The classification of non tariff measures economics essay

Economics

ACP: African Caribbean and PacificEC: European CommunityEPA: European Preferential AgreementEU: European UnionEEC : European Economic CommunityFTA: Free Trade AreaGATT: General Agreement on Tariffs and TradeGSP: Generalized System of PreferencesNAFTA: North American Free Trade AreaNTB: Non Tariff BarrierNTM: Non Tariff MeasuresSACU: Southern African Customs UnionSADC: Southern African Development CooperationSPS: Sanitary and PhytosanitaryTBT: Technical Barriers to TradeVER'S : Voluntary Export Restraints. UNCTAD: United Nations Conference on Trade and DevelopmentWTO: World Trade Organization

INTRODUCTION

The 21st century is an era of globalisation. Globalisation is concerned with having a single platform and an integrated world. Countries are to be open in all aspects to each other such that trade has taken a new dimension. Integration of global markets offers all countries the potential of growth and improved standard of living. On the other hand, barriers to trade make it difficult for economies to take full advantage of opportunities associated with globalisation. Hence, international agreements and relevant bodies have been trying to make global trade as liberal as possible. Improved market access for goods has been addressed by successive GATT rounds. In 1995, a promoter and regulator of the global village came up in the form of the World Trade Organisation (WTO). It is a multilateral trading system with the main aim of reducing trade barriers in the form of tariffs all over the world. However, countries have been innovative and found new measures of protectionism. These have been in the form of non-tariff barriers (NTBs). Progress made in tariff reduction has been counterbalanced by NTBs that are continuously coming up in new discrete forms. Hence, countries have been founding it tedious to detect and reduce NTBs.

Definition of NTMs:

Non-Tariff Measures (NTM) are measures that have an economic effect on the trading of goods, changing prices or quantities. Non-Tariff Measures can be classified into three categories. To start with, the first category is those which are imposed on imports. This category consists of the import prohibitions, import quotas, import licensing, and customs procedures and administrations fees. The next category, that is, the second one, is those measures imposed on exports. These include export taxes, export subsidies, export quotas, export prohibitions and voluntary export restraints. The final category includes measures imposed in the domestic economy itself. These include domestic legislation covering health and environmental standards. Most NTM are subject to the WTO principles. NTM are not mere numbers but they are complex legal texts that are not easily changeable to quantification or comparison. NTM vary across many countries and even change quickly without any notice. Hence, this can cause difficulty to exporters who are trying to gain access in the foreign markets. These business need to possess enough requirements. However, in developing countries there is a lack of information, capabilities and facilities to cope with the Non-Tariff Measures. There are different types of NTM which are quotas, monopolistic measures, licensing, SPS, TBT and antidumping.

WHY USE NTMs?

A number of studies have been brought forward to study non-tariff measures in international basis. They found that NTM are almost twice as trade restrictive as tariffs. They also find that, in several countries, NTM actually contribute much more than tariffs to the overall level of trade restrictiveness. Moreover, evidence proved that NTM increase the level of GDP per capita. The trade literature finds that NTM under the agricultural sector appears to be more restrictive and widespread than those in manufacturing sector. One of the non- tariff measures main objective is to regulate imports in given countries. In terms of the agricultural products, such type of measures is normally technical and quality standards such as designations of origin (AOCs). Not much is known about their effect on international trade and on the exporting from developing countries, though non-tariff measures play an important role since the tariff measures like customs duty are constantly cut under regional agreements. To control imports, countries are having the need to rely on quotas.

