COVERING 94% OF THE WORLD GDP AND 83% OF THE WORLD POPULATION

MARKETS ▼▲ FREEDOM ▼▲ COMPETITION

International Trade Barrier Index 2019

Executive Summary

Philip Thompson
Author

Lorenzo Montanari
Editor

With Contributions by:

Colin Grabow (USA) • Galuh Hatta (Indonesia) • Yuya Watase (Japan) • Matthiaus Bauer (EU)
Anuki Premachandra (Sri Lanka) • Mauricio Freitas Bento (Brazil)

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Table of Contents

Executive Summary

After observing rising trade tensions across the world, the need was made clear for a tool that could center the debate on trade barriers—the diversity of forms they come in, and the role they play in restricting individual choices. The Trade Barrier Index is the response to that need. It stands as sister index to the International Property Rights Index, both produced by Property Rights Alliance and dedicated to advancing free markets. In total the TBI evaluates trade restrictions in 86 countries; representing 83 percent of the world's population, responsible for 91 percent of all traded goods and services, and 94 percent of world GDP.

Trade occurs between individuals, between consumers and producers, allowing supply to meet demand without prejudice of where they may come from on the globe. In this manner the freedom to trade compliments other natural rights such as the freedom to speak or the to pursue happiness. Unhampered by restraints, trade allows individuals to exchange ideas, social customs, goods, and services on mutually beneficial terms they determine. Trade encourages the most efficient use of resources and rewards innovations that result in value added—giving meaning to each action in the economic weal.

State governments, a third party in these exchanges, generally honor and protect the freedom to trade within their own borders. When trade is international, however, they revert to an outdated rulebook utilizing tariffs in an effort to manage growth and ultimately human interaction. Other regulations to standardize product imports or restrict foreign businesses also impede free-exchanges, these are known as service restrictions and non-tariff measures.

The Trade Barrier Index evaluates countries on their use of the most direct barriers to trade: tariffs, non-tariff measures, services restrictions, as well as their ability to facilitate trade.

The Facilitation component of the Index were chosen based on their implicit connection to protecting the freedom to trade. Its subcomponents are: property rights, logistics, digital freedom, and participation in Regional Trade Agreements.

A special thank you to the authors of the Trade Barrier Index case studies included in the report. The TBI exists to give a high-level picture of where trade barriers are. The case studies describe how they impede interactions on the ground and how proponents organize to keep them in place. A few are able to celebrate reductions in trade barriers and how they were achieved.

Results

The 2019 TBI ranks a total of 86 countries on their use of trade barriers (figure 1). The average TBI score is 4.0 on a 10 point scale, with 10 indicating the highest use of trade barriers. The seemingly low median score only highlights the fact that heavy use of trade barriers are generally an exception rather than a norm to be tolerated. The median score for tariffs is 5.17, Non-Tariff Measures 1.87, Services Restrictions 4.38, and Facilitation is 4.57 (figure 2).

