



Trade Policy Analysis

Building capacity for informed and credible analysis

William Powers

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The views expressed here are solely those of the presenter. This presentation is not meant to represent the views of the USITC or any of its Commissioners.



Thought experiment

Credible and relevant analysis enables informed debate

- Imagine that you provide trade analysis to U.S. policy makers
- How do you build capacity to analyze emerging trade and policy priorities?
- Numerous potential priorities:
 - effects of offshoring and overseas investment
 - effects of trade on U.S. workers and households
 - barriers to U.S. exports and investment (tariff and nontariff measures)
 - bilateral trade agreements
 - global value chains
 - effects of trade on different types of companies (e.g., SMEs)
 - currency valuation
 - the digital economy
 - competitiveness of specific industries, etc. etc. etc.



Where to aim new analysis?

- Analysis is most useful if it:
 - Is on a **relevant** topic
 - Provides the **detail** important to policy makers
 - Tools to analyze effects of trade on different types of firms or on different U.S. regions only available in last 5–10 years
 - Is reasonably **timely**
 - Development is much faster if literature provides guidance
 - Is credible
 - Based on sound economics with transparent assumptions and readily available data
- Best case scenario:
 - Apply established methodology to new issue, country, type of barrier, etc.
 - Unfortunately, not often this lucky



Example: Effects of Non-Tariff Measures



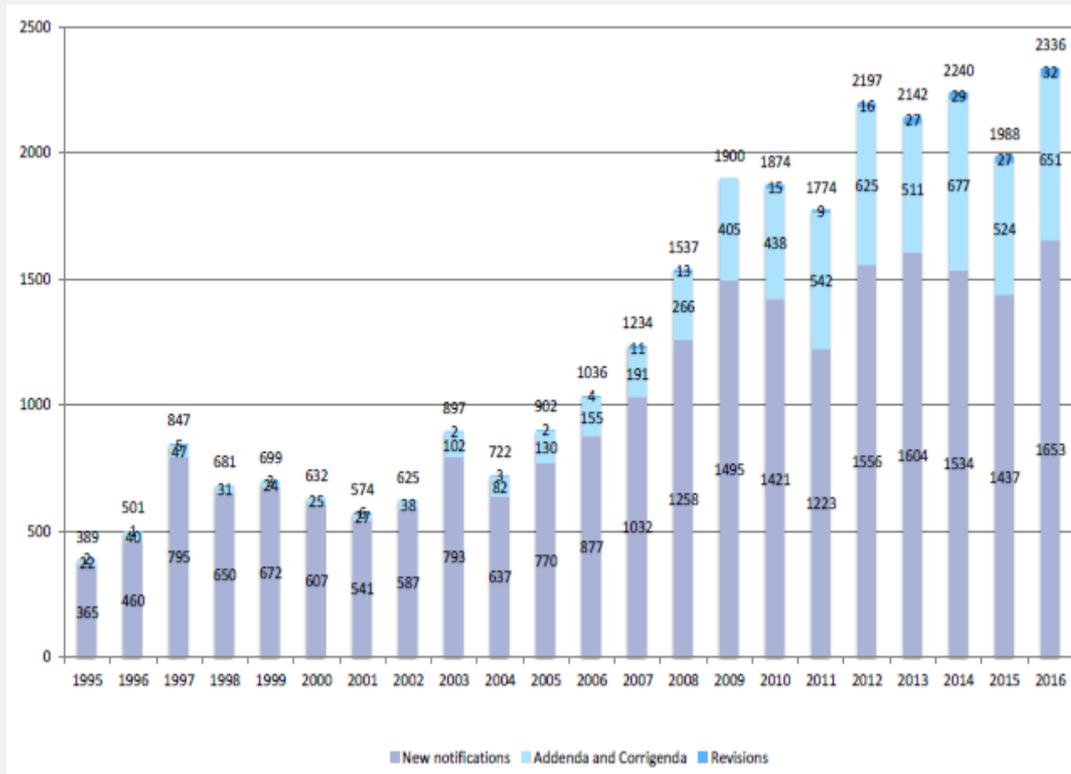
Non-Tariff Measures (NTMs)

- Demand for analysis high: **NTMs matter**
 - Foreign barriers affect U.S. competitiveness
 - Incidence of NTMs appears to be increasing over time
 - Studies agree that magnitudes of NTMs exceed tariffs
 - Trade agreements increasingly address NTMs
- Ability to supply analysis: **Specific to each measure**
 - Limited NTM data
 - No common methodologies to estimate:
 - Impact on trade and investment, or
 - Ability of policy to reduce NTM effects (“actionability”)
 - Best analysis may still require expert judgement



