers. As the authors indicate that work may not been done in tabulating NTBs for those countries so we felt using this method was appropriate. Furthermore, adding one percentage point to each of the NTB incidence ratios was felt to be statistically inaccurate.

less than 10 years removed from communism, cannot possibly have the same level of interest groups or the same institutional structure allowing them to voice their opinion to policy makers as the United States. These nations might even have more groups and easier access.

Second, societies with a Polity score of 10 also differ in the composition of interest groups. In Europe, particularly in Scandinavian countries, there is a higher incidence of labor unions. We would expect that these nations would have not only a higher level of total interest groups, but greater distortions than other societies. However, limitations of the Polity data do not factor these differences into the score.

Future studies could specifically address the effect of interest groups on trade if interest groups could be placed into sectors. Country studies could examine the affect of the number of interest groups by the NTB incidence in a particular sector.

Corruption

The level of corruption is not seen as a significant factor of NTB incidence. Even when using The Global Competitiveness Report's statistics on irregular payments in exports and imports, no statistical significance is found. Corruption may "grease the wheels" for the use of tariff protection, but there is no evidence in this study that corruption increases the use of NTBs. The results may be attributed to many causes.

First, there are many different types of corruption. Improper payments may not occur at the level of policy makers, but at the level of customs agents. Therefore, a country with a high CPI score may not be corrupt in the legislative process, but corrupt at the enforcement level. This may bias the CPI scores upwards.

Second, the limited effect of corruption on NTB incidence may be due to poor legislative processes in countries with high rates of corruption. Therefore, returns on bribery may be low. Similar to the point above, those wanting to bribe may choose not to pay the politicians but rather the policy implementers.

Third, corruption may be correlated with high levels of tariff protection. Poor countries tend not to be members of the WTO and are not restricted by tariff bindings. If they are members, poor nations have high bound tariff rates. Developing countries, therefore, have more latitude to employ higher tariff rates. Additionally, poorer nations tend to be more corrupt. If NTBs and tariffs are assumed to be compliments, then the choice of protective instrument for ease of enforcement may be a tariff rather than a NTB. This would then bias the corruption measure as high levels of tariffs are correlated with high levels of corruption.

Fourth, the type of protection given to industries may not be captured in the NTB incident ratio. Bribes may be for tax relief, tariff protection, subsidies and other non-competitive domestic policies not considered in the NTB statistic. Therefore, this study found no significant effect of corruption on NTBs.

Fifth, corruption may not be a problem. Corruption could be used to speed up the process of legislation rather than affect its outcome. Furthermore, weak interests who fail to have political backing could use corruption. In order not to become legislated against, bribes are used to maintain the status quo.

Wealth of a Nation

Per capita income has no significant effect on NTB incidence. Therefore, it could be concluded that the wealth of a nation has no effect on the level of protection. I feel that this is not substantiated. There are two main concerns.

First, variables such as government quality, property rights and macroeconomic stability could all possibly be positively correlated with GNP and could bias these results. Poorer countries tend to have lower quality institutions. But in so far as the variable indicates that poorer countries have a greater instance of NTBs there has been no conclusive support.

Second, there is no indication that the use of NTBs will help nations collect tax revenue better than tariffs. As poorer WTO nations are generally allowed higher bound tariff rates to collect revenue, there may be no incentive for these nations to use convoluted NTB measures to raise government income. In this sense, tariffs and NTBs are substitutes. Furthermore, as indicated in the discussion on the measurement of NTBs, poorer countries may have been less scrutinized when establishing the UNCTAD database. Therefore, NTB levels in these nations maybe underestimated in comparison to wealthier nations.

Economy Size

The effect of GNP on NTB measures was the second most significant results discovered were. It is found that a 10% change of GNP lead to about a 2.5% increase in the incidence of NTB. Our results provide empirical support indicating that nontariff activity hinders exporters to markets as they become larger. There are many reasons for these results.

First, larger markets are likely to be members of the WTO. Members have been reducing their tariff levels over the past several decades. It is assumed that as these levels of protection have shrunk demand for protection has remained constant. Therefore, in order to appease domestic concerns, NTB levels have risen.

Second, smaller nations may employ less NTBs because the use of trade protection decreases economic welfare. According to economic theory, the lower is the level of protection; the higher is the economic welfare. On the other hand, larger nations may have an optimal tariff level.³⁶ Utilizing NTBs might increase national welfare.

Third, from a mercantilist perspective, the fear of reprisals from large nations might hinder the adoption of protectionist measures by small countries. Conversely, larger nations may impose NTBs knowing that retaliation from other countries may be self-defeating.

Fourth, in this study NTBs from larger countries may be more scrutinized. Fifth, larger markets tend to have larger industrial bases. The greater the number of industries, the greater the demand for protection across a wider range of industries. Thus, there would be a greater incidence of NTBs in larger markets.

Economic Conditions

The results did indicate slight significance at the 90% level. This leads us to assume there might be some correlation between recent economic performance and market distortions. There are many reasons for these tepid results. First, the use of a dummy variable as an indicator of recent economic conditions might be imprecise. The degree of economic disparity may be important and, therefore, a variable that measures

³⁶ Obsfeld and Krugman (2002), Caves, Jones and Frankel (2002) Kowalczyk (1989). Kowalczyk indicates that there are optimal tariff levels for large countries and that countries can gain from the employment of a tariff. Though tangential to this paper, he concludes that without transfer payments between countries.

the extent of economic change might yield stronger results. Second, the study includes the period of the Asian Financial Crisis. Nations in turmoil were accepting IMF conditions to remain integrated to the world economy while experiencing major reductions in output. This would prevent many nations with poor economic performance from using protective measures. Third, since trade policy is created over time recent macroeconomic conditions may not be a major factor in the legislating of NTBs. Fourth, the study did not evaluate the real effective exchange rate which probably should be included in the true model. Finally, the small sample size limited the degrees of freedom forcing this model to be less comprehensive. Thus, economic conditions could not be properly assessed.