2019 TBI Scores and Rankings

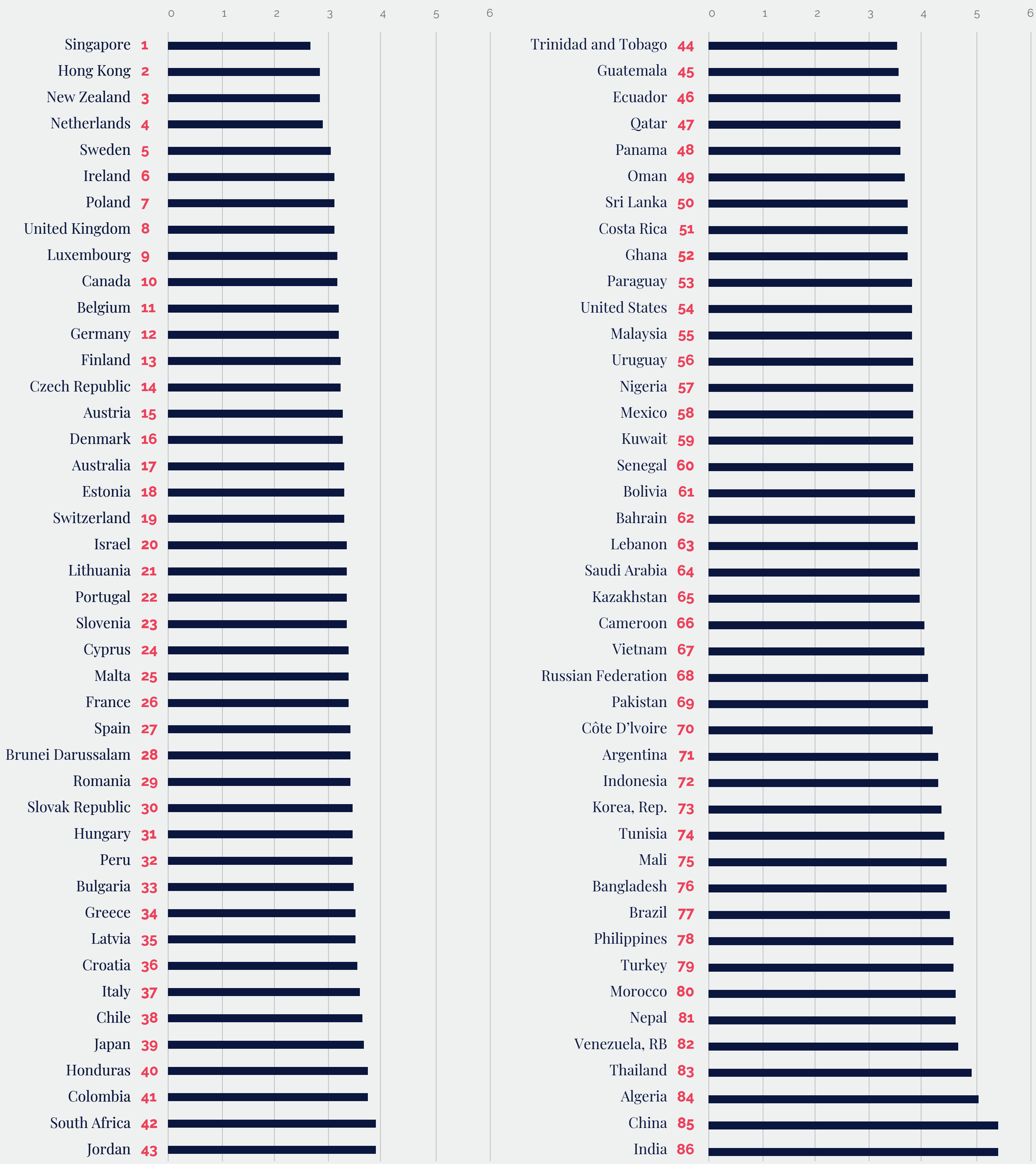

Figure 1. 2019 TBI Scores and Rankings

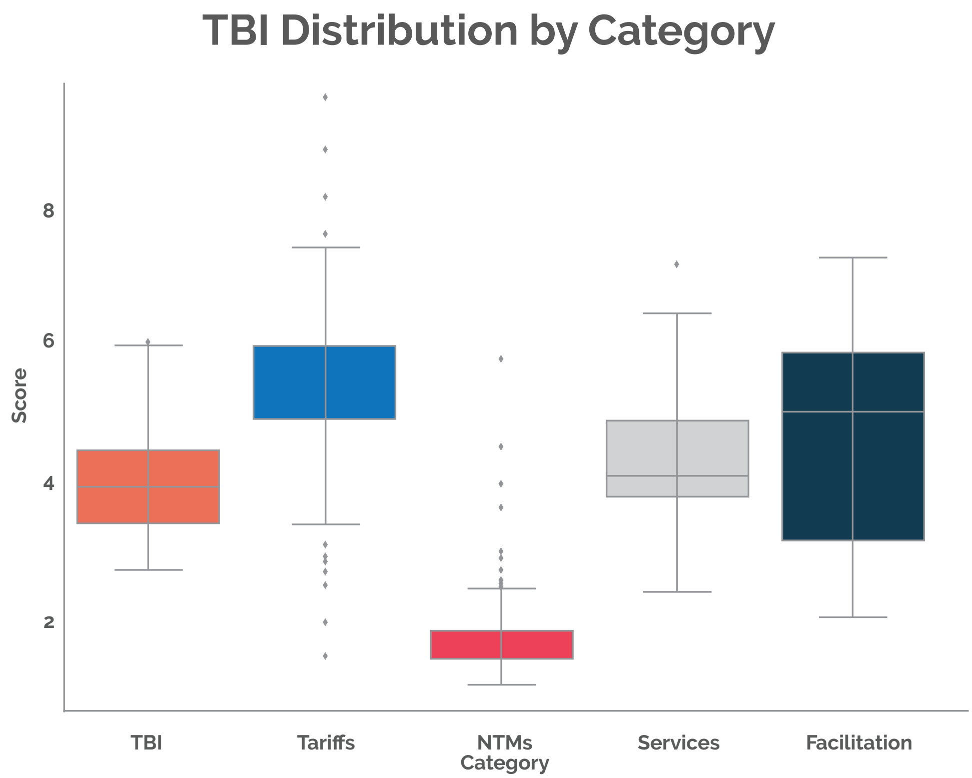

Figure 2. TBI Distribution by Category

Singapore with a TBI of 2.71 and Hong Kong with a TBI of 2.85 lead the index as the world's premier examples barrier-free trade. Both charge absolutely no duties on imports. They have very low scores for non-tariff measures (1.68 and 1.53), identical scores for Services Restrictions (4.04), and below average scores for Facilitation (3.18 and 4.30). Hong Kong is second due to the relatively small number of trade agreements it has signed resulting in a high facilitation score; however, it leads in the tariff component slightly because

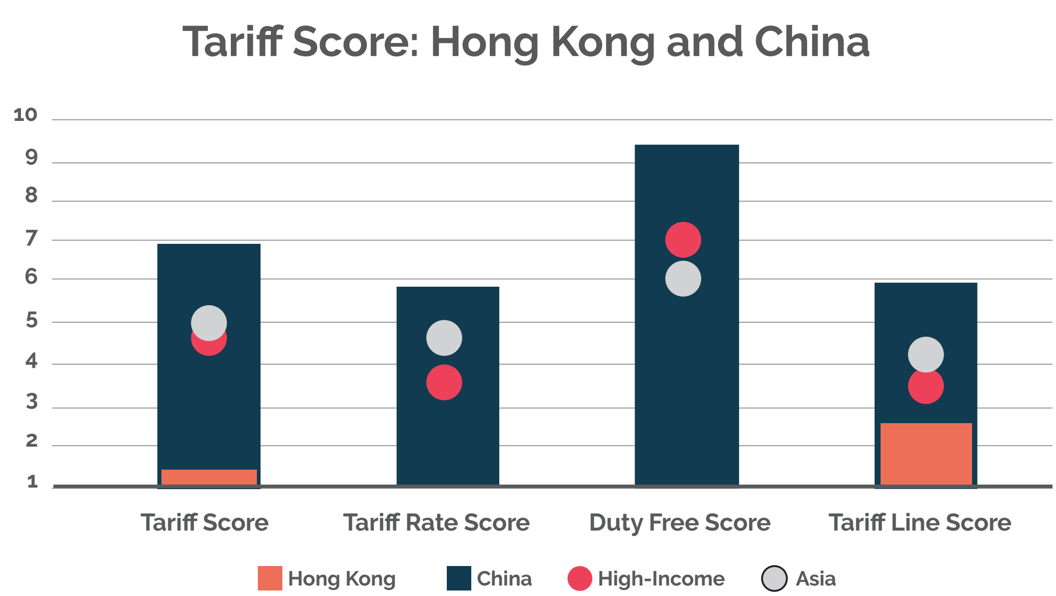

Figure 3. Tariff Score: Hong Kong and China

Hong Kong has less tariff lines (figure 3). Being second shouldn't detract from Hong Kong's ability, enabled by its free-trade orientation, to serve as a center for free speech and criticism of the central government in Beijing. For more information see "Free Trade and Free Minds: Laissez-Faire Hong Kong Fights for Freedom" in the full TBI report.

Paradoxically, mainland China comes in second to last with a TBI score of 5.97 in the Index while India is the worst offender of trade liberalism at 86th with a score of 6.02. Their tariff scores are 8.12 (83rd in the world) for India and 6.81 (76th in the world) for China, both are far above the world average for tariffs considering the standard deviation for the range is 1.36.

