

Non-Tariff Trade Barriers and World Trade Interface

BY

S.K. JAIN

Shri Ram College of Commerce

University of Delhi

Delhi-110007

Since second world war, international trade has acquired several new dimensions relating to the volume, direction, composition and structure of the flow of goods and services across the frontiers. One important change that has occurred in the area of the trade regulating measures has been a deflection from the use of tariffs to non-tariff measures. The importance of tariffs, which have been used for long as a principal tool of commercial policy, declined sharply during the sixties and seventies as a result of the progressive tariff reductions¹ under the multilateral trade negotiations conducted under the auspices of the General Agreement on Tariffs and Trade. To guard against the lost tariff protection, the developed countries started frequently resorting to the imposition of non-tariff barriers with a view to protecting the domestic industries from the growing imports which, as they alleged, were causing unemployment, severe trade deficits and a number of other attendant hardships to their economies. The virtual collapse of the international monetary system in 1973, the surge of oil crisis in the same year and the widespread stagflation in the developed economies further intensified the use of non-tariff trade barriers and fostered a move towards 'new protectionism'.

It is against this backdrop that the present paper seeks to analyse the concept and impact of non-tariff trade barriers on world trade with a view to making a case for reversing the trends towards the rampant use of such measures.

1 The Kennedy Round of Trade Negotiations (1963-67) lowered the tariffs on manufactures on an average by slightly more than 33 per cent. However, not much success was materialised in the case of tariff reductions on agricultural products. The tariffs are likely to decline further in the eighties on an average by 32 per cent as agreed by the developed countries in the Tokyo Round of Multilateral Trade Negotiations (1973-79).

Non-Tariff Trade Barriers

Non-tariff trade barriers, also known as invisible barriers or non-tariff trade distorting measures, consist of various governmental policies, procedures and practices other than tariffs that distort or threaten to distort the direction, composition and patterns of trade by creating obstructions in the normal flow of goods and services that would exist otherwise. It is important to note that government's actions involving general changes in the taxation systems, exchange rates, and monetary and fiscal policies designed to redress deficits in the balance of payments are not considered as constituting non-tariff barriers because these policies do not distort a country's pattern of comparative advantage and are generally non-discriminatory in their effects.²

Another important feature of the concept delineated above is the emphasis laid on the government policies, procedures and practices. Private trade distorting measures such as price fixation, market sharing, production pooling arrangements and different types of international cartels which interfere with the competitive structure of the markets are to be kept outside the definitional periphery of the non-tariff barriers. Though economist like R.E. Baldwin and Ingo Walter view non-tariff barriers as consisting of both private and governmental measures and policies³, it is desirable to restrict the concept of non-tariff barriers as comprising of governmental policies and practices alone. Since the imposition of tariffs imply a governmental action and involvement, non-tariff barriers being a counterpart of the tariff barriers, should also entail some governmental involvement in their application. Following this lines of reasoning, private measures should not be considered as constituting non-tariff barriers. Albeit both types of measures cause substantial damages to world trade, they differ substantially from one other in terms of their mechanism of operations, effects, coverage and other facets. Moreover, elimination of private trade restrictive measures calls for a completely different kind of international code of behaviour. Keeping these facts in view, even the GATT and UNCTAD studies have treated these two types of measures separately and have considered governmental policies alone as constituting the kit of non-tariff barriers.

Non-tariff barriers as they exist today are highly varied in nature and assume many forms. Some are explicitly imposed and hence can be easily identified whereas many others are latent in various governmental policies and practices and do not have any overt existence. The various kinds of import directed non-tariff trade barriers can be grouped into following four major classes :

2 Laurence Jay Mauer and A.J.W. Van de Gevel, "Non-Tariff Distortions in International Trade : A Methodological Review", in Anthony Scaperlanda, ed., *Prospects of Eliminating Non-Tariff Distortions*, 1972, p. 66.

3 See Robert E. Baldwin, *Non-Tariff Distortions of International Trade*. The Brookings Institution, Washington, D.C., 1970, p. 5; Ingo Walter, "Barriers to International Competition : The Nature of NTDs", in the Hawkins and Walter, ed., *The United States and International Markets*, Lexington, D.C. Health & Co., 1972, p. 64.

- (a) *Quantitative Restrictions*—such as global quota, selective quota, tariff quota, seasonal quotas, voluntary export restraints (VERs), discretionary import licensing and mixing regulations.
- (b) *Para Tariff Restrictions*—such as variable levies, supplementary charges, border fiscal charges, anti-dumping duties and countervailing duties.
- (c) *Administrative and Technical Regulations*—such as custom valuation procedures, customs classification schemes, mark-of-origin requirements, health and sanitary regulations, marketing and advertising standards, advances deposits and documentary control.
- (d) *Other Non-Tariff Barriers*—such as discriminatory government purchasing, buy domestic extensions, domestic subsidies and assistance for regional development.