Discussion

Countries as they become more democratic and develop larger markets increase nontariff barriers. Even under these circumstances, if tariff removal could counteract the build-up of NTBs, market access could still be increased. However, this should be a major warning sign to international organizations pursuing the removal of market access barriers. As tariff levels have dropped to low levels in most countries, we cannot expect future decreases to counteract the effect of additional NTBs. This study should be an ominous empirical indicator that NTBs are a greater threat to the future of global free trade than tariffs.

Results from this study also indicate that indices such as the Fraser Institute's Free the World and the Heritage Foundation's Economic Freedom of the World Index are biased in favor of countries with low NTBs and higher tariffs. Their indices that

purportedly measure “openness” are mainly composed of tariff rates. As the Heritage Foundation Index states, “if NTBs exist in sufficient quantity, or if there is ample evidence of corruption, a country's score based solely on tariff rates receives an additional point on the scale (from 1 to 5).”³⁷ This imprecise measurement though small has major economic implications.

The United States will provide aid through the newly established Millennium Challenge Account. The accounts will employ the Heritage Index as a proxy to measure openness. In order for nations to receive aid they must be “open”. Thus, developing nations that want United States foreign assistance and maintain protection are best advised to reduce tariffs and increase NTBs as the index fails to accurately assess NTBs.

Mexico, Argentina, El Salvador were outliers in this study with high changes in NTM incidence with low changes in democracy growth. These and other Latin American countries developed more “open” policies and became more democratic during the 1990s. The Washington Consensus preached that integration alone would bring prosperity. However growth rates over this period for Latin America was low. These results may indicate that as these countries lowered their tariff protection, domestic industries were hurt. Industries lobbied for protection. Since the government was committed to low tariffs the government employed NTBs. This may indicate why these countries were outliers, having higher changes in NTBs rates for any given change in democracy levels.

Reports addressing NTBs try to measure their impact in two ways: through the use of policy determinants and through price wedges between the world price and domestic price after factoring out transport costs, tariffs, etc. Future studies could be conducted where the dependent variable would be of price gaps by sector per country.

³⁷ Heritage Foundation website.

Though this would limit cross-country analysis as such aggregated data is limited to developed countries.³⁸ However, in order to assess the effect of interest groups, a new method of tabulating them by sector must be found.

This study's limited focus on the policy determinants is biased against countries that submit more data and legislation to UNCTAD and does not measure the extent to which NTBs may actually distort prices. Further research needs to be done in using a combination price wedge policy based approach areas. This study is by no means an exhaustive search into the causes of trade distortions. I believe there are other major considerations so far not discussed that distort trade policy. They were not incorporated in the model either because reliable statistics were not found or they could not be incorporated into the model due to a small sample size. These factors include the size of the industrial base, government autonomy, market access to your trading partner and current economic conditions.

Industrial Base

If it were assumed that industries lobby for protection, then the number and diversity of industries in a country would affect market access. In a country with only one industry there would be a very strong influence on the government to protect that industry or sector. Countries like the Ivory Coast with cocoa and Russia with natural resources face strong lobbies requesting assistance. Some support comes in the forms of access to land, tax incentives or assistance with infrastructure development. In other nations it is more direct in the form of subsidies or trade protection. I hypothesize that governments in nations with only one major industry or sector will face very little

³⁸ Using statistics from the Institute for International Economics for industrialized countries would be a starting point.

pressure to restrict trade in sectors where there is no industry. Thus, these countries will have fewer tariffs and NTBs. Conversely, countries with a broad industrial base will face greater lobbying for protection. Therefore, they will employ more trade barriers.

Foreign direct investment may also distort trade policy. As FDI seeks greater returns than it receives in its domestic markets, it may hanker for guarantees. FDI, especially in sectors that require a large capital investment (i.e oil and gas sectors), may request protection to ensure profitability. Countries may offer NTB protection (e.g. environmental legislation) to ensure investor confidence as the government may be restricted to raise tariffs by WTO regulations. Therefore, we would expect nations with large inflows of FDI in many sectors to have a large number of protective measures.

Government Autonomy

Government autonomy could loosely be defined as the extent to which the government can plan effective policy without the interference of politics or vested interests. No government is truly autonomous: nor should it be. The government to some degree reflects the values and the norms of the people residing within it. However, economists believe that monetary policy and, more broadly, macroeconomic policy should be autonomous. The government must be effective at what it intends to do and protected from the pressures to ensure it does not do what it should not.³⁹ The government should focus on the long-term welfare of its citizens rather than on short-term political gains. However, even in the United States where there is institutional knowledge in government departments, politics can determine the role of institutions and

³⁹ Przeworski and Limongi (1993).

therefore restrict their independence.⁴⁰ Trade policy should be independent to the greatest degree possible and will be distorted to the extent it cannot remain autonomous.

The author has found no studies or statistics measuring the extent of which government policies are autonomous. Therefore, it is not included in the analysis. It is believed that if data was available, countries with a high level of government autonomy would have very low levels of trade protection and vice versa.

Trade Distortion in Trading Partner's Markets

“If a country subsidizes trade, her trade partner should respond with a positive tariff-she should, in particular, not allow for unilateral free trade.”⁴¹ In a world of imperfect competition, without fiscal transfers between countries compensating for the losses due to liberalized trade, economists recommend the implementation of some tariffs. Furthermore, with the current mercantalistic view and retaliatory nature of trade liberalization, it would be expected that countries with restricted market access it would have neighbors with likewise. Governments often look at market access as a gift. Further research may indicate that countries that employ a high level of NTBs will have trading partners who recompense.

