RESEARCH INSIGHTS

What Are the Downstream Consequences of Non-Tariff Barriers in Argentina?

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- **Non-Automatic Import Licenses (NAILs) significantly reduce firm imports, leading firms reliant on these imported inputs to decrease exports and employment.**
- **In markets where a firm is relatively large, it can respond to NAILs by adjusting its markups while maintaining relatively stable prices and output.**
- **The impact of NAILs depends on the sector characteristics and the exports destinations.**

CONTEXT

Non-Tariff Barriers (NTBs), such as Argentina's Non-Automatic Import Licenses (NAILs), have significant downstream consequences for firms, especially those dependent on imported inputs for production. These barriers, which require firms to obtain approval before importing certain products, introduce delays, increase costs, and act as a form of protectionism. While intended to safeguard local industries or balance trade, the effects on firms reliant on global supply chains are profound, shaping their competitiveness and economic outcomes.

Key Concept

NON-TARIFF BARRIERS

Trade restrictions that do not involve tariffs but still limit imports or exports. These barriers can take various forms, including regulations, standards, licensing requirements, quotas, and subsidies that affect trade flows.

PROJECT

This paper investigates the effects of import licenses (NAILs) in Argentina from 2005 to 2011. We construct a novel database with yearly data on products that require import licenses to analyze the causal effects of NAILs on firms' imports, exports, and employment. Our empirical strategy leverages the staggered introduction of NAILs as a unique opportunity for causal identification. Then, in a trade model with oligopolistic competition in export markets, we provide conditions under which firms' market power can shape the aggregate impact of NAILs.

Key Concept

OLIGOPOLISTIC COMPETITION

Market structure where a few large buyers dominate demand, influencing prices and market conditions. Sellers compete strategically through pricing, product differentiation, and non-price factors like branding and innovation.

For example, firms producing differentiated goods are more severely affected by NAILs than those producing commoditized products. Differentiated goods often rely on high-quality imported inputs that may not be readily available domestically. Additionally, exports to high-income countries, such as members of the OECD, are more sensitive to NAILs compared to regional trade partners like those in Mercosur. This finding highlights that different markets and products are not equally affected by import restrictions.

RESULTS

One of the main results from this study is the direct impact NAILs have on firms' import activities. Firms that rely heavily on imported inputs are more likely to see their import activities constrained due to the bureaucratic delays and unpredictability introduced by the licensing system. The data reveals that for every 10 percentage point increase in a firm's exposure to NAILs, there is a 6% reduction in exports as can be seen in the figure. This decline reflects the critical role imported inputs play in enabling firms to produce competitive, exportable goods. Without timely and cost-effective access to these inputs, firms experience higher production costs, reduced output, and an overall decrease in their ability to compete in international markets. This is complemented by a 2% reduction in employment from the same 10 percentage point increase in exposure to NAILs.

The second critical insight from the research is the differentiated response of firms to NAILs depending on their market power. Firms that hold a larger share of the market, particularly in more concentrated sectors, tend to mitigate the effects of NAILs by adjusting their markups. Larger firms can absorb the cost increases associated with NTBs by reducing their markups, thus keeping prices relatively stable. However, smaller firms or those with less market power are more vulnerable, as they are less able to absorb the additional costs and are forced to raise prices, making their products less competitive.

Finally, the paper explores how NAILs affect firms differently based on the sectors they operate in and the export destinations they serve.