Classification of Non-Tariff Measures

Sanitary and Phytosanitary MeasuresIt includes laws, decrees, regulations and procedures to protect human, animal or plant life. Technical Barriers to Trade (TBT)TBT are regulations referring to technical specifications of products and conformity assessment system thereof. Price Control MeasureThis type of measure is brought forward to control the prices of imported product in order to protect local firms from imported goods. Quantity Control MeasureThis type of measure involves the controlling of the quantity of goods that are being imported. These measures can take the form of restrictive licensing or fixing of a predetermined quota. Finance MeasureThis type of measure may increase the cost of imports. Under this measure, there is import deposit; cash margin requirement, advance payment of customs duties and refundable deposits for sensitive product categories. Export Related MeasureIt consists of the measure that is being imposed by the government of the host country on the exported products. This measure includes export taxes, export quantitative restriction, export prohibitions and export quotas. SubsidiesIt is a contribution by the government to particular industry or company such as a transfer of funds like grants or loans. Distribution RestrictionsIt refers to the controlling of the product that is being distributed. It may be controlled through the additional certificate requirements. Voluntary Export Restraints (VERS')These are agreements between two countries such that one country agrees to limit esports of particular goods to another specific period of time. One example of this is the Japanese agreement to limit the export of cars to the UK. Preferential TreatmentThe latter refers to discrimination, which is made in the rate of duties with regard to different countries. For example, Mauritius benefits from preferential treatment on the EEC market. According to the WTO, tariffs are charges imposed on goods at the time of because of their importation. Market access is conditional upon payment of these custom duties. In simple terms they are taxes on imports and are a form of government intervention. Tariffs can be either ad valorem or specific. Ad valorem tax is an amount based on the value of the good while a specific tax is per unit of weight or volume. Tariffs are imposed with two economic objectives: firstly to serve as revenue to the state and secondly to give a price advantage to domestic products over like imports. Consequently, the local industry is shielded from international competition and earns improved returns. But the cost to this protection is in terms of higher prices that locals have to pay for imports. Moreover, tariffs are at times set high enough to block all trade and act just like import bans. Also, tariffs lead to situation of inefficient resource allocation and welfare loss in economies. In 1948, average tariffs on manufactured goods in most developed countries were more than 30 %. With the establishment of the GATT, economies sought to cut tariffs due to the problems associated with them and considerable progress has been made ever since. The various rounds of the GATT and WTO achieved reduction in tariffs gradually as tabulated:

Place

Date

Achievements in tariff reduction

Geneva

April 194745, 000 tariff concessions affecting $10 billion of trade

Annecy

April 1949Countries exchanged some 5, 000 tariff concessions

Torquay

September 1950Countries exchanged some 8, 700 tariff concessions, cutting the 1948 tariff levels by 25%

Geneva II

January 1956$2. 5 billion in tariff reductions

Dillon

September 1960Tariff concessions worth $4. 9 billions of world trade

Kennedy

May 1964Tariff concessions worth $40 billions of world trade

Tokyo

September 1973Tariff reductions worth more than $300 billions

Uruguay

September 1986Major reductions in tariffs (about 40%)" Bind" custom duty rates on to levels difficult to raiseTariff restrictions in agriculture addressed for the first time; non-tariff barriers substituted by tariffs at very high levels in many cases (tarrification)

WTO

January 1995Tariffs on industrial goods from 6. 3 % to 3. 8 %Duty-free treatment from 20% to 44% of importsMarch 199792% of world trade in IT products benefit from less import duties and other chargesReduction in agricultural tariffs

Methods used to measure NTMs

There are different types of Non Tariff Barriers and there are several measurements used to measure them. However measuring Non Tariff Barriers and their effects is a challenge, because of lack of systematic data. A unified approach to measuring NTBs does not exist. Some measures that are frequently used are as follows:

Frequency Measures,

price-change measures,

rates of assistance and

Indices deflator.

Frequency Measures

Normally, there are two types of frequency measures: frequency ratio and import coverage ratio. Both measures are based on calculation of ratio of commodity lines subject to at least one Non Tariff Barriers in total number of lines for the respective group of trade. The UNCTAD frequently uses the frequency method as it is a more easily available, universal and a more transparent technique of measurement. Its major disadvantage include upward biased due to overstatement of existing measures, and difficulties in distinguishing the role of specific Non Tariff Barriers.

Price-change measures

Measures based on evaluation of changes in price due to introduction of the NTB are the most useful. Alternative to other measures, they allow direct comparison between influence of tariff and non-tariff trade barriers. Moreover, these measures are deeply rooted in international trade theory that formulates an influence of trade restrictions in terms of price and quantity changes. The most known type of price-change measures is tariff equivalent that is calculated as growth in commodity price before and after use of the NTB (Deardorff & Stern, 1997). Despite clear direct characteristics of this measure like its positive comparability with tariffs and realistic representation of the effect of the NTB for a specific commodity, it is very difficult to use price-change indicator for a general study in the country for NTB. Here, the general problems are collection of necessary prices and differentiation of the NTB’ impact from any other changes.

