Examples of non-tariff barriers to trade

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The strive for trade liberalization has been on the upswing since the establishment of the World Trade Organisation (WTO) following the negotiations undergone at the Uruguay Round in 1995. The WTO, which counts 153 member countries till now, covers at least 97% of global trade (Sloman, 2006). In the same way as its predecessor, the General Agreement on Tariffs and Trade (GATT), the WTO's main objective is to remove any unnecessary hurdles that prevent trade to flow as fluidly as possible. In that respect, it urges all its members to abide by a well-defined set of rules governing trade relations. These include namely:

Trade without discrimination: The WTO provides for a ' most-favoured nation' clause, whereby all members should treat their trade partners fairly and equitably. Any advantage granted to a given country (like lowering of tariffs for example) should as well apply to all WTO signatories without any

discrimination whatsoever. However, Article XXIV of the GATT pertaining to customs unions and free trade areas is an exception to that rule, as it allows member countries to discriminate between partners and non-partners;

Predictability: Member countries can raise tariff rates only to the extent where they have negotiated with their counterparts for so doing. The recourse to quotas is also strictly prohibited;

Promoting fair competition: In the event where a country is faced with restrictive trade measures, the WTO permits the latter to retaliate with similar methods; and

Special and Differential Treatment: Developing and less developed countries should be given an extended delay in view of implementing WTO provisions properly.

An interesting fact is that contrary to the GATT, the WTO is vested with disciplinary powers which it can use against those countries which do not comply with those aforementioned principles. For instance, in 2002, the WTO ruled that the protectionist measures adopted by President Bush to preserve the US steel industry, in the form of tariffs imposed on steel imports, were illegal and subsequently allowed the EU and other complaining countries to retaliate by imposing similar tariffs on US goods. As a result, President Bush later decided to remove the said tariffs. This example is a clear illustration of how sanctions taken by the WTO can contribute to the elimination of tariffs and further promote the harmonization of trade relations.

The lowering of tariffs and other trade barriers has also been on the agenda of the different trade rounds that have taken place since the advent of the GATT dating back to 1947. The agreement reached at the Uruguay Round in April 1994 was viewed as a major step forward towards addressing that particular issue. The average tariff level on manufactured products at that specific point in time was believed to be around 4% and still declining, and the said agreement set out a plan to substantially decrease the amount of tariffs and non-tariff barriers by 2002.

Despite the relentless efforts made by the WTO, the free trade objective is far from being attained, judging by the rapid proliferation of non-tariff barriers (NTBs) to trade that has been witnessed on the global scene since the Tokyo Round of negotiations (1973-1979), where they have been first dealt with. Empirical evidence has shown that non-manufactured goods are those which are most likely to be exposed to NTBs. This has been the case notably with agricultural products, where export subsidies granted to EU and US based farmers have been the subject of virulent criticism from developing countries on the basis that farmers within these economies could not compete against subsidised agricultural products originating from wealthy countries. This culminated in an interim agreement being concluded at Geneva in July 2004 pertaining to the matter in question, whereby the EU was asked to cease the subsidising of its agricultural exports.

The EU also experienced a rise in NTBs during the 1980s, albeit the common economic and trade policies adopted by member states. These barriers have been applied to a wide range of activities, and consisted namely of taxes on imported products, subsidies or tax reliefs being granted to indigenous firms,

government contracts being awarded to local businesses instead of foreign ones and non-recognition of overseas qualifications by some member countries amongst others (Sloman, 2006).

Examples of Non-Tariff Barriers to Trade

Quotas

These can be defined as ceilings imposed on the importation of a certain product based on its amount or value, and which apply during a specific period of time. Quotas can be implemented both as a measure of protectionism to allow infant industries to nurture properly and as an economic tool for the regulation of imports, by preventing foreign products from entering the local market ‘ en masse’. As the effects of a quota are more predictable and certain than those of tariffs, governments can resort to them on a short-term basis to rectify any anomaly in market conditions. By contributing to limit the amount of foreign currency that would be spent on buying imports, quotas could also reduce a deficit in the balance of payments of a country, which would have the effect of bringing its economy back on track.

However, one of the major drawbacks associated with quotas is that they often incite countries against which they have been imposed to retaliate with similar measures, thereby creating a trade war. Moreover, the imposition of import quotas can put certain firms, especially those who have been given import licenses, in a monopoly position in the industries to which they apply. This implies that the increase in price subsequent to the application of a quota could be fully born by consumers. Similarly, restricting the supply of a product by means of an import quota would cause part of the domestic

demand to be diverted towards locally manufactured substitutes, and the increase in demand for these domestic products would in turn lead to a rise in their price. All this would end up with consumers being quite limited in terms of choice.

Embargoes

Amongst all NTBs that have come to be known so far, embargoes are certainly viewed by many as the most extreme way of restricting trade. By definition, an embargo is an order from the government prohibiting any form of trade with a specific country, and generally applies to both imports and exports. The rationale justifying the recourse to embargoes against certain nations has been proved to be purely political. For example, the US has been implementing them primarily to sanction those countries with which it shares tense diplomatic relations. These include states such as North Korea, Iran, Cuba, Libya and Ivory Coast but to mention a few of them.