Key Concept

MARKUP

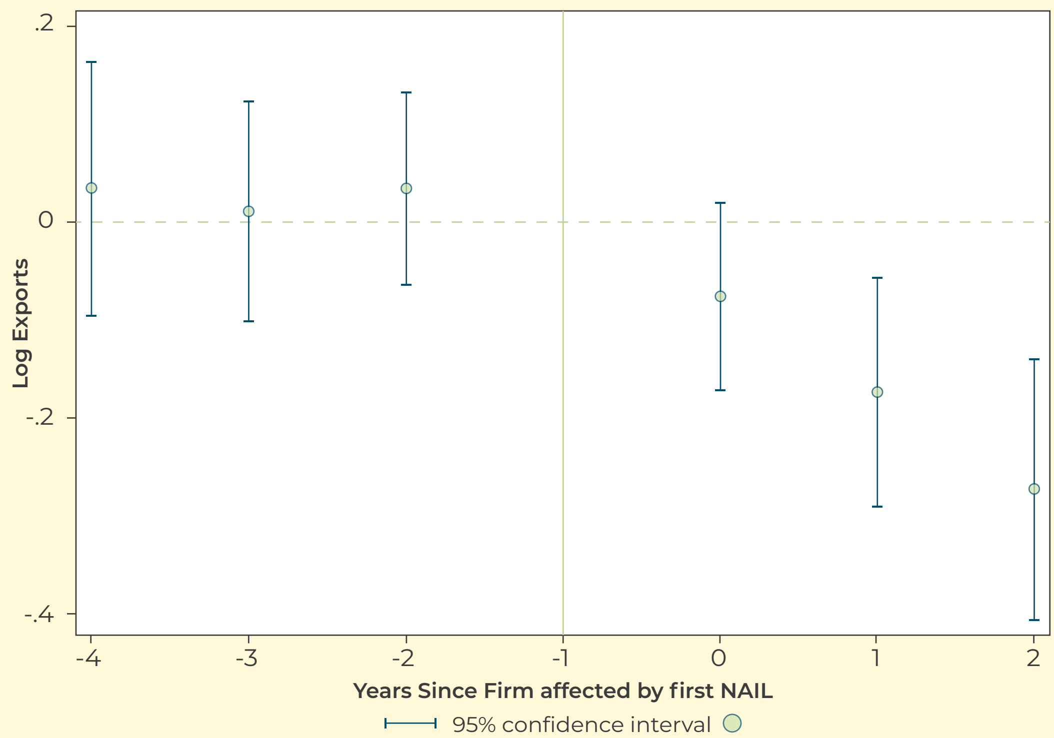
The percentage difference between a product's selling price and its marginal cost. They indicate a firm's pricing power, often higher in less competitive markets like oligopoly or monopoly.

POLICY IMPLICATIONS

The downstream effects of NAILs on firms' production costs, exports, and employment carry significant implications for Argentina's economy. By raising production costs for firms reliant on imported inputs, NAILs reduce the overall competitiveness of Argentine firms in international markets. This, in turn, leads to fewer exports, which can affect Argentina's trade balance and overall economic growth.

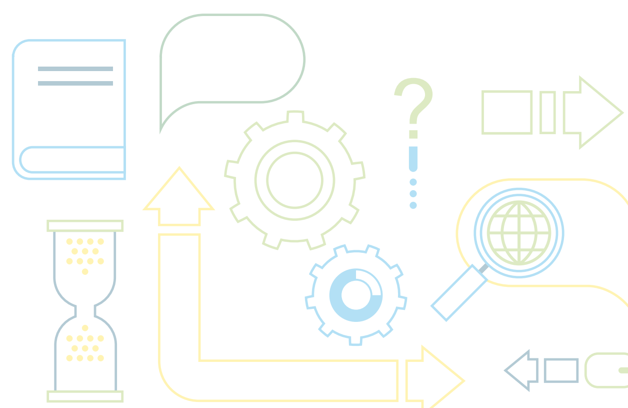
Then, from a policy perspective, this research provides valuable insights into the unintended consequences of non-tariff trade barriers. While NAILs and similar policies may be implemented to protect domestic industries, they can inadvertently harm the firms they aim to support by increasing costs and reducing competitiveness. Specifically, policymakers should be especially focused on the focused sector's characteristics. Features such as larger concentration or exports to high income countries can largely alter the impact of NTBs so they matter when designing such policies.

FIGURE 1. Impact of Nonautomatic Import Licenses on Firm Exports



Note: The figure shows the effects on the export values for firms that were exposed to non-automatic licenses up to 2 years after the exposition and the pre-trend from 4 years before. A firm is classified as exposed if at least one of its products imported during 2003–2007 was affected by non-automatic import licenses. Standard errors are clustered at the firm level. Regression includes fixed effect at firm level and sector-year-level.