Rates of assistance

There are two types of rates of assistance, namely effective rate of assistance and nominal rate of assistance. Nominal rate of assistance is based on calculation of an increase in the gross returns from production due to existence of protectionist measures, including the NTB. However, the most widespread is the effective rate of assistance, initially introduced for tariffs by Max Corden (1966). The formula for this measure is as follws: ERA = VAN VABVABWhere VAN is value added in case when the NTB are applied, and VAB is value added when there is no barriers to trade. Even though the theory is correct, these measures require a lot of information that is not always available readily. Moreover, in the case of the effective rate of assistance (protection), it is very difficult to differentiate between different NTB.

4. Indices – deflators

The Indices – Deflator’s method of trade barriers estimation could be employed with both tariff and non-tariffs and was proposed by Anderson and Neary in 90th. The authors constructed two indices, namely the mercantilist trade restrictiveness index and trade restrictiveness index. They are defined as deflators that if applied to undistorted prices, will produce the same trade volume (for mercantilist index) or same real income (for trade restrictiveness index) as the initial set of trade distortions (Anderson & Neary, 1996;

Anderson & Neary, 1999). These indices are very sound in terms of their theoretical background. However, they have the same drawback as the price-based methods. To conclude, frequency measures seems to be the most applicable technique for the measurement of the general NTB level in the country with quite high disaggregation in terms of commodity categories. Nevertheless, it still lacks comprehensiveness in identifying the role of separate NTB as well as the severity of restrictions.

Non-Tariff Trade Barriers

Countries use many mechanisms to restrict imports. A critical objective of the Uruguay Round ofGATT negotiations, shared by the U. S., was the elimination of non-tariff barriers to trade in agricultural commodities (including quotas) and, where necessary, to replace them with tariffs – a process called tarrification. Tarrification of agricultural commodities was largely achieved andviewed as a major success of the 1994 GATT agreement.

Positive Impacts – Benefits of Non-Tariff Measures on Trade

Comparably, since tariff measures are constantly being taxed such as customs under multilateral and regional agreements, there is an increase in the role of NTMs globally like being indispensible for import and export activitiesNTMs do not only negatively impact on trade, but some NTMs are also important and conducive for trading activity. The majority of NTMs has the objectives to protect the health of human, plants and animals and some NTMs may improve, raise, and promotes the mutual relationships between partners. NTMs like Sanitary and Phytosanitary (SPS) measures are still very important in increasing and enhancing trading internationally, where defected, low quality, damaged products are banned, reported hence resulting in the enhancement of consumers’ safety and satisfaction. Theses NTMs ensure that the imported goods meet the domestic requirements and enable countries to protect themselves from the imports of noxious and contaminated products. Furthermore, the Sanitary and Phytosanitary measures allow countries to enforce trade restrictions for health and safety reasons based on scientific risk assessments.. Hence two methods were applied, whereby some countries such as the EU countries impose stringent equivalence-based imports system where only countries that have set the uniformity of their food safety procedures with European ones can export to the EU. On the other hand, only certified producers who showed the equality of their safety standards and controls with European ones were given the right to export to EU market. Other countries like Japan or Canada adopt a risk analysis method to ensure the food safety of their seafood imports. Moreover, NTMs like Intellectual Property Rights (IPR) protections are regarded as playing an integral part in the international trade. In this empirical world, use of patents, trademarks and copyrights, geographical indications, industrial designs are of utmost importance in further enhancing trade. Also, its effective use of knowledge contributes greatly in making the national economic prosper. Consequently, most of NTMs are viewed as impeding trade, yet, country having an adequate and effective Intellectual Property Protection, are instead regarded as a plus to trade at international level. As such, Intellectual Property is on priority list of the Indonesian government, since Indonesia form part among the countries with the weakest IP protection, the government wants to persuade the US, their biggest trading partner that Indonesia has a strong IP protection. The main reason behind enforcing powerful protection on intellectual property by Indonesian government is to avoid tariffs trade that could obstruct its economic growth and to curtail foreign investment. Thus, what can be deduced is that in order to be competitive to trade globally, countries must make provisions for strong IP protection. Hence, it can be argued not all NTMs have adverse effect on trade but there are some like IP protections that rather underpin international trade and also motivate firms to be more involved in research and development projects, since they are secured and receive strong protections. Also, NTMs can also be argued to be a way of avoiding terrorism acts within countries, for instance, NTMs like import prohibitions or other measures controlling the volume of imports may ban imports of arms, munitions except to army forces. As such, these NTMs play a major role in promoting the security of the countries and its citizens. Eventually, it can be argued that not all NTMs in all sector hamper trade, instead there are some NTMs that have high contribution in further enhancing the integrity and smoothing trades at global level.