Conclusion

“No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except for all of the other forms which have been tried from time to time.” Winston Churchill

⁴⁰ Financial Times, February 3, 2003 and February 26, 2003. Charles Schumer, a New York Democrat, accused the Bush administration of politicizing the Fed Chairman's office and undermining his work in attempts to push through the Bush tax plan. The administration has also faced consternation from those within the government intelligence community that believe the government is politicizing national intelligence reports in order to support foreign policy objectives. Though not directly related to trade, these events illustrate that offices that were once assumed to be autonomous may not remain independent even within long-standing government institutional structures.

⁴¹ Kowalczyk, (1989), 558.

Does democracy facilitate free trade? Can international governments concurrently push free trade and democracy on developing nations? These results, indicating that as countries become more democratic NTB incidence increases, may lead one to believe that authoritarianism would be more conducive to free trade. In essence this report may give validity to Rodrik's argument. In the choice between economic integration and democracy he concludes that the ambitious agenda of integration will fail and nations must choose democracy.⁴² His view is too rigid. Nations can both push for democracy while reaping the gains to free trade.

Democracy is not anarchic freedom. There are precedents for limiting the scope of legislation. Nations are bound by constitutions that express restrictions to individual expression and choice. Legislation is often constrained by moral and ethical considerations and international law. An educated society knowing the limits of choice can function in an economically integrated world thus breaking Rodrik's trilemma. The international community must educate governments who in turn educate citizens on the benefits of free trade and democracy. Furthermore, the government must build institutional intelligence while striving to macroeconomic management autonomous. If the integration process is pushed too quickly and nontransparently, nascent democracies may implode.

The WTO's role must increase. First, they must convince governments that reciprocal free trade is beneficial. The WTO also must ensure that the citizens of reluctant nations understand. Secondly, the WTO must make all barriers to market access transparent. It is not just developing nations who need to change. The WTO's

⁴² Rodrik (2002).

current system of negotiating bound tariffs does not address the current problems of protectionism. Nations are bypassing the visible “route”-tariffs- and using nontariff measures as a major source of protection. Staiger and Bagwell believe that the WTO should create a bargaining forum where member states can trade market access commitments with guarantees that property rights over these commitments are safe from unilateral infringements.⁴³ In this respect, the WTO must create tools that can measure not only the market but the limiting effects on both NTBs and tariffs. The WTO must find instruments that measure both market access and total market. The WTO should be committed to monitor, verify and establish a multilateral framework to ensure market access.⁴⁴

This study produces no conclusive results indicating that developing countries will have even greater distorted policies as they become wealthier. However, as these markets increase in market size NTBs measures are shown to increase. In this respect, initiatives aimed at growing countries should focus on the concerns of limiting market access size. Hence, the WTO should have a third mission: monitoring high growth democratizing countries that are at most risk of using protection.

There is strong indication that growth in political freedom restricts market access. The world agenda must not falter as it strives to give citizens a voice in their government and access to cheaper goods and services. Educating governments and societies on the benefits and limits of both free trade and democracy and benefits is imperative while international organizations clarify the playing field.

⁴³ Staiger and Bagwell (1997).

⁴⁴ The WTO must go beyond negotiating Sanitary and Phyto-Sanitary measure (SPS) and Technical Barrier to Trade (TBT) and quantify their effects based on application in each country.

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Website Information

The Fraser Institute
<http://www.fraserinstitute.ca>

The Heritage Foundation
<http://www.heritage.org>

Polity IV Project
University of Maryland, <http://www.cidcm.umd.edu/inscr/polity/>

Transparency International
<http://www.transparency.org>

The United States Energy Information Administration
<http://www.eia.doe.gov/emeu/international/total.html#carbon>

Box 1: Nontariff Barrier Definitions

Registration, documentation, customs procedures- Any impediment to trade at the borders including unnecessary delays, arbitrary or inefficient inspection regimes, irregular duty enforcement, etc.

Levies and charges (other than import duties)- Internal taxation methods that are employed in a discriminatory nature to imported goods or services.

Import pricing- Laws enforcing the minimum or maximum price at which a firm can offer its product. This can often act as a tax.

Import prohibitions- The restriction of a product not justified by health, sanitary, security or environmental concerns. This restriction often leads to the problem of a 'slippery slope' because of the difficulty in defining is justified as a concern.

Import licensing- Specific authorization to import must be granted by the foreign government before imports may be received. These can be granted in numerous but often nontransparent methods.

Import quotas- Quantitative restriction on the number or value of imported goods that can enter a specific market.

Import surveillance- Additional customs forms that need to be submitted to document the product before it is imported. This usually delays and hampers access to foreign markets.

Import cartels (State trading enterprises)- Monopsonistic or monopolistic control of the import market (by the state or non state agencies)

Standards and other technical requirements- Documents which specify product characteristics including production, packaging, technical, testing, inspection, labeling methods and practices. These also include sanitary and phytosanitary regulations

Government procurement- Lack of transparency and competitive bidding for government purchases.

Local content schemes- Encourages use of domestic industry by limiting imports that do not make use of domestic inputs.

Import balancing requirements- this requires companies to export a specific amount of product in order to be given the right to import.

Pricing and marketing arrangements- Minimum price schemes and other marketing arrangements that can inhibit the ability of nations to enter a foreign market.

Trade Defense Measures not in Conformity with WTO- Trade defense measures such as anti-dumping, safeguard measures and countervailing duties that are not inline with WTO regulation. The threat of these instruments is not considered in most studies, but alone can be a deterrent to exporting nations. The high cost of defending an anti-dumping case is daunting and often the threat inhibits trade.

Export restriction- Usually utilized to support often unprofitable processing industries in domestic market. It lowering demand and price for their inputs and works like a subsidy to protected industry.

Subsidies- Given directly to industries or through tax incentives. Exports subsidies are banned in international trade.

Other- General polices that can distort or alter trade including exchange rate policy and interest rate policies.

Source: OECD (1997).