Non-Tariff Barriers : Product and Market Coverage

Non-tariff barriers have been used to restrict the imports of both agricultural and industrial products. However, a survey of the non-tariff barriers as existing in the developed market economy countries reveals that as compared to the industrial products (BTN 25-99), non-tariff barriers have been applied more rigorously on the imports of the agricultural products (BTN 1-24).⁴

In the agriculture sector, variable levy has been found to be the most widely applied non-tariff restriction. This is followed by the use of discretionary licensing, health and sanitary regulations and global import quotas.⁵ Both crude and processed food products, particularly the dairy products, cereal grains and prepared food items, live animals and meat sugar, feeds and beverages have been the important agricultural products subject to these restrictions.⁶

In case of manufactured products, imports were restricted through the use of discretionary licensing which was followed by the application of global import quotas, voluntary export restraints and bilateral quotas. A product-wise analysis shows that fossil fuels and their derivatives, transport equipments, textiles, leather products, chemicals, fertilisers and vegetable fats and oils have been most frequently the target of the non-tariff barriers.⁷

4 UNCTAD, *Liberalisation of Non-Tariff Barriers*, TD/B/C 2/115/Rev. 1, 1974.

5 The importance of the various non-tariff measures differs from country to country. For example, imports of the agricultural products have been restricted mainly through the imposition of quantitative restrictions in the United States, Canada and Japan, whereas in the EEC and EFTA countries variable levies have been applied most frequently to restrict the imports.

6 Hawkins and Walter, *op. cit.*, pp. 97-104.

7 *Ibid.*

In a country-wise analysis of the application of non-tariff barriers, it has been found that the United States, Japan, Belgium, Luxembourg and Portugal have been the important countries using non-tariff barriers and about one third of their total imports were affected by the imposition of such measures. Countries like Australia, Sweden, Denmark and Canada, on the other hand, were found to be the countries applying non-tariff trade barriers to a relatively smaller group of products.

Substantial changes have taken place in the trade policies of the developed countries particularly since the early seventies. Hence some more studies are required to be undertaken to make an analysis of the product and market coverage of the non-tariff barriers in the light of the changing international milieu.

Non-Tariff Barriers and the Developing Countries' Exports

An interesting facet of the non-tariff barriers has been that these measures are applied quite extensively on products which are considered sensitive to the economies of the developed countries. These are the products in which developed countries are gradually losing international competitiveness. Most of these products are labour intensive manufactured and semi-manufactured products which are of crucial export interest to the developing countries. This has been substantiated in a study by the UNCTAD Committee on Manufacturers which observed that the sectors in which the non-tariff measures were largely operative were the sector (pertaining to processed agricultural products, textiles and clothing) which constituted the most important export manufacturing sectors of the developing countries⁸. A similar inference was drawn by Ingo Walter in a study examining the correlation between competitiveness of the developing countries in their exports and the incidence of the non-tariff barriers on such products. He noticed that as the competitiveness of the developing countries declined, non-tariff barriers also registered a fall in terms of their incidence.⁹ This brings us to the conclusion that the manufactures and semi-manufactures in which developing countries have relatively higher competitiveness are also the products being heavily subjected to the non-tariff trade barriers.

Non-Tariff Barriers and the Generalised System of Preferences (GSP)

The developed countries introduced the schemes of Generalised System of Preferences (GSP) in the seventies to provide an opportunity to the developing countries to diversify and industrialise their economies through an improved access to the developed countries' markets for their exports. However, from the very beginning these schemes have been found to be highly discriminatory and subject to severe restrictions. Some countries are accorded a higher

⁸ *United Nations Supplement No. 2*, New York, Jan. 20-30, 1979

⁹ The Spearman correlation coefficient between the two rankings was found to be 0.2313 which was statistically significant at the 0.95 level of confidence. For details, see Hawkins and Walter, *op. cit.*, pp. 111-112

preferential treatment than that is accorded to other beneficiary countries. Some countries have been outrightly excluded from participation in such schemes. The GSP benefits are available only on select products. Moreover, limits have been imposed on the preferential imports through the mechanism of ceilings, buffers and sub-quotas. These schemes have also been made subject to rigorous 'rules of origin'.

Thus we find that the complexity, uncertainty and the ways in which the GSP schemes are being administered by the developed countries have virtually defeated the very purpose of these schemes.

Reasons in Defence of Non-Tariff Barriers

The developed countries have adduced several reasons to defend the use of non-tariff barriers which include improving the terms of trade, reducing deficits in the balance of payments accounts, redistributing income in favour of the productive factors employed in import competing industries, maintaining high levels of employment and ensuring price stability in their economies.