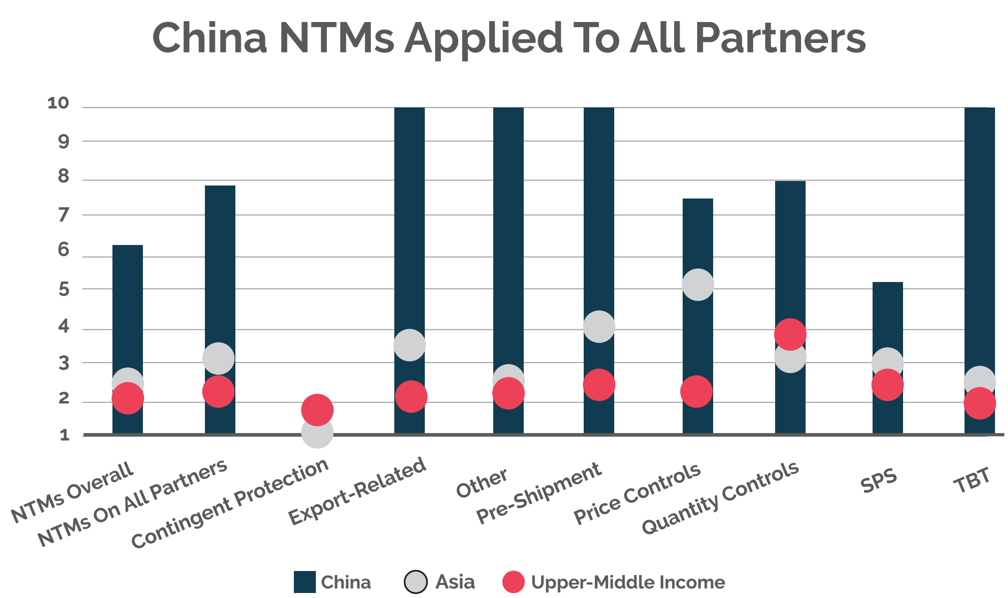

Figure 4. China NTMs Applied To All Partners

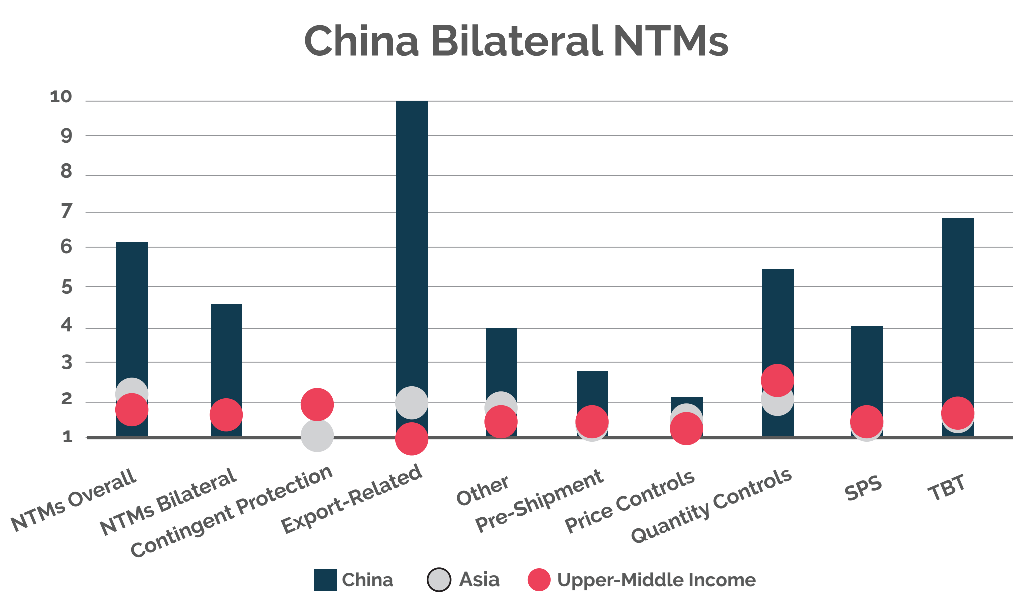

Figure 5. China Bilateral NTMs

The Non-Tariff Measure score is split into two components: those Applied to All Partners and those Applied bilaterally, each composed of the same 10 categories identified by UNCTAD-TRAINS database. China is the most prevalent user of Non-Tariff Measures with a score of 5.79, followed by the United States with a score of 4.50. China has the worst score for export-related, other, pre-shipment and TBT non-tariff measures Applied to All Trade Partners (figure 4); as well as export-related NTMs Applied Bilaterally (figure 5).

Both China and the U.S. deploy an astronomical number of NTMs compared to the rest of the world, over 7,000 for China and over 6,000 by the United States. Before scaling for the TBI the median number of NTMs is only 502, only 7 countries deploy more than 2,000 NTMs.