Benefits of removing NTMs:

NTMS have been applied, introduces for obligatory reasons, improving, freeing, liberalising international trade but instead, the increase in the number of NTMs more commonly to refer to as non-tariff barriers have been hampering on the flow of trade among countries. Among the different types of NTMs, there some specific kinds that impact directly of the flow of goods-imports and exports like the Para-tariff measures, variables levies, dumping/countervailing duties (investigation and undertakings), import surcharges and deposits, imports surveillance, non-automatic licenses, some price control measures and voluntary export restraints, these NTMs are viewed as having a huge impact of imports and thereby restricting them. NTMs alleged to be more like trade barriers, if removed will blow some air on the current trading activities and free international trade to some extent. Removal of NTMs will spur economic growth as firms will tend to be more competitive since foreign firms will also enter the market. This can lead to better and more efficient allocation of resources and thus levelling the profits since lower cost of production will be entertained. Cuts in costs, motivation for more profits will allow local industries to be more productive. When a country is competitive, it will imply that its price is low in the world market which will increase its demand and to meet this rise in demand, production is bound to increase. Moreover, being able to produce at a lower cost will mean that local price will also fall. Thus, by the forces of demand and supply, local production will also increase which will contribute to economic growth. As a result, total production will increase which will benefit everyone. Free trade enables countries to specialise in the production of those commodities in which they have a comparative advantage. With specialisation, countries are able to take advantage of efficiencies generated from economies of scale and increased output. International trade increases the size of a firm’s market, resulting in lower average costs and increased productivity, ultimately leading to increased production. Developing countries need to focus on the removal of non-tariff barriers if they have an aim to increase trade and growth. The removal of NTMs will allow a country to import knowhow, skills and foreign investors. It will definitely ensure an adequate distribution of resources. For example, countries can transfer resources from one country to another. Moreover, it will allow specialization and this will lead to an increase in the world output and countries will benefit from economies of scale.

COSTS OF NON-TARIFF MEASURES

Non- tariff measures are alternatives for governments to trade barriers but they contain benefits, they also comprises of costs. Below are listed the cost borne by three levels of the economy; government level, industry level and consumer level.

Costs borne by government level

Governments must bear the cost of administration and enforcement. For example, a new quality control measure is introduced in an importing country; the later bears the cost to administer such control. Furthermore, the cost of enforcing this new measure, in this case inspection, can be borne either by the importing or the exporting country. Regardless of which country pays the cost, it can be compared as a tax. Another cost borne by the country is external cost. This cost is associated with market failure with the presence of externalities. A common way that governments deal with pollution is the imposition of a tax of the same amount of pollution. Thus, firms are forced to reduce their pollution as much as possible. However, if a non-tariff measure is introduced such as a quota on the amount of pollution or the use of technology to decrease pollution in a less costly way, firms loses the motivation to reduce their pollution consequently increasing external cost. This strategy is often used by governments to bypass the cost of monitoring companies. Conflicts regularly arise between countries on the proportion of external costs they have to pay since different countries have different income levels. Export subsidies are another cost that governments have to bear. Export subsidies have may have different purposes; it can be used to help a domestic firm to increase output, protect infant firms, increase trade of the country or even reduce information asymmetry. Even if export subsidies are transfers within the economy, the net gain of the firm must be higher than the subsidy to increase national income. However, the use of export subsidies lowers the social welfare of the country.