Import Licensing

Broadly speaking, import licenses are simply administrative documents that give their respective holders the exclusive right to import a given product from other countries. Making imports conditional upon licensing can facilitate the task of the government in trying to administer quotas properly. Import licenses nevertheless might give rise to rampant corruption and bribery in an economy, as firms would be tempted to make financial inducements to try to obtain such privilege. It is also argued that they give monopoly power to their holders on the market for imported goods.

Rules governing the implementation of import licenses are embodied in the Agreement on Import Licensing Procedures, which defines the licensing of imports as ‘ administrative procedures requiring the submission of an application or other documentation to the relevant administrative body as a prior condition for importation of goods’ (WTO, 2008). The Agreement further states that governments should do their utmost to disclose the procedures involved in the granting of licenses to potential applicants. In addition to that, it specifies clearly that member countries should give notice to the WTO prior to establishing or amending import licensing procedures. The Agreement also sets out the relevant criteria on which the evaluation of applications for such licenses should be based on.

Export Subsidies

The subsidizing of exports is perhaps the most popular form of NTB in international trade due to its wide application. The aim behind an export subsidy is to lower the price of the product for which it has been given such that it becomes more competitive in foreign markets. This process of artificially reducing export prices is also known as dumping. Note should be taken that subsidies are generally granted to alleviate the costs that can be incurred by a firm during the exporting process, like freight costs and customs duties for instance. Export subsidies do not only boost a country’s exports but can as well act as an effective instrument encouraging domestic firms to continue production on home soil, which could bring long-term benefits to the economy (in terms of employment creation, constant source of revenue for the government through corporate taxation or technology

diffusion). Local firms would remain in status quo as long as exportation costs do not exceed that of doing business abroad.

But the main disadvantage with export subsidies is that importing countries can retaliate by way of countervailing duties. Consider the case where the EU decides to subsidise the export of agricultural products to the US to enhance their competitiveness. The US, after investigation, could react by adopting countervailing duties equal to or greater than the subsidy in question. In the end, the initial subsidy given by the EU could prove to be rather futile.

Foreign Exchange Controls

This involves restricting the purchase and sale of foreign currencies up to a certain amount. Given that importers necessarily have to finance their imports through foreign currencies, limiting access to these would imply a subsequent decrease in the quantity of imported goods. This explains how the regulation of foreign exchange markets can be used as part of the policy of a government to reduce imports.

Currency Devaluation

It can be defined as the process whereby a country decides to decrease the value of its currency against that of other currencies on a voluntary basis. Currency devaluation can lead to an increase in the cost of imports and a reduction in that of exports, thereby making them more competitive in terms of prices in foreign markets. For example, at an exchange rate of €1 for $2, a product costing $100 in the US would normally be bought at €50 in EU countries. If the value of the Euro compared to that of the Dollar is

readjusted to €1 for $1, the same product will be purchased at €100. The immediate effect would be a fall in EU imports from the US. In the same way as export subsidies, this measure is particularly designed for boosting the export sector of an economy thus creating a current account surplus.

An example showing how this tactic can produce the desired effects could be China’s ever-growing export sector. Between 1995 and 2005, China’s policy was to maintain the exchange rate of the Yuan against the Dollar at $1 for 8. 28 yuan. The constant devaluation of the Chinese yuan during this specific period of time has largely contributed to the growth thrust of China’s export market, and helped to achieve a current account surplus of $162 billion in 2004 (Sloman, 2006). However, under the threat of a 27. 5% tariff imposed on its exports by the US, China finally shifted from a fixed to a floating exchange rate policy in 2005, but that applied only to a group of eleven countries including the US.

Non-Tariff Barriers: A Necessary Evil?

Notwithstanding the fact that they might be acting as a hindrance to free trade on the global market, evidence suggests that NTBs could also have a beneficial impact from an economic point of view. It has been seen that they can for instance be implemented as part of a plan aiming at reducing imports, with the end result being a neat improvement of a country’s balance of payments. Advocates of NTBs might as well put forward the protection of infant industries as an argument justifying their application. As these industries are unable to face foreign competition due to their apparent fragility, protectionist measures might be adopted on a short-term basis to provide them with adequate support necessary for their progressive

development. But the risk of seeing infant industries fall into complacency and getting used to preferential treatment should not be overlooked. In limiting the influx of imports on the domestic market, NTBs can indirectly lead to the creation of many job opportunities, especially in the export sector, and have also proved to be effective mechanisms for ensuring the protection of ailing industries.

In order for NTBs not to obstruct the fluidity of trade relations and for them to have the expected positive outcome, governments should seriously consider to apply them temporarily and to remove them at the right time to prevent their respective countries from being engaged in endless trade conflicts.