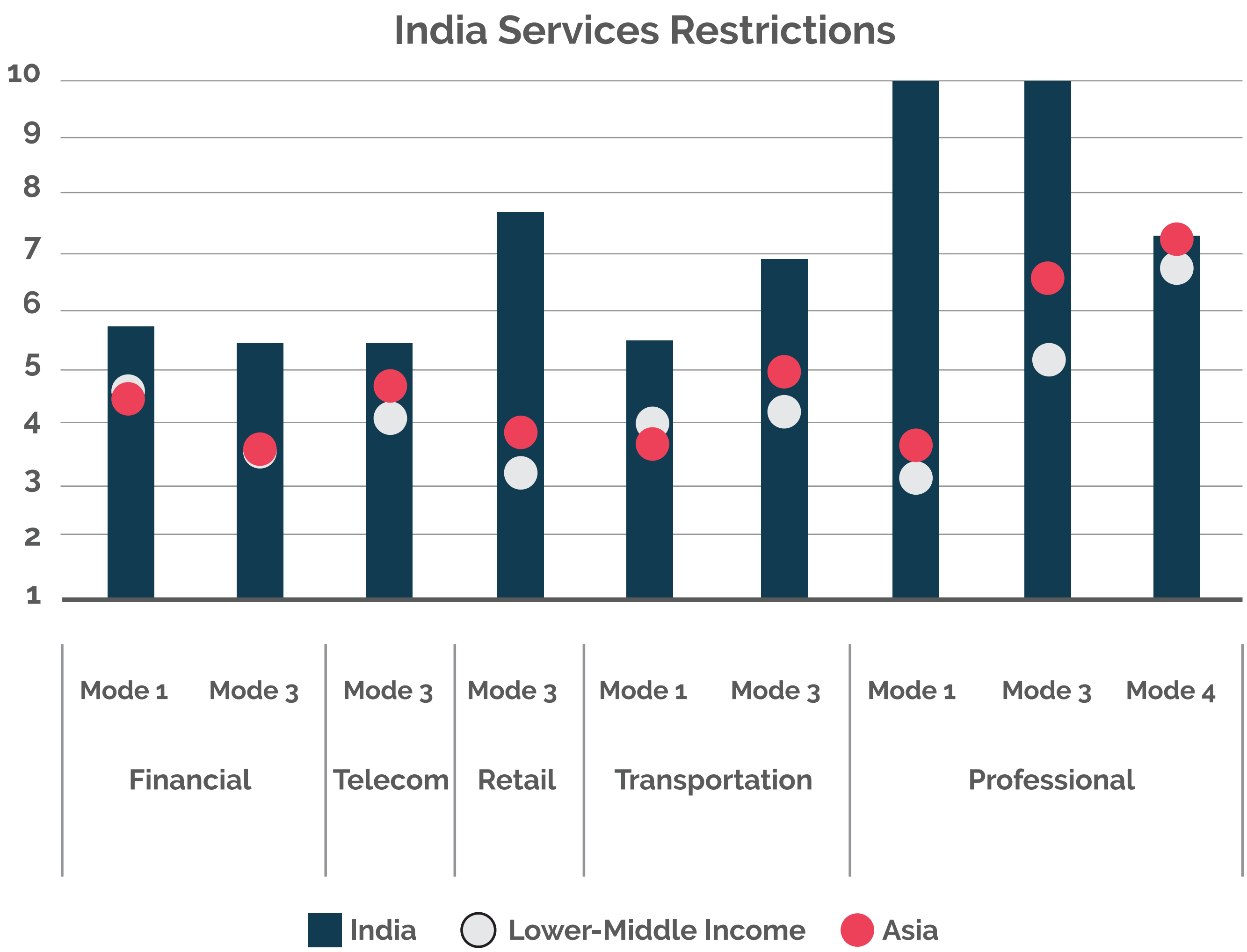

Figure 6. India Services Restrictions

Services are quickly becoming the driving force of many advanced economies, certainly that is the case in the United States which has the world's largest services trade surplus. The Services Restrictions measure in the TBI classifies barriers in the category by industry affected and by the service mode according to the General Agreement on Trade in Services. India at 7.17 overall has the worst scores in the component, mainly

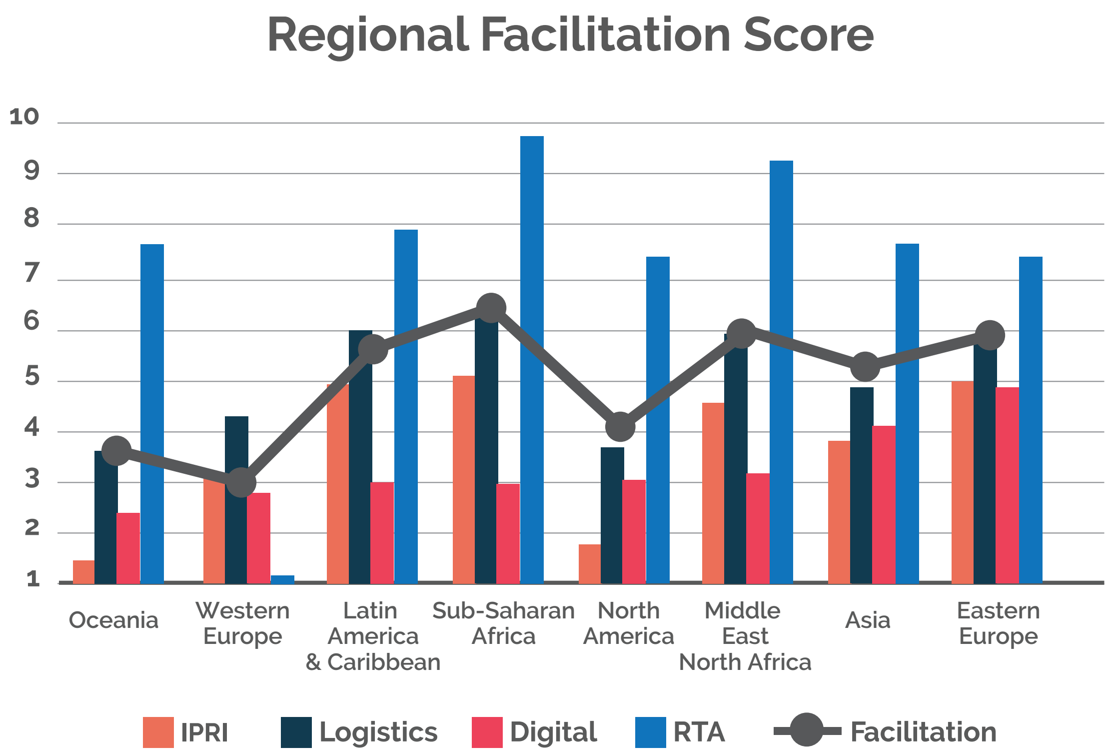

Figure 7. Facilitation Score By Region

in restrictions to dissuade foreign professionals (Mode 4) from working and opening business of their own (Mode 3) in the country (figure 6).

Facilitation, the final component of the TBI, incorporates property rights, digital trade restrictions, logistics, and participation in regional trade agreements. Together they ensure individuals can own their property, conduct e-commerce, and utilize transport infrastructure to ship and receive goods from the world (figure 7).

Figure 8. Digital Trade Restrictions

It was particularly important to include digital trade restrictions due to the recent onslaught of countries promoting digital service taxes, excessive privacy regulations, as well as data localization measures. The worst abusers in this category are authoritarian regimes like China (74th), Russia (82nd), and Vietnam (81st), at the end are also France (77th) and Germany (73rd) who are not usually associated with such regimes (figure 8) yet advocate for digital trade barriers in Europe.