Costs borne by firm level

Compliance with non-tariff measures has incidence on producer costs, both variable and fixed. Complying with regulations may incur cost that cannot be recovered on investments known as sunk costs. These sunk costs associated with non-tariff measures may become an important barrier to entry in the market. Not all firms will be able to meet the new regulations and this will lead to the survival of the fittest. Furthermore, compliance to new specifications or quality may increase cost of production and may have repercussions in the industry especially in low-income countries. With is a high amount of small producers, they may be forced to leave the market. As mentioned above, fixed costs and variable costs are affected by non-tariff measures. The changes in variable costs are reflected in change in prices and assuming that all firms have constant marginal cost, there is no effect on competitiveness related to changes in variable costs. So, firms are differentiated by fixed costs and only those which are able to afford fixed costs related to barriers to entry will export. Fixed costs can also be incurred on exports for example when there is an initial cost to entry in the foreign market. Thus, those firms that cannot pay these costs are forced to exit the market. Firms are also affected when non-tariff measures are imposed on inputs or raw materials. When these measured are imposed on raw materials product, firms may have to buy raw materials with higher prices thus increasing cost of production.

Cost borne by consumers

Consumers are affected by price and price is a derivative of coast of production. So, when cost of production rises, it is probable that price will also rise. For example, the introduction of a non-tariff barrier on quality control of a product. This may lead to use more advanced equipment to meet the new standards and increasing cost of production. As a result, firms shift the burden of higher cost of production on price which also rises.

Cost of removing non-tariff barriers

By removing non-trade barriers, there is an increase in competition. This forces firms to be efficient and cost productive. This will certainly increase supply thus decreasing price. However, firms that are not able withstand this competition that is those firms that have high fixed costs will be forced to close down and exit the market. Furthermore, infant industries which have just been set up will suffer the same consequences. With removal of non-tariff barriers, competition will force firms to be productive efficient. To produce at the lowest cost per unit, firms will have to maximise their outputs and this will lead to an increase in world production. As a result, external cost will also follow this trend; this is an example of market failure. Assuming that only non-tariff barriers are removed, the world is left with only tariff as a trade barrier. Tariff which is basically a tax will increase price of imported goods. The importing country will have no choice but to import the goods since it does not produce that good. It may give rise to imported inflation. Another cost of removing non-tariff barriers is the rapid depletion of natural resources. Since countries will be producing more, thus using more resources. Another cost related to resources is those countries gifted with high amount of natural resources will outweigh those countries with lesser resources. An effect of this may be countries with lesser resources will have only one resource to offer which is human capital. So, countries with high resources will demand labour and those will lesser resources will supply labour. While increasing the world’s production, removal of non-tariff barriers will result in a decrease in the quality of products. This is so because countries will concentrate on quantity rather than quality to meet objectives. Hence, there will be allocative inefficiency. Removal of non-tariff barriers will lead most countries to a balance of payment deficit since imports will be greater than exports. If there is a balance of payments deficit, it will subsequently deplete foreign exchange reserves.

What are countries doing to alleviate the problem?

Many countries tend to combat and remove NTMs as they are often not detected easily. They can be " hidden" in rules and practices that have a perfectly legitimate objective. They also leave more discretion to administrators in applying them. Furthermore, NTBs can have more trade-restrictive effects than tariffs, which raise the cost of a given product, and go as far as excluding a good from a market altogether. That's why many countries tend to promote free trade. So to liberalize trade, that is tariffs and non- tariffs barriers, from 1947, 23 countries started General Agreement on Tariffs and Trade (GATT). After successive rounds of negotiations, the WTO was set up in 2001 though its policies have not been fully implemented- the DOHA Summit failed. Free trade brings lots of benefits, it tends to extend the consumption possibility frontier of a country, that is consumers can enjoyed a wider variety of goods bought at a lower prices. Firms can produce on a large scale, benefits from economies of scale in order to supply an extended market. Moreover foreign completion stimulates efficiency and acts as a check on local monopolies. So trade remains a pre re-requisite element for the economic growth of a country. One important clause of the WTO is the " most nation favoured clause." According to it, if a benefit is provided to one member nation, it should be extended to all countries, thus eliminating all trade barriers. To by pass such a clause, trade blocs are formed. In fact a trade bloc is a type of intergovernmental agreement where regional barriers to trade (tariffs and non-tariffs barriers) are reduced or abolished among the member countries. There is the regional approach and the international approach. The international approach involves the carrying out of international conferences under the supervision of General Agreement on Tariffs and Trade (GATT) such Kennedy Round in the U. S or the Kyoto Round in Japan. The purpose of such international conferences is to reduce tariffs as well as non-tariffs barriers to international trade. On the other hand the regional approach involves agreements amongst small number of nations whose purpose is to establish free trade among them while maintaining trade barriers with the rest of the world. Common examples are European Community (EC), Southern African Development Cooperation (SADC) and North American Free Trade Area (NAFTA). The process by which trade blocs have been established is referred to as Economic Integration. The term ‘ Economic integration is describe the deliberate ways in which countries agrees to merge their economic affairs into a single economic organization. Normally, as economic integration increases, the barriers to trade (including NTMs) diminish. The degree of economic integration is broken down into six stages namely, preferential trading areas, free trade areas, customs unions, common markets and economic and monetary unions and complete economic integration.