Box 2: Shortcomings of UNCTAD/TRAINS Database

The database measures core NTBs which are defined by UNCTAD as including one of the three listed below:

- Quantity control measures, excluding tariff quotas and enterprise-specific restrictions;
- Finance measures, excluding regulations concerning terms of payment and transfer delays
- Price control measures.¹
- Technical measures, sanitary and phyto-sanitary

There are numerous shortcomings to the UNCTAD database. First, NTB measures tend to be uneven because NTB coverage varies greatly by how much time UNCTAD manages to allocate on researching specific countries (rather than how many NTBs each country employs). The coverage does not include the degree of restrictiveness nor measure the value or volume of imports. Furthermore, NTBs that are exercised selectively are not added to the database and neither are all VERs (Voluntary export restrictions). Simply, UNCTAD data are frequency measures and lack an assessment on their impact on trade.

Second, UNCTAD receives its data from national sources, which utilize NTBs, under the assumption of this paper, to hide market access distortions. Most countries with the exception of Austria and Norway do not report tariff lines covered by NTBs.² Therefore, the database relies on the judgment of the researchers.

Third, NTB measures do not assess how the threat of implementation of NTBs including counter-veiling duties and anti-dumping measures affect trade deters imports. Therefore, countries which employ the use of these measures may experience a NTB measure higher than the one scored by UNCTAD.

Finally, UNCTAD database concentrates mostly on “border” measures. Internal market disturbances such as local content rules, tax concessions, subsidies, discriminatory government procurement and anti-competitive practices are not measured in the database. Furthermore, export measures, which affect the quantity of imports, are also left out of the database.³

¹ OECD (1997).

² OECD (1997).

³ Bora, Kuwahara and Laird (2002)

Box 3: Calculating the Effect of NTBs

Let the initial free trade competitive equilibrium price and quantity be P_0 and Q_0 respectively (in Figure 1).¹ An imposition of an NTB will shift in the import demand curve. As the effect will be different based on the type of NTB, it is unclear how the line exactly will shift. A standard or a local content requirement may swing the demand curve more steeply downward. Alternatively, an entire industry restriction would force the demand curve vertical upwards to the amount permitted.

There are two ways to examine this shifting. First, if price is held constant at P_0 then the quantity effect can be measured as the distance between the import level in the free trade equilibrium (Q_0) and the level demanded at P_0 after the imposition of the NTB (Q_2). Thus price would increase from P_0 to P_2 , the price needed to persuade consumers to buy the same level of imports as the initial equilibrium, P_0 .

Second, if the initial equilibrium price and quantity equilibrium is set at P_0 and Q_0 , respectively, an imposition of an NTB would reduce the quantity imported to Q_1 (assuming the supply curve is competitive). The new price would shift to P_1 , the price level for the new quantity supplied, and P_1' , price level for the new quantity demanded. If the NTB is a quantitative restriction given to domestic firms then P_1 is the price they will pay for the imported good and P_1' is the price they will sell in the domestic market. The difference between P_1 and P_1' is the quota rent or premium. The premium, if it can be assessed, is a measure of the size of the NTB.

There are six concerns when calculating the impact of the NTBs on a given market. First, the quantity of imports decreases and, second, the good price rises in the domestic market as mentioned above. Third, the imposition of an NTB changes the import demand elasticity. Most NTBs reduce the product's elasticity. A quota for example, may not reduce quantities imported greatly but it places constraints on the market which may become important when supply and demand forces change. Fourth, NTBs effects vary over time. NTBs are defined to relative benchmarks within an economy. As the exchange rate, supply and demand forces, or other market conditions change the impact of the NTB will vary. Fifth, there is often uncertainty in the implementation of NTBs which reduces the level of imports. For example, an exporter, not knowing if a specific quota limit has been reached or fearing the litigation associated with countervailing duties and anti-dumping cases, may reduce exports. Sixth, welfare and resource costs hurt the domestic economy. Rent-seeking for protection and related activities drains an economy. Moreover, administrative costs of NTBs, especially ones that are not very restrictive, are taxing on a government.

It is difficult empirically to quantify the effect. Deardorff and Stern state, "In general, even if it is possible to observe what actually occurs as a result of the NTB, this does not in itself measure only the NTB, but captures other extraneous information, such as the supply elasticity, as well. The preferable measure of only the NTB itself requires information from what can usually only be a hypothetical experiment, such as implementing the NTB while holding the import price constant. Only in very special circumstances -- specifically, if the supply of imports is both perfectly competitive and infinitely elastic -- will the two measures be the same."

Source: Deardorff and Stern (1997).

¹ This is drawn for a large country because the upward sloping supply curve assumes the nation has some effect over the world price for a good. A small country would face a horizontal supply curve as it cannot affect world price.

Box 4: Exporter's Concerns

Avocados and Mexico¹

"No science is immune to the infection of politics and the corruption of power." Jacob Bronowski, British scientist, author

Mexico is the largest producer of avocados in the world and the United States is the largest consumer. According to Randy "Duke" Cunningham, Congressional Representative from California, "Americans love avocado. On most of our national holidays and celebrations, such as the Fourth of July, Cinco de Mayo, Memorial Day, Labor Day, and Super Bowl Sunday, Americans make and enjoy the most popular use of the avocado—guacamole."² With such a love of Cinco de Mayo and all things American it is paradoxical that the United States fails to import cheaper Mexican avocados.

In 1997, the United States partially lifted its phytosanitary ban on Mexican avocados. Animal and Plant Health Inspection Service (APHIS) approval requires strict compliance with phytosanitary procedures to allow Mexican imports to northeastern states from November and February.³ Mexico only export only to Northeastern States in the winter citing concerns about pest infestation in warmer climates.⁴ According the USDA it, "reflects our commitment to basing agricultural commodity import decisions on sound science."

The ban had been in place since 1914 due to fears that a seed weevil infestation of Mexican orchards would invade farms in the US. Though the United States had a procedure to receive farm products that had a history if infestation, it failed to incorporate Mexican avocados in the agreement. With the introduction of NAFTA, Mexico confidently argued that the US was not abiding by GATT provisions necessitating that countries permit trade from low-pest-prevalent regions. During the 1997 Congressional hearings more than 60 percent of those commenting worked in the US avocado industry.