Demand is high: NTM notifications are rising

Total TBT notifications to the WTO, 1995–2006



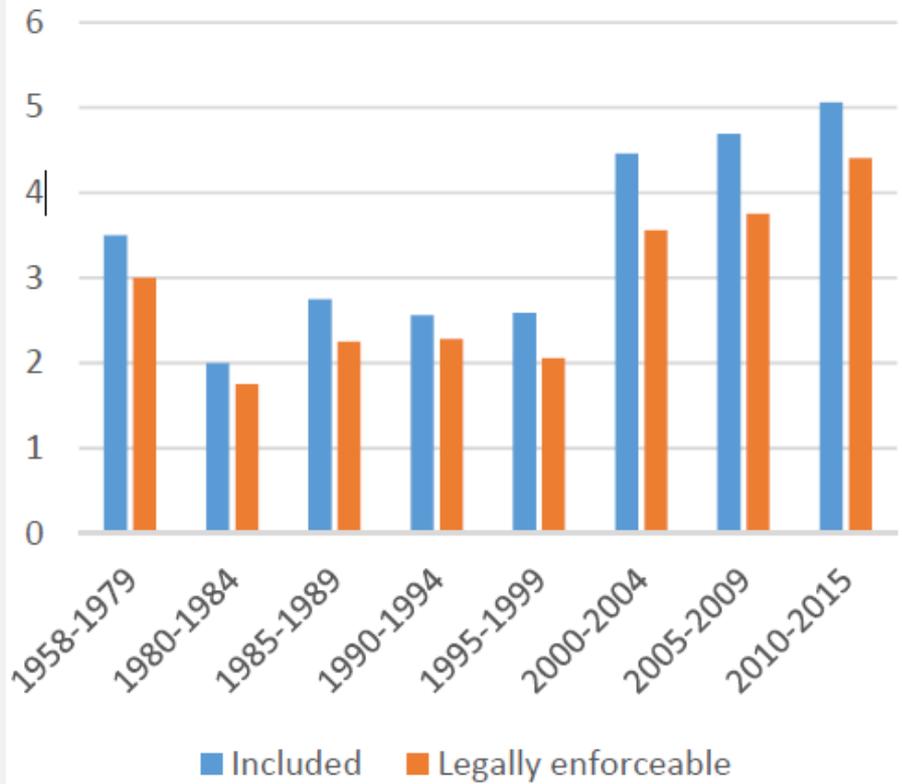
- The number of new TBT notifications tripled in 15 years
- Largely due to increase from developing members

Source: WTO, 22nd Annual Review of the TBT Agreement (2017)



Demand is high: Trade agreements increasingly address NTMS

Average number of behind-the-border measures included in FTAs over time



- Agreements are increasingly addressing many types of NTMs
 - Border measures (e.g., tariffs, customs, SPS)
 - Behind-the-border measures (e.g., competition policy, investment, IPR)

Source: Hofmann et al., “Horizontal Depth: A New Database” (2017)



Ability to supply analysis: Limited Data Availability

- Data on measures is limited and has not been collected for very long.
- For example, UNCTAD Trains database
 - Data for most countries not available before 2012
 - No NTM information for most services
 - Indicates the presence of an NTM but not its magnitude
- Good news: Trade restrictiveness indexes are increasingly available



Ability to supply analysis: Judging effects of NTMs

- Even when data are available, it can be difficult to judge the effect of any given measure
 - A pre-shipment inspection could take hours or months
 - A laboratory testing requirement does not indicate if sufficient laboratory capacity exists
 - The process of certifying the compliance of a standard can be more onerous than complying in the first place



Numerous Methods For Quantification

- Price Gaps
 - How much do Fire Blight SPS measures increase the price of Fuji apples in Japan?
- Quantity Gaps
 - Is low market share informative about the effect of an NTM?
 - Agriculture in USITC (2009) and USITC (2012)
- Gravity models
 - What do reduced trade flows tell us, after controlling for characteristics of importing and exporting country
 - Large literature: Kee *et al.* (2009), Fontagné *et al.* (2011), Egger *et al.* (2015), for example.



Estimated Barriers Vary Widely

- Different methodologies yield different results: best choice will depend on specific issue
- Important to examine alternatives and be transparent about limitations
- Ground truth is an important reality check

AVEs in the EU (%)	Dean et al. (2009)	Berden et al. (2009)	Fontagné et al. (2013)	Egger et al. (2015)
Agriculture	48–68		48	16–25
Processed food	36	73		34–48
Motor vehicles		27		19
Electronics		7		2–19
Pharmaceuticals		10		21–29
Banking services		32	51	2
Insurance services		19	45	7

Source: Berden and Francois, “Quantifying Non-Tariff Measures for TTIP” (2016)



Calculating benefits depends on assessing “actionability”

