

Non-tariff Measures and Production Network: Sectoral analysis on Japanese trade

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The proliferation of bilateral and unilateral trade agreements triggered drastic reductions in trade costs and boosted the movement of goods outside each border. The international economy, however, did not enjoy much from the radical decrease of traditional trade costs such as tariffs. In this paper, we assume the trade-diminishing role of non-tariff measures and empirically test its effect on international transactions, particularly for Japanese trade. We first show that the more Japan imposes non-tariff measures on manufacturing goods, the more they suffer from participating in global value chains via backward participation. This indicates that non-tariff measures such as technical barriers to trade are harder to comply with, compared to sanitary and phytosanitary measures. Additionally, as the traditional tariff rates in the agriculture sector are still high, the effect of non-tariff measures is not yet explicitly exposed. Second, Japan's imposition of non-tariff measures in the manufacturing sector decreased the extensive margin of Japanese exports and imports. The more Japan imposes non-tariff measures, the diversification of both exported and imported goods diminish, indicating that the trade linkage circumvents to other lucrative markets.

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