Mexico "won" some US market access with the partial lifting of the ban. However, since these imports need to meet vigorous inspection standards it fails to guarantee Mexican avocados access. Furthermore, the arrival of Mexican avocados is during the low season for US avocado producers, the decision is more of a cursory nod to NAFTA and GATT regulations than a large concession to Mexican farmers.

This is the classic case of the free rider problem. If healthy Mexican avocados are allowed into the United States, then US consumers gain, unambiguously. Their gain, according to economic theory, is greater than the loss of the avocado industry. However, the US avocado industry has a heavy lobby. As the potential cost savings by allowing Mexican avocados into the US market will not increase individual consumer savings tremendously, there are few consumer groups willing to lobby for the Mexican avocados. Consumers would welcome the lower price afforded by NTB removal, but will not petition the government for this welfare gain.

¹ USDA Foreign Agricultural Service (1997).

² Hearing Before the Subcommittee on Livestock and Horticulture of the Committee on Agriculture House of Representatives (2000).

³ USDA (1997).

Box 5: National Concerns

Concerns of the International Chamber of Commerce (ICC) in Thailand

In attempts to clarify Thailand's grievances with the US and the EU, the ICC wrote two policy statements. Nontariff barriers are at the core of ICC's grievances. Below is a summary of their concerns.

- Strategic protection of selective EU countries' agricultural sector through export subsidies, tariffs, quotas and other restrictions covering commodity imports from developing nations has been barring Thailand from unbiased market access. Additionally, Thailand is concerned that the United States "domestic farm subsidies will encourage overproduction, distort trade and cause world market price to decline. The Act authorizes the Agriculture Department to provide subsidies to the level that are higher than what were provided to US farmers over the past few years." These barriers obstruct access to world's largest market for the poorest countries' main exports.
- The EU's stringent and sometimes arbitrary standards on quality placed on imports are trade barriers distorting the market and depriving both Thailand and EU consumers of the benefits of free trade.
- The threat of anti-dumping and countervailing duties adversely affects Thailand's small and medium sized businesses. The cases require lengthy and expensive litigation which the exporters are ill-equipped to afford. Furthermore, they are not compensated if found in compliance, limiting the amount of potential exports.
- The General System of Preferences, though based on general applicability, non-discrimination and non-reciprocity, has become discriminatory in practice. Special conditions have been imposed favoring some developing countries over others, based on the domestic political agenda.
- Recurring modifications in food safety standards hinder exporters' ability to comply with current regulations and impeding exports. Furthermore, the frequent changes create increasingly intricate customs procedures that could lead to a reduction in both terms and volume of trade for both countries.

Source: ICC Thailand Statement to the European Union and ICC Statement to the United States.

Appendix 1: Variable Data-EU Tabulated as One Sample

Variable	Obs	Mean	Std. Dev.	Min	Max
ntm	68	10.91912	13.26363	0	63.5
corrupt	68	4.275	2.098498	.8	9.4
polity	68	5.888235	4.88383	-7	
ypercapp	68	5.454824	8.553921	.15554	35.01124
gdp	68	264.0824	1008.943	2.5	7678.7
econdum	68	.4852941	.5034996	0	1
lnntm	58	1.899883	1.291573	-.9162907	4.15104
lnrcrpt	68	1.341277	.4796656	-.2231435	2.24071
lnpol	57	1.968097	.4962491	0	2.302585
lngnp	68	3.520456	1.846121	.9162908	8.946205
lnyprcp	68	.7772056	1.35698	-1.860852	3.555669

Appendix 2: Variable Data-EU Tabulated as Many Samples

Variable	Obs	Mean	Std. Dev.	Min	Max
ntm	84	13.09048	12.92428	0	63.5
corrupt	84	4.827381	2.398159	.8	9.9
polity	84	6.54881	4.701589	-7	10
gnp	84	309.7381	945.6999	2.5	7678.7
ypercapp	84	8.460481	10.60784	.15554	35.01124
econdum	84	.452381	.5007166	0	1
lnntm	74	2.14518	1.25561	-.9162907	4.15104
lnrcrpt	84	1.446088	.5254841	-.2231435	2.292535
lnpol	73	2.003538	.5364811	-.356675	2.302585
lngnp	84	3.893431	1.920107	.9162908	8.946205
lnyprcp	84	1.163387	1.528385	-1.860852	3.555669

Appendix 3 EU as Tabulated as One Sample

Independent Variable	Dependent Variable: Nontariff Measure								
	1	2	3	4	5	6	7	8	9
LgCRPT	0.4133 0.2936				-0.044 0.311	-0.292 0.320	0.080 0.602	0.075 0.513	-0.309 0.292
LgPOLITY		1.023*** 0.166			1.038*** 0.164	0.906*** 0.174	1.057*** 0.281	1.220*** 0.281	1.063*** 0.195
LgGNP			0.272*** 0.078			0.227*** 0.094	0.265*** 0.092	0.228** 0.087	0.189** 0.090
LgYPRCP				0.258** 0.113			-0.213 0.267	-0.220 0.239	
Econdum								0.818 0.307*	0.815 0.307*
R-squared	0.0258	0.1707	0.1548	0.0768	0.171	0.2746	0.285	0.380	0.369
Observations	58	49	58	58	49	49	49.000	49.000	49.000

First Score is Coefficient
 Second Score is Standard Error
 Robust Scores Reported