Trade Barriers by Income and Regional Groups

Countries were organized according to their World Bank income classification and their regional location.

INCOME CLASSIFICATION

Overall the High-income economies have the fewest trade restrictions identified by the TBI and trade restrictions increased in order of income with the Low-income countries deploying the most trade barriers (figure 9). The high scores for Low-income countries are mostly attributed to high tariff scores, weak facilitation of property rights, membership in few trade agreements; as well as market entry restrictions on foreign businesses.

The only category in which the opposite occurred is in NTMs where Low-income countries have the least active measures. Most NTMs occur as Sanitary and Phytosanitary (SPS) regulations or Technical Barriers to Trade (TBT), this is true in all income categories, except on a different scale – in Low and Lower-Middle income countries the average number of TBT measures is only 179 while High-income and Upper-Middle income economies the average number is 383.

The larger number of NTMs in rich countries may indicate a greater institutional capacity to regulate imports. However, rich countries are known to use such measures in a protectionist fashion to block imports of competitive agricultural goods on grounds such as consumer safety that leave little recourse for affected industries. For instance, the EU deploys a number of SPS measures restricting the ability to import genetically modified food and live animals. The measures have resulted in a de facto moratorium on the products despite evidence that the regulations do not improve safety and only serve to protect vested interests. The widest gap between Low-income and High-income economies occurs in Facilitation where the difference is 3.67 points. The greatest variation in scores (figure 10) occurs in the Upper-Middle income group where the best performer is Romania, the only member of the EU in the group. Many other members in the group are also the world's worst abusers of the trade barriers overall China 85th, Algeria 84th, Thailand 83rd, Venezuela 82nd, Turkey 79th, and Brazil 77th.

TBI BY REGION

According to regional classification (figure 11) Oceania and Western Europe utilize trade barriers the least. They also have similar institutions and historical roots. Oceania is New Zealand and Australia while Western Europe is composed of the members of the European Union plus Switzerland. They are followed closely by North America which is Canada and the United States.

