

**“Open for Business?  
Trade Policies of the EU, US, Canada and Japan”**

**Henrik Isakson**

**Thursday, 19<sup>th</sup> October, 2006, 12:45 pm to 2:30 pm, at Bruegel**

On October 19<sup>th</sup> 2006, Henrik Isakson, economist at the National Board of Trade in Sweden, discussed the Board's recent study on trading policies at the Bruegel Lunchtalk. The study compiles data on the current levels and coverage of import barriers for industrial and agricultural goods, as well as services, in the US, Japan, Canada and the EU. Although the authors find that Europe is only rarely the least open of the four regions considered in the report, they stressed the difficulties in coming up with a ranking of the countries in terms of overall openness. *Table 1* includes the ranking of each country in the different trade policy areas. While the EU is found to be the closest of the four economies in the case of subsidies to industrial goods, as well as special safeguards and export subsidies to agricultural goods, it is considered the most open in terms of preferential access for developing countries, and trade in services.

**Table 1**  
Ranking Across Trade Policy Areas: Canada, EU, Japan and US

	Most open 1	2	3	Least open 4
<b>Non WTO trade policy</b>				
Preferential access for developing countries	EU/Canada		US	Japan
Free trade areas	No clear ranking			
<b>Trade in industrial goods</b>				
Tariffs	Japan	EU/US		Canada
Trade defence instruments	Japan	EU/Canada		US
Non tariff barriers	Canada	EU/US		Japan
Subsidies	US	Canada/Japan		EU
<i>Conclusion industrial goods</i>	<i>No clear ranking (indication: EU not least open)</i>			
<b>Trade in agricultural goods</b>				
Tariffs	US	EU / Canada / Japan		
Special safeguard	Canada	Japan	US	EU
Agricultural subsidies	Canada	US	EU	Japan
Export subsidies	Japan	Canada	US	EU
<i>Conclusion agricultural goods</i>	<i>US / Canada</i>		<i>EU</i>	<i>Japan</i>
<b>Trade in services</b>	<i>EU</i>	<i>US</i>	<i>Canada</i>	<i>Japan</i>

Source: Isakson, Henrik. "A Comparative Analysis of the Trade Policies of the EU, the US, Canada and Japan", presentation given at Bruegel on October 19<sup>th</sup> 2006.

The study covers tariffs, trade defense, non-tariff barriers and subsidies on industrial goods; tariffs, safeguards, support and export subsidies on agricultural goods; regulations on services; Free trade Areas and the generalized system of preferences (GSP).

In terms of industrial goods, while the EU's effectively applied tariffs are lower and its non-tariff barriers are less costly than those in the US and Japan, Europe's subsidies seem to be the largest. In addition, the study concludes that the EU technical barriers to trade actually attract imports from the developing world, while for the US, Canada and Japan the opposite is true. That is, in the US and Canada each state (province) and city has its own requirements and this multitude of regulations are an impediment to trade; on the other hand, the EU internal market, according to this study, contributes to external openness by harmonizing regulations across different countries. In Japan, curiously, is the lack of regulation that constitutes a problem, since there is no much information for importers and many of the trade relationships are based on trust. Evidence regarding developed countries is not included in the report.

For agricultural goods, the overall conclusion of the study is that the US and Canada seem to be the most open, while Japan is the closest. The price difference between domestic and international prices in agricultural goods is the largest in Japan, followed by Europe. This measure of distortion reflects the higher tariffs and domestic support for agriculture in these two regions. Furthermore, the EU is the main subsidizer of agricultural products among the four countries and often uses the trade defense option included in the Agreement on Agriculture (AoA) of the World Trade Organization.

Before opening the floor for discussion, Pisani-Ferry (Bruegel) noted that it was very hard to draw conclusions from the aggregation of different indicators calculated with varying degrees of precision. However, he stressed that the value of the study for policy-makers was precisely in the wide coverage of indicators.

Following, a participant asked Isakson if his study included any estimates of the cost of other defense measures in trade (such as antidumping) or the cost of lack of predictability in trade policies. The presenter responded that, on defense measures, the study used data coming from "Has Globalisation Gone Far Enough? The Costs of Fragmented Markets", a book by the Institute for International Economics. He noted that the numbers suggested that the costs of non-tariff barriers have been falling in all five European countries considered in the book, but that these costs are still higher than those in other regions of the world. On a related topic, another participant asked about the relationship between non-tariff barriers and innovation and growth, although the discussion on the issue was postponed since this is not covered in the study by the Swedish Board of Trade.

In terms of the methodology of the study, Pisani-Ferry (Bruegel) asked about the relative weights given to the various indicators in each category of trade policy in order to come up with overall rankings. Isakson responded that there were no explicit weights applied to any of the measures, and that the conclusions followed from judgment and the experience of the project's participants. Lena Johansson, Director-General of the Swedish National Board of Trade, added that, in many instances, different indicators pointed in the same direction and, therefore, the conclusions were clear in many cases.

Juan Delgado (Bruegel) noted that, regarding non-tariff barriers, there is the idea that Japan is converging to European standards, but that the US is going somewhere else. Delgado then wondered who the leader is in the setting of standards. Isakson responded that European standards are becoming de facto, especially for developing countries; however, he stressed that these trends are not discussed in the study.

Pisani-Ferry (Bruegel) then asked about the relationship between these non-tariff barriers and other regulations with trade openness. Isakson pointed out that the information on the impact of

regulation on trade in the study comes from the business surveys conducted by the World Bank, and that these data suggest that regulation in Europe does not seem to be an obstacle for transactions but actually an important source of information. In contrast, Isakson, continued, regulations in the US seem to be more costly. Juan Delgado (Bruegel) then noted that maybe what are costly are the deviations from common standards as opposed to specific rules.

Following, another participant asked whether the findings of the study suggested that it was best to focus on non-tariff barriers than in TBTs (technical barriers to trade). Isakson responded that TBTs are a more complicated element, but, in his opinion, that is where most benefits are. He further cited a study done at the Board that finds that standardization may provide more benefits by sector than the decrease in tariffs arising from the Doha round.

Another participant noted that in the automobile industry, countries with low tariffs (like Japan) have high non-tariff barriers. His question was whether non-tariff barriers were a substitute for tariffs. Isakson answered that non-tariff barriers and tariffs were in fact substitutes, although there is no evidence in the report of non-tariff barriers increasing over time, but actually the opposite.

As a follow-up, von Weizsäcker (Bruegel) asked about the extent to which it would make sense to relax the current tariff limitations in order to reduce non-tariff barriers, given that the current focus is on the latter. In response, Lena Johansson noted that this line of thinking wrongly assumes that the main objective of non-tariff barriers is trade protection.

To finish the presentation, Isakson showed some of the findings of the report in terms of trade barriers vis a vis developing countries. The study finds that the EU, together with Canada, is the most open region towards the least developed countries. The EU is considered to be more open for industrial goods, but Canada seems to be more open in agriculture and has more liberal rules of origin.