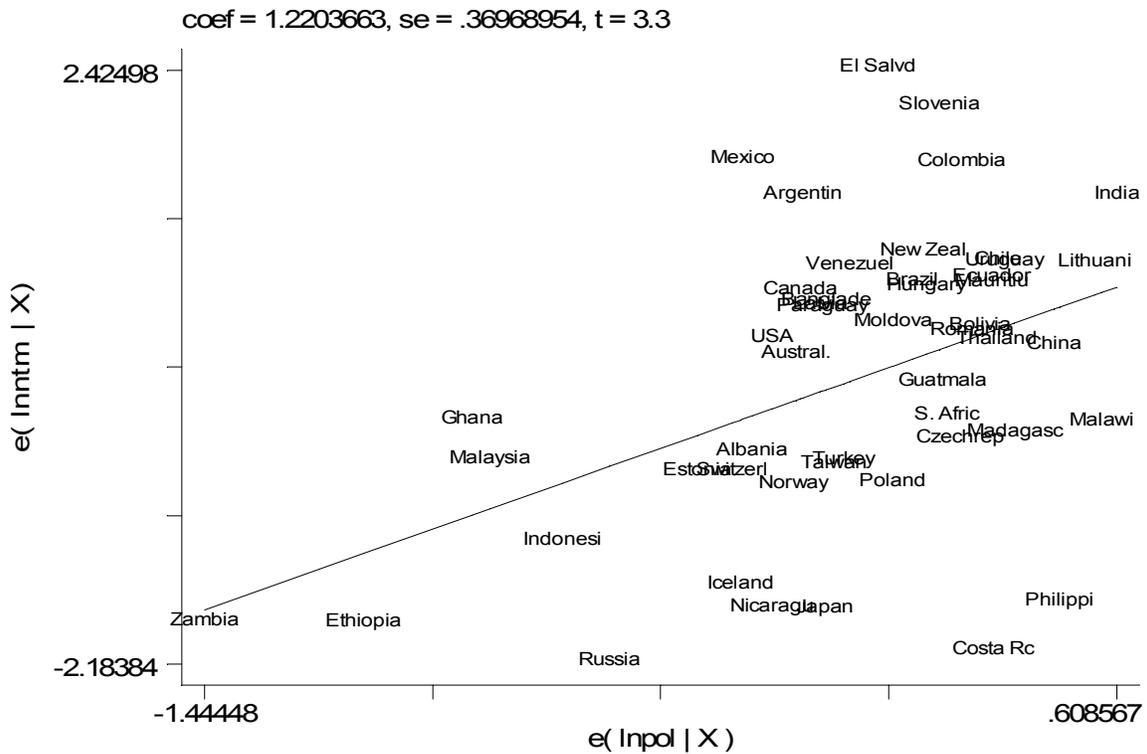
*= significant at 90%
 **= significant at 95%
 ***= significant at 99%

Appendix 4 EU Tabulated as Many Nations

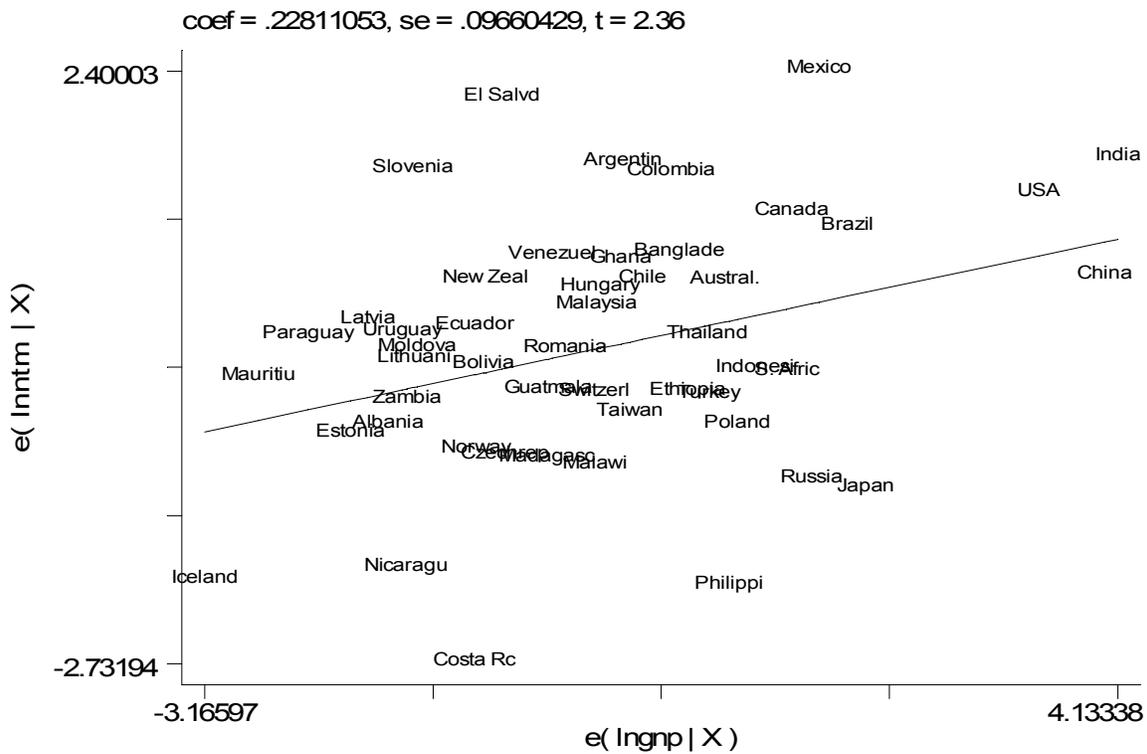
Independent Variable	Dependent Variable: Nontariff Measure								
	1	2	3	4	5	6	7	8	9
LgCRPT	0.785***				0.292	-0.024*	-0.099	-0.087	-0.006
	0.230				0.262	0.272	0.484	0.442	0.261
LgPOLITY		1.040***			0.897***	0.809***	0.787***	0.902***	0.925**
		0.205			0.241	0.182	0.226	0.233	0.190
LgGNP			0.311***			0.239***	0.231***	0.215**	0.224***
			0.064			0.082	0.091	0.085	0.087
LgYPRCP				0.363***			0.040	0.044	
				0.077			0.215	0.202	
Econdum								0.815**	0.548**
								0.251	0.249
R-squared	0.117	0.218	0.225	0.203	0.231	0.346	0.347	0.392	0.391
Adjusted R-Squared									
Observations	74	65	74	74	65		65	65	65