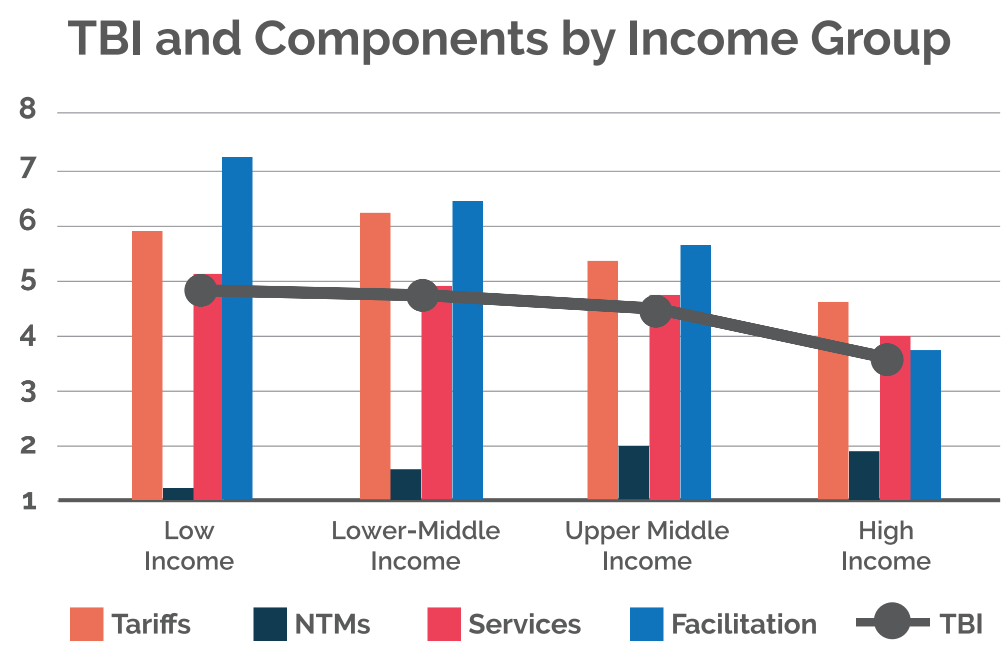

Figure 9. TBI and Components by Income Group

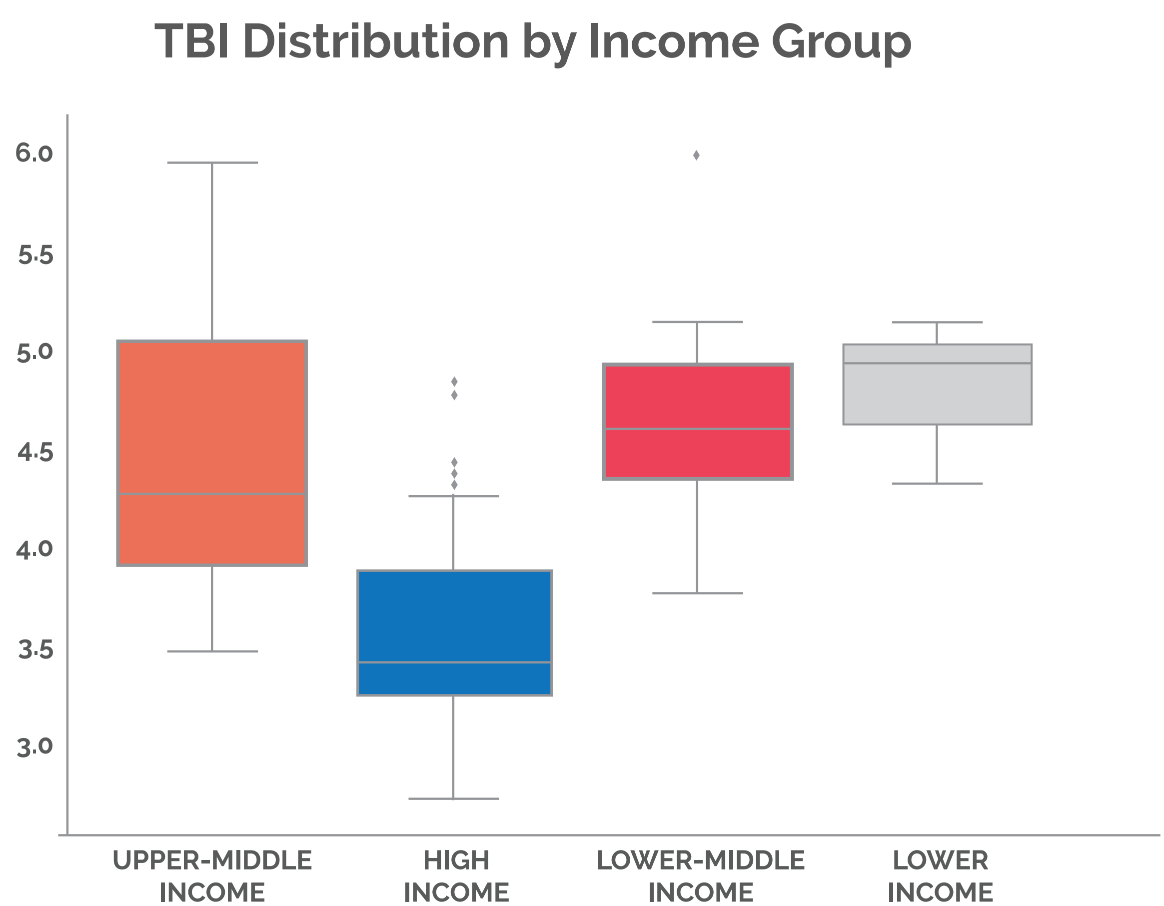

Figure 10. TBI Distribution by Income Group

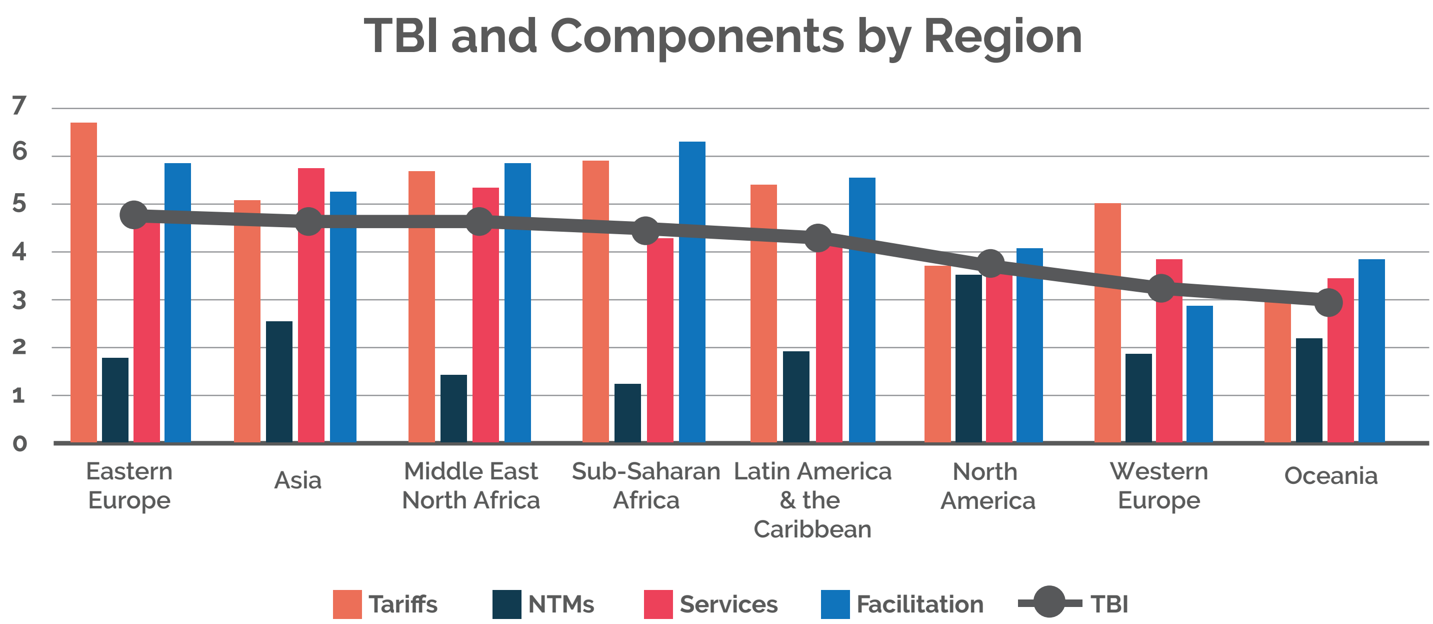

Figure 11. TBI and Components by Region

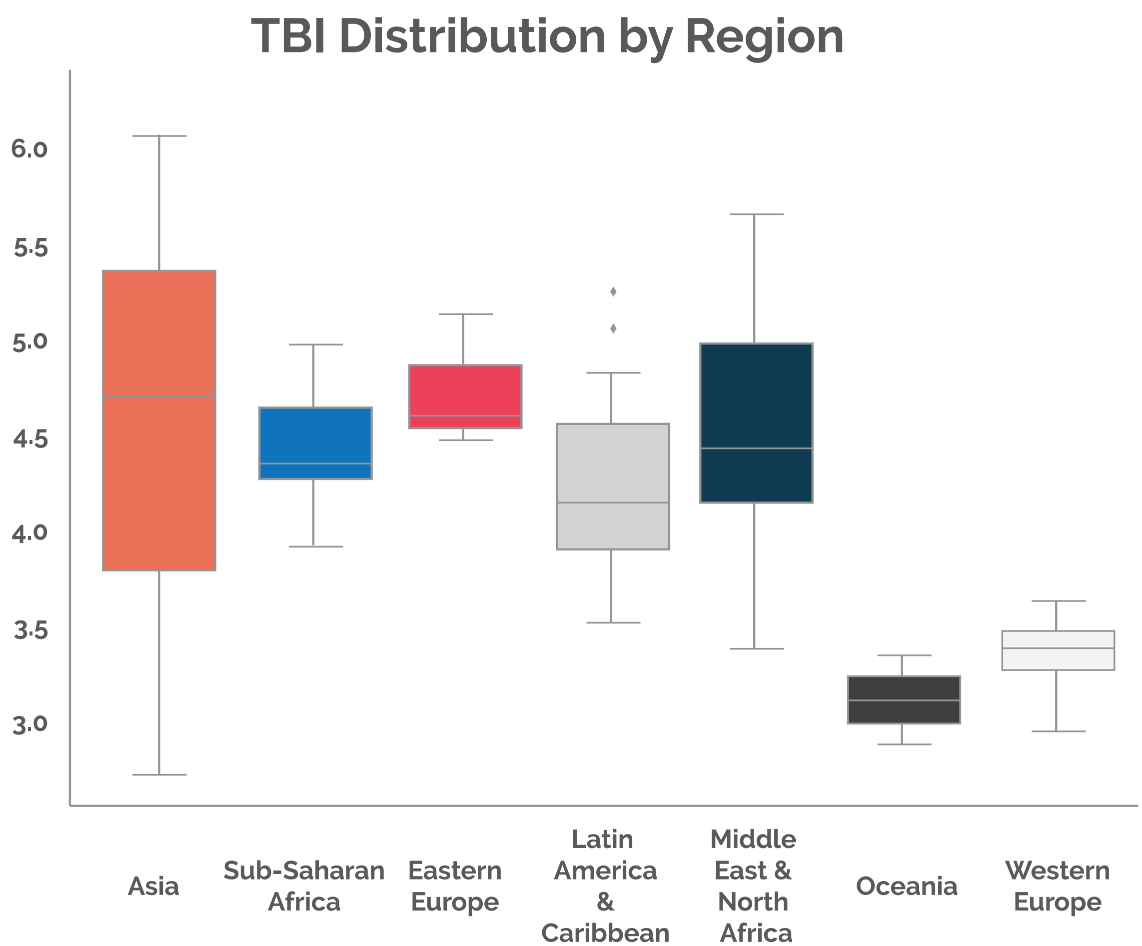

Figure 12. TBI Distribution by Region

Regions with the highest use of trade barriers are Eastern Europe, which includes Russia and Kazakhstan, and increasingly authoritarian Turkey; followed by Asia which includes China and India the last two countries in the TBI.

Asia is also home to Hong Kong and Singapore, the leaders of the TBI, allowing it to display the widest variance in scores (figure 12). In Western Europe, where all members, including Switzerland, are bound by the same EU trade rules members share three out of the seven indexes that makeup the TBI, displaying the least variance in scores.

Trade Barriers and People