However, the facts fail to support these arguments. Rising deficits in their balance of payments have not occurred solely due to the rising imports. Rather it has been an outcome of the increasing military expenditure, poor export performance and excessive capital outflows from their economies. It has been found in a number of empirical studies that high levels of unemployment in these countries have emerged more importantly as a result of increases in productivity, overall low growth of domestic demand, production and exports—rather than due to rising imports. In a recent study by the UNCTAD, it has been observed that the jobs lost due to rising imports of textiles from the developing countries have been insignificant in comparison with the layoffs arising out of the technological innovations. For instance, it has been estimated that in the Federal Republic of Germany jobs lost due to improved labour productivity during 1962-1975 have been 50 times higher than the jobs forgone due to increased imports. For the developed countries as a whole, it has been reported that the loss of jobs due to fall in demand has been 5 million which is considered to be 20 times higher than the loss of jobs arising out of rising imports in the developed countries.

Impact of Non-Tariff Trade Barriers

The proliferated use of non-tariff trade barriers has resulted into a wide variety of effects on the world trade. Their use has not only restricted the volume but has also adversely affected the pattern and structure of the trade that would have existed otherwise. The imposition of these Measures interferes with the free interplay of the forces of demand and supply and skews the trade patterns and industrial structures of both the developed and developing countries away from the dictates of the international competitive advantages.

In fact, every claim for imposing non-tariff barriers is a claim for special treatment to a particular group at the expense of others. Imposition of non-tariff barriers reduces the availability of goods in the domestic markets and raises the prices of other domestic goods also. As a result of increase in prices, some people who could have purchased a given product at a lower price are driven out of the market have to pay higher prices. Such increases in price reduce their real income and their ability to purchase other goods and services. The use of non-tariff barriers also limits the range of goods available to the consumers as only select import products are permitted to enter the domestic markets.

Though similar problems arise in case of tariffs also, yet the loss of consumer welfare is less and is also to some extent offset by revenues collected by the government. Moreover, consumers choice in regard to purchase of different kinds of goods is also not much affected.

Closely allied to consumers are importers, distributors and retailers of foreign made goods whose welfare is very much dependent on the flow of imported goods. Lower import volumes severely impinge their earnings and business activities. The domestic manufacturers who find it advantageous to buy goods from abroad as either raw materials or components for their final products, are also adversely affected by the application of such measures.

Exporting countries, particularly the developing ones, are also affected by the imposition of the non-tariff trade barriers. Restrictions on exports redirect the investment and employment to other less efficient sectors. Such flows generally prove to be quite damaging to their economies. The impact is considerably serious for those developing countries which do not have the alternative venues to absorb the surplus labour and capital released from the exporting industries. A large number of the developing countries also carry a heavy burden of externally held debts which they service out of their export receipts. Poor export performance increases their debt burden and also restricts their potentials for additional borrowings in future.

Need for Reducing and Removing Non-Tariff Barriers

Maintaining or creating employment at the cost of unemployment elsewhere, protecting aging industries in the industrially advanced countries by crushing down the infant and more economically justified export oriented industries of the developing countries are nothing but symptoms of growing disorder and protectionism in the international economic relations.

There is a need for liberal trade policies which can help both the importing and exporting countries in fighting against some of their problems and thereby enhancing income and welfare. Immediate measures are required to reverse the present trends and to restore an atmosphere conducive to the expansion of world trade and promotion of international cooperation and understanding among the nations. Since the need for minimising the use of non-tariff barriers has come up as a global problem, only global approach and policies can be effective in accomplishing this objective.

Both the developed and developing, importing as well as exporting countries, will have to take steps to accomplish this task of reducing and removing non-tariff barriers. Developed countries would have to make maximum use of monetary and fiscal policies and would also have to adopt suitable adjustment assistance programmes which are less distortive to trade. Most of the protectionism has emerged due to low economic growth in their economies. The developed countries, therefore, are advised to evolve such developmental policies which can not only absorb the growing imports but can also provide alternative employment avenues to the workers presently engaged in the industries affected by the imports.

The exporting countries would also have to refrain themselves from exporting goods at prices lower than normal or resorting to other unfair trade practices which cause or threaten to cause the injuries to the domestic industries of the developed countries.

There is also a need to redraft the provisions of the General Agreement on Tariffs and Trade. The various terms and conditions which hitherto remain ambiguous and undefined should be tersely elaborated. The Tokyo Round of Multilateral Trade Negotiations has indeed done a remarkable job in evolving new agreements for some of the non-tariff barriers. However, there still remains much to be done. Still many of the terms and concepts continue to lack precision and clarity. There still remains a large number of non-tariff barriers which are yet to be brought within the periphery of the GATT. There is also a need to evolve an enforcement mechanism which can ensure an effective implementation of the rules evolved by the GATT.

It is high time that the international community should evolve mutually beneficial policies and enforce their implementation for assuring a better and higher quality of life all over the world.