First Score is Coefficient
 Second Score is Standard Error
 Robust Scores reported

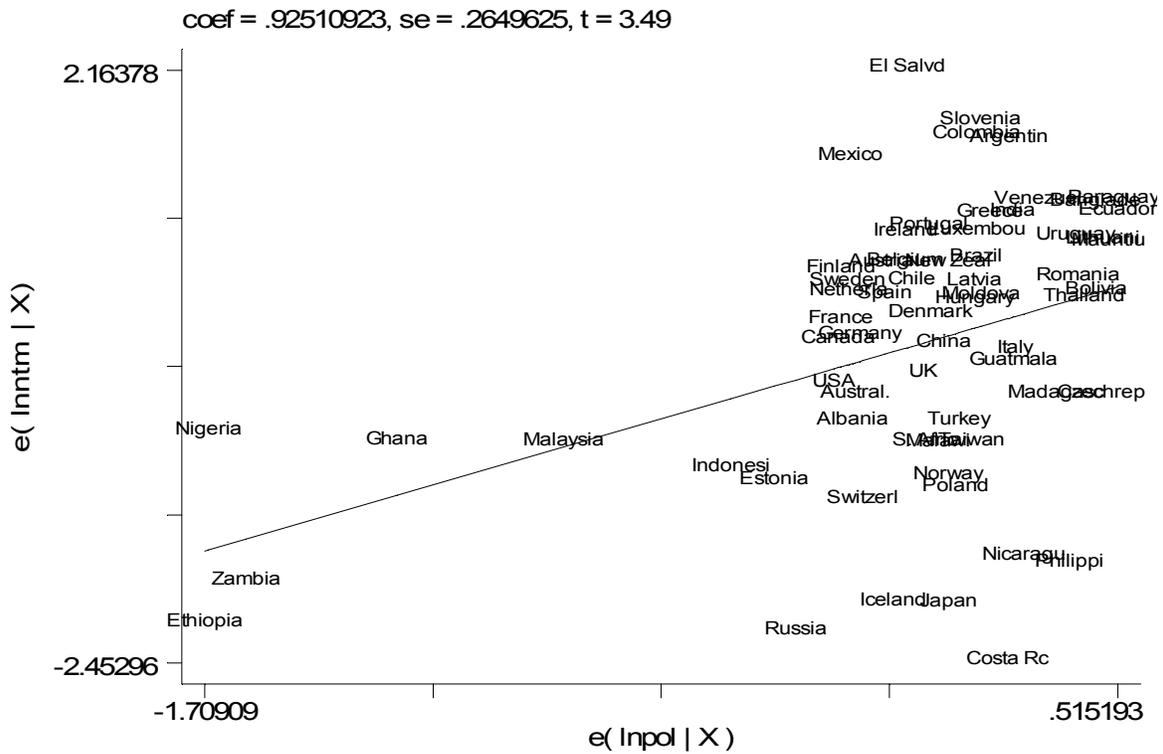
*= significant at 90%
 ** = significant at 95%
 ***= significant at 99%



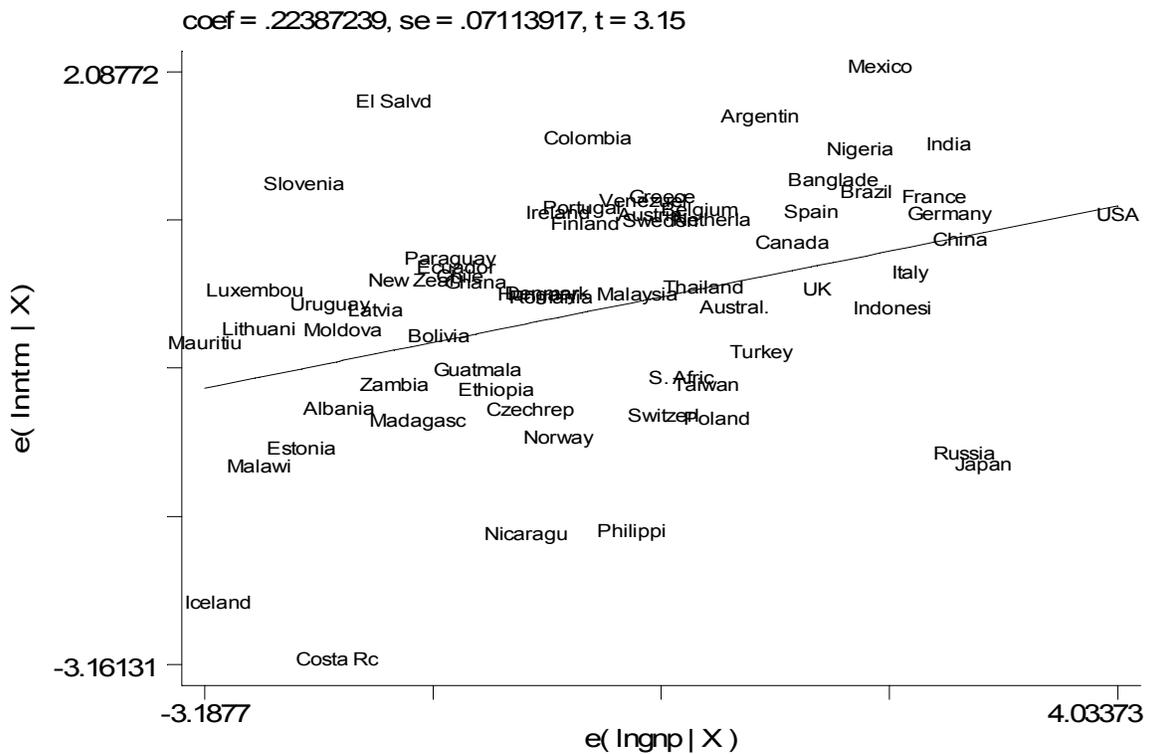
From Appendix 3 EU as Tabulated as One Sample Regression 9