Trade is between people. In terms of individuals that enjoy the freedom to trade goods and services across borders without governments getting in the way, the number is strikingly few. Only half of one percent of the world's total population live in 4 countries with governments that practice a laissez faire trade regime. In the 3-4 range of the TBI, 38 percent of the world, occupying a total of 72 countries live under regimes that practice managed trade with barriers on key industries. The 5.0 to 6.0 range is populated by ten countries including India, China, Brazil, Turkey, and Thailand that together are home to almost a full half of the world's people—44.2 percent live under regimes that practice severe trade restrictions (figure 13).

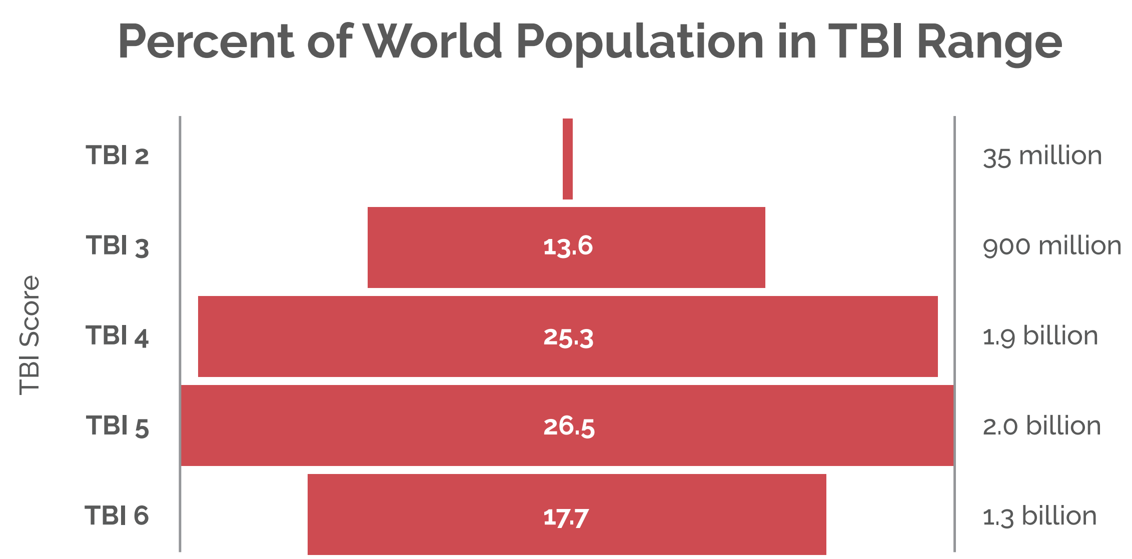

Figure 13. TBI and Population

Correlations with Freedom and Commerce

To analyze the effectiveness of the TBI at capturing trade barriers as an abuse of liberty scores were correlated with established indexes dedicated to measuring freedom and other social indicators. The TBI correlated