Preferential Trading Areas

It is an agreement that takes place when two or more countries form a preferential trading bloc whereby each member countries form a preferential trading bloc where they agree to reduce their respective tariffs on all consumption goods from each other but their retained their original tariff an d non tariffs barriers against non-members countries. Preferential access to certain products is also given from the participating countries. It should be noted that the GATT-WTO prohibits such agreement unless the agreement leads to free trade to the participating countries. A great example of this type of agreement is the EPA which originates from the Cotonou Agreement. This is an agreement between the EU and African, Caribean and Pacific (ACP) group of countries. The objectives of this agreement are to promote a sustainable development and growth, to reduce poverty, better governance and to facilitate the integration of ACP countries in the world economy.

Moreover it provides a framework for political dialogue, development support and economic and trade cooperation. There is also a preferential trade agreement between India and Afghanistan. This agreement was signed to boost two way trades which involve the importation of dry fruits, fruits and some other commodities from Afghanistan. There is also the U. S. Generalized System of Preferences (GSP) which aimed at promoting economic growth in the developing world. This is achieved by providing preferential duty-free entry for up t0 5, 000 products imported from the designated beneficiaries' countries. The products involves manufactured items, chemicals, minerals, building stone, jewelry, carpets, some agricultural and fishery products.

Free Trade Area (FTA)

A Free Trade Area (FTA) is a trading bloc whereby the member countries agree to remove, reduce or abolish tariffs on the free movement of products between themselves. However they restrained their respective tariffs and non tariffs measures against non-participating countries. So member countries will be adopting their own policy towards non-members. It is the second stage of economic integration. The aim of FTA is to reduce barriers so as to enable an easy exchange in order for trade to grow as a result of specialization, division of labour and most importantly via comparative advantage. A great example of a Free trade Area is North American Free Trade Agreement (NAFTA). In fact, it is an agreement between the United States, Canada and Mexico, thus creating a trilateral trade bloc in North America. It involves the elimination of trade barriers as well as non trade barriers between the participating countries. This also involves reducing immigration pressures, and promoting the prosperity, stability and democracy of Mexico.

Customs Union

A Customs Union is a trading bloc that requires member countries to remove trade restrictions between each other and they have to follow the same foreign trade policy by imposing the same or common external tariffs and non tariffs barriers to non-members. Member countries may negotiate as a single bloc with 3rd parties, such as with other trading blocs, or with the WTO. According to J. Viner (1950), customs union can result into trade creation and trade diversion. The purposes for establishing a customs union normally is to increase economic efficiency and to establish closer political and cultural ties between the member countries. However it generally does not allow free movement of capital and labor among member countries. In fact it is a partial form of economic integration that offers an intermediate step between FTA (which allow mutual free trade but lack a common tariff system) and Common Markets (which, in addition to the common tariffs, also allow free movement of resources such as capital and labour between member countries). The Southern African Customs Union (SACU) is a customs union among five countries of Southern Africa: Botswana, Lesotho, Namibia, South Africa and Swaziland. According to the agreement, there is a free interchange of goods between the countries. They maintain a common a external tariff.