In Latin America and the Caribbean, specifically, where most countries have important trade links with the US, the European Union, or China, considering that NTBs disproportionately benefit richer countries is vital. Given that countries in the region are not the "rich country" in such deals, NTBs would put them in the losing side deal when they are aiming to protect their markets. Therefore, the use of such policies should be restricted to sectors that mostly trade with middle- or low-income countries with whom, if possible, commoditized products are traded.



FULL STUDY

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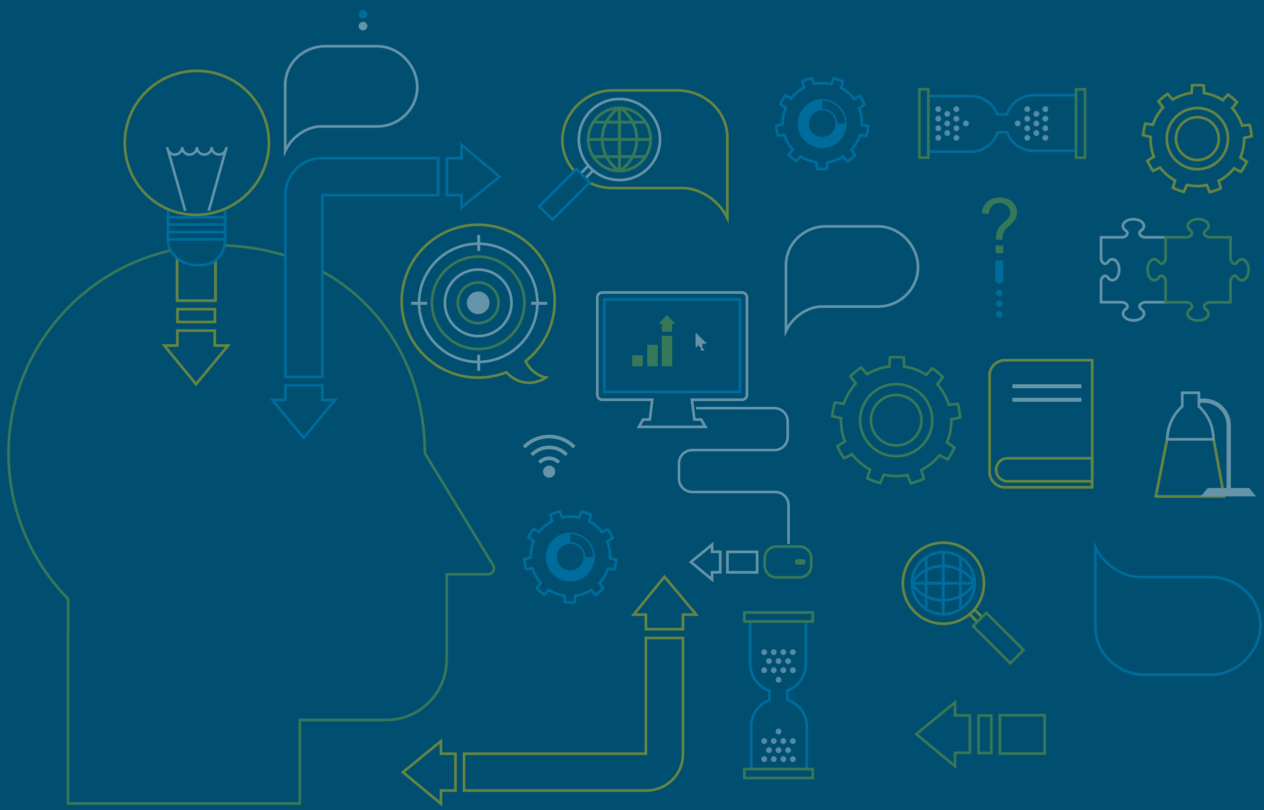

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