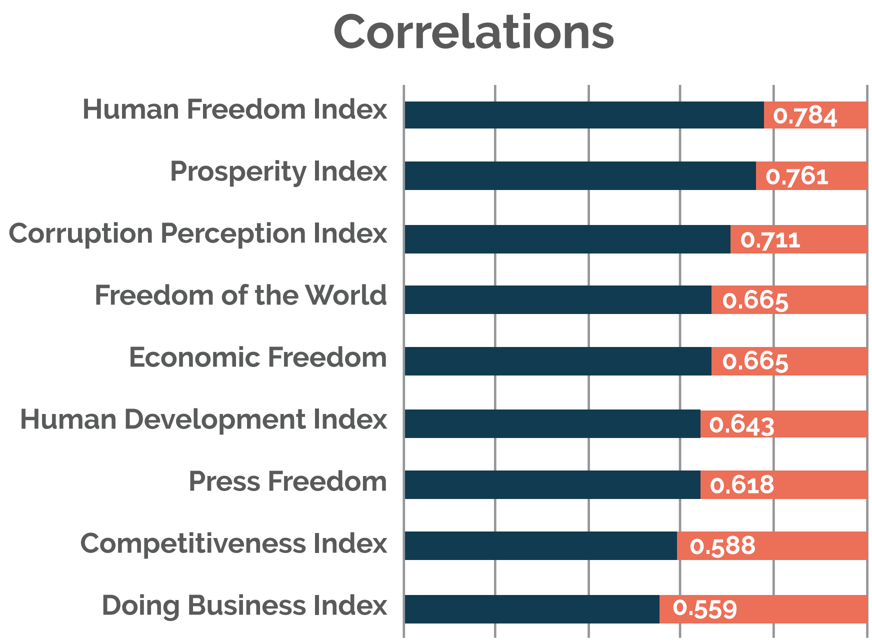

Figure 14. Correlations With TBI

strongest with the Cato Institute's Human Freedom Index .78 and the Legatum Institute's Prosperity Index .76, both utilize a large number of indicators, 79 and 104 respectively. It demonstrates a clear relationship between the presence of trade barriers and the ability of countries to achieve greater levels of freedom and prosperity. Similarly, a robust correlation was found between the perception of corruption .71 and press freedom .68 with the TBI. The measures lend credibility to the arguments that reducing trade barriers allows ideas to be exchanged freely and reduces the power of the well connected to advocate for restrictions at the expense of the others (figure 14).

TBI Case Studies

The Jones Act: Washington's Ultimate Swamp

By: Colin Grabow, Cato Institute (USA)

For almost 100 years the U.S. economy has been burdened by a law called the Jones Act. Formally known as the Merchant Marine Act of 1920, it restricts the waterborne transportation of goods within the United States to vessels that are U.S.-flagged, U.S.-built, at least 75 percent U.S.-owned, and at least 75 percent U.S.-crewed. While laws restricting domestic transportation by operators from other countries—a phenomenon known as cabotage—are common among countries with maritime geographies, few are so draconian. Indeed, the World Economic Forum calls it the world's most restrictive such law.

The Health and Price Effects of Indonesia's Trade Restrictions on Rice

By: Galuh Hatta and M. Diheim Biru, Center for Indonesian Policy Studies (Indonesia)

Indonesia is restrictive when it comes to trade policies and these restrictions affect access to rice, which is a problem as it is the staple food of the country. The existing barriers have contributed to raising the price of rice significantly, which also affects people's calorie intake due to their inability to fulfill nutritional needs of food for their families, especially the poor. The most prominent cause behind the high rice price is due to the high prioritization of domestic food producers' welfare and capacity, as mandated in various regulations following the Food Law No. 18/2012. In order to establish trade grounds, the regulating concept that prioritizes domestic food development should be adjusted to provide more affordable food.

Reducing Trade Barriers through Trade Agreements: the Case of Japan

By: Yuya Watase and Keiun Satosh, Pacific Alliance Institute (Japan)

Japan has recently signed a trade agreement with eleven countries as part of the Comprehensive Progressive Partnership Agreement and one with the 28 member European Union, it is also part of RCEP negotiations and recently negotiated a trade agreement with the United States. Together these agreements place Japan, a country producing the third highest GDP, in the middle of the largest trading blocs in the world, connecting East and West. In exchange for access to the Japanese market Japan has reduced tariffs on its most guarded agriculture sectors while advocating for new rules concerning digital privacy and intellectual property. This case study explores how Japan has reduced trade barriers through negotiating trade agreements.

New Digital Service Taxes as Trade Barriers

By: Matthiaus Bauer, European Centre for International Political Economy (EU)

The spectre of a tariff-like tax on internationally traded services looms over many developed and emerging market economies. Governments across the globe have announced they are considering new taxes on companies with certain digital business models. France recently imposed a "Digital Services Tax" (DST), which by design explicitly discriminates against foreign importers of certain digital services.

Even though corporate taxes account for relatively low shares of a governments' tax revenue, policymakers seem to be concerned about the impact of digitalisation on governments' revenues from taxes on corporate income. Despite a decline in statutory corporate tax rates worldwide, politicians and government officials still aim to maintain corporate taxes as a source of government income.

Overcoming Pink Taxes in Sri Lanka

By: Anuki Premachandra, Advocata Institute (Sri Lanka)

Sri Lanka is a country where out of 4.2 million menstruating women, only 30% use sanitary napkins. Women comprise 52% of the population but taboos and taxes have meant that our monthly essentials are treated as a luxury. Sanitary napkins are a basic need, excessive taxes on imports of the products only serve to keep them out of financial reach of many women in the country. Until September 2018 sanitary napkins were taxed at a rate of 101.2%. A year later the tariff rate continues to exacerbate period poverty, a term that describes the lack of access to sanitary products due to financial constraints as well as knock on effects such as attendance at school and work that suffer as a result. This case study will describe how despite taboos that discourage women from talking about the issue the tariff rate was able to be reduced and what has happened as a result.

Being a Sri Lankan woman is not easy. From having to constantly battle gender stereotypes and rebel against gender roles, women also have to bear the burden of a financial cost of something that is beyond them; the exorbitant costs of menstrual hygiene products. 52% of Sri Lanka's population is female, with approximately 4.2 million menstruating women. However, for many Sri Lankan women, access to safe and affordable menstrual hygiene products has become a luxury.

Open to the World: Brazil's Opportunities in a Free World

By: Mauricio Freitas Bento, Property Rights Alliance (Brazil)

The role of international trade as a means of intensifying specialization and division of labor, enabling countries to utilize their comparative advantages has been explored for a long time. Recently, the case of Korea has shown that international trade leads to technology absorption, facilitating the capital accumulation and technological innovation.

In Brazil, the main strategy for industrialization in the last century was import substitution, which roughly worked to industrialize the country, but led the country to commercial isolationism with the rest of the world due to a dream of economic self-sufficiency.

Compared to the other G20 economies, Brazil has the lowest openness index and is, therefore, the most isolated economy in the group. The present work explores how openness correlates with economic growth and how Brazil is getting behind by continuing the outdated policy of import substitution.

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