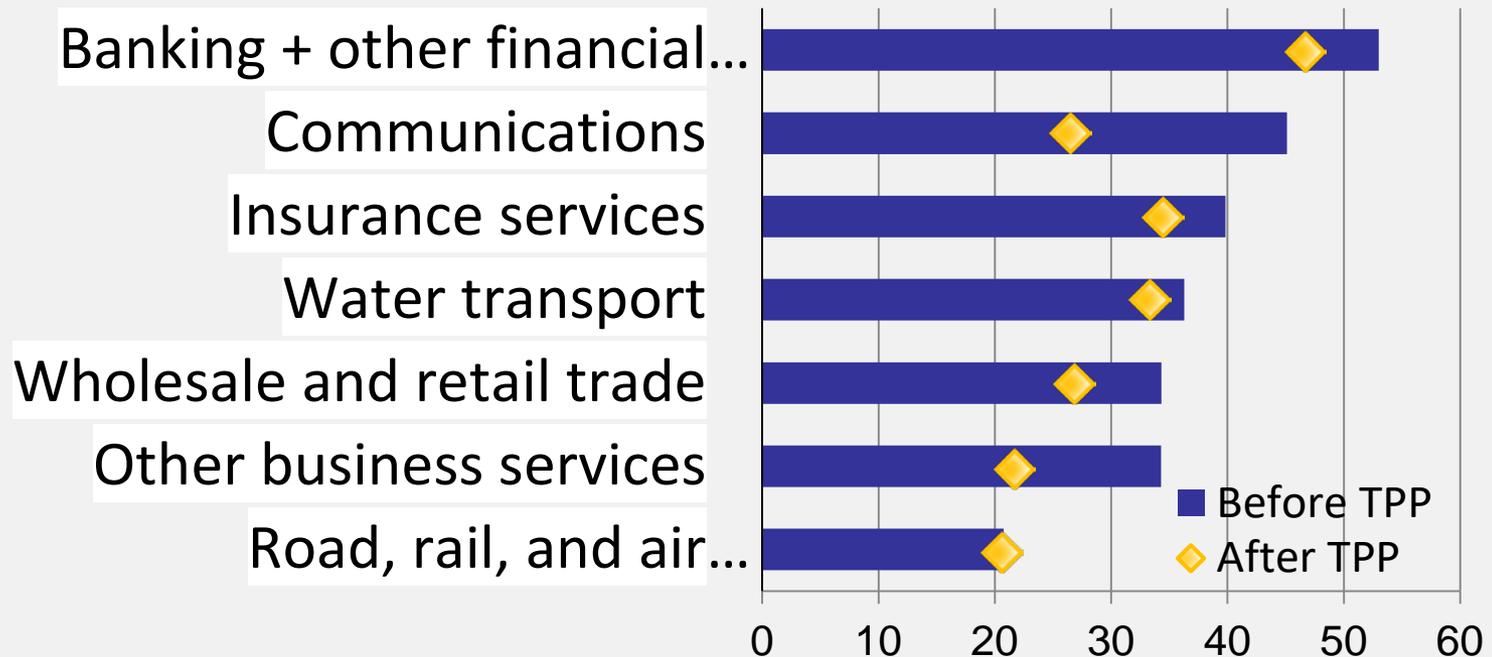
- Not all NTMs can be addressed or aligned
 - “Some are driven by geography, language, preferences, culture, or history” (ECORYS, 2009)
- The presence of an NTM does not mean provisions are actionable.
 - ECORYS (2009) finds about 50% of NTMs or regulatory divergence in US and EU is actionable.
 - Petri and Plummer (2016) estimate that TPP could reduce 56% of goods and 38% services NTM barriers



Putting it all together: Reduction in foreign services barriers from TPP agreement

- Services barriers in TPP countries are high
- TPP agreement could substantially lower services barriers

AVE costs faced by U.S. exporters to TPP countries



Source: USITC, *TPP* (2016); Note: Average across all TPP countries



USITC publications examining NTMs

- Recent

- *Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions* (May 2016)
- *Trans-Pacific Partnership Agreement: Likely Impact on the U.S.* (May 2016)
- *Economic Impact of Trade Agreements* (June 2016)

- Forthcoming

- *Aluminum: Competitive Conditions Affecting the U.S. Industry* (July 2017)
- *Global Digital Trade 1: Market Opportunities and Key Foreign Trade Restrictions* (September 2017)



Conclusions

- Defending *any* position on trade requires accurate, credible estimates of the effects of trade policies
- The economics profession can help by providing timely, relevant models with the level of detail required by policy makers
- Today, economists routinely incorporate policy-relevant detail and determinants in their analysis
 - In part responding to policy makers, in part because this is necessary for good analysis



Contact Information

William Powers

Chief Economist and Director, Office of Economics
U.S. International Trade Commission
Washington, DC

william.powers@usitc.gov