From Appendix 3 EU as Tabulated as One Sample Regression 9



From Appendix 4 EU as Tabulated as Many Samples Regression 9



From Appendix 4 EU as Tabulated as Many Samples Regression 9

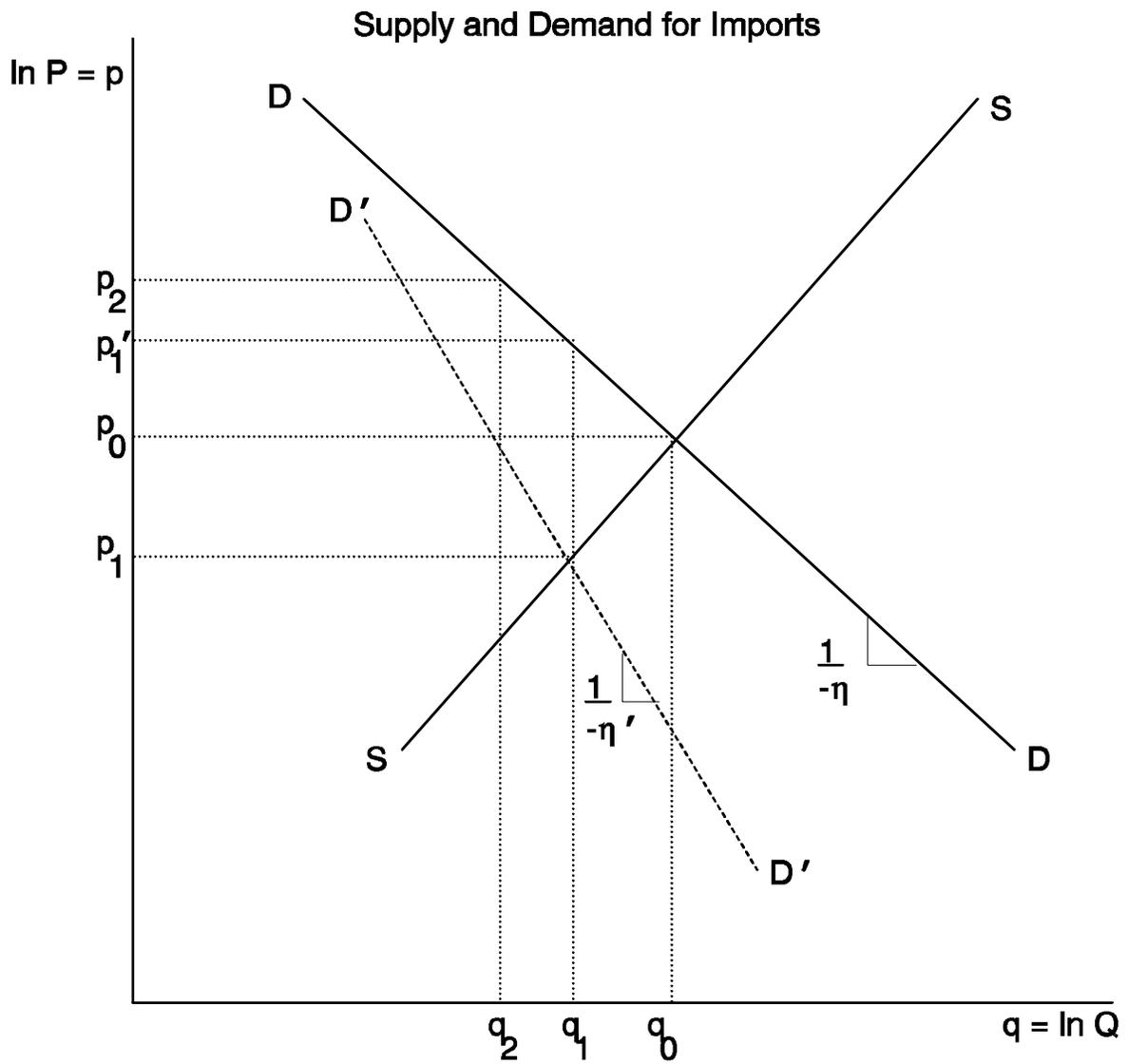


Figure 1

The Price and Quantity Effects of an NTB

THE POLITICAL TRILEMMA OF THE WORLD ECONOMY

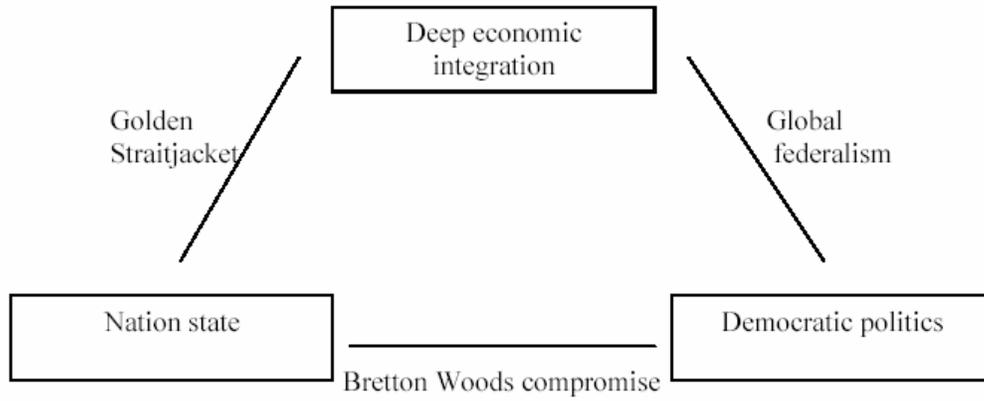


Figure 2- Pick two, any two.
Rodrik (2002).