Common Market

A common market is the first significant step towards full economic integration. In fact it is one in which there is free movement of products across national frontiers as well as free movement of capital and labour. In a common market, all barriers are removed. The development of a common market make it easier for firms to sell both goods and services to other European Union countries without any constraints and to set up production units elsewhere in the area. It has equally made it easier for foreigners to live and work in the European Union countries. It also provides measures to reduce market frictions. Transactions costs are reduced through common standards and financial regulation. Transportation problems are dealt with through the coordination of roads, rails, etc. There are also no border checkpoints. Measures are also taken to combat exchange rate uncertainty.

Economic and Monetary Union

The European and Monetary Union involves the harmonization of economic policies to promote greater economic integration. The Economic Union concentrates on the creation of a single market through the removal of artificial trade barriers, a greater degree co-ordination of economic policies and in some area, the development of common policies. The Monetary Union is more concerned with greater co-ordination and centralization of monetary policy.

Complete Economic Integration

Complete economic integration involves a single economic market, a common trade policy, a single currency, a common monetary policy (EMU) together with a single fiscal policy, tax and benefit rates – in short, complete harmonization of all policies, rates, and economic trade rules. The main objective of economic integration is to reduce costs for both consumers and producers, as well as to increase trade between the countries taking part in the agreement. At the UNCTAD XI conference, the São Paulo Consensus (2004), Member States requested the Secretariat to seek a better understanding and assess the impact of NTMs to facilitate the extension of market access liberalization for non-agricultural products under the Doha Work Programme, and eventually reduce or, as appropriate, eliminate, inter alia, non-tariff barriers, in particular on products of export interest to developing countries. Subsequently, the Secretariat sought to further strengthen the work in this area by developing a publicly available standardized database of NTMs in collaboration with other international partners, which could be used by all interested parties, and a relevant classification system to reflect the complex nature of today's international trading arrangements and mechanisms. It was recognized at São Paulo that in spite of their importance in regulating trade, there is little understanding of the exact implications of NTMs on trade flows, export-led growth and social welfare in general. This lack of understanding was in large part due to the fact that, with the exception of the UNCTAD-TRAINS database, there is no global mechanism to obtain comprehensive and continuously updated information on NTMs. The UNCTAD TRAINS database has not been updated regularly since 2001, and the data was based on an obsolete classification which does not adequately and accurately reflect new forms of non-tariff measures. The Commission on Trade in Goods and Services, and

Commodities at its Ninth Session, held in Geneva on 14-18 March 2005, while acknowledging that UNCTAD should examine the effects of non-tariff barriers, decided in accordance with the São Paulo Consensus, to convene an Expert Meeting on Non-Tariff Barriers. In the same year, the Expert Meeting on Methodologies, Classifications, Quantification and Development Impacts of Non-Tariff Barriers, held in Geneva from 5 to 7 September 2005, addressed a comprehensive agenda related to NTMs and was attended by a large number of government officials at the senior and expert level from developed and developing countries, and countries with economies in transition, representatives of the World Trade Organization (WTO), the World Bank, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), Food and Agriculture Organization (FAO), International Trade Centre (UNCTAD/WTO) ITC, United Nations Industrial Development Organization (UNIDO), ALADI, IADB, SARC, SIECA, making this event a truly multi-stakeholder event. The focus of the Expert Meeting was primarily on technical and research issues (such as classification and quantification of NTMs) and on strengthening/forming partnerships with relevant international organizations and other stakeholders to deal with NTMs on a comprehensive and long-term basis. In sum, the key objectives of the Expert Meeting were: To identify ways to improve, both in terms of country coverage and data quality, the NTM database contained in the UNCTAD TRAINS database; To clarify methodologies for defining and classifying NTMs according to their nature and source, including clusters of NTMs that are already subject to WTO disciplines; To review econometric approaches to quantify NTMs that could be applied to improve understanding of the role of NTMs in world trade; To look at experiences of other international organizations in dealing with NTMs, including the WTO, World Bank, IMF, OECD and others; andTo assist developing countries, including LDCs, in building their analytical and statistical capacities in assessing NTMs affecting their exports. At this same meeting, Supachai Panitchpakdi, Secretary-General of UNCTAD, expressed his intention to set up a Group of Eminent Persons on NTMs drawn from governments, international organizations, academia and civil society. In 2006, the Secretary-General of UNCTAD established the Group of Eminent Persons on Non-Tariff Measures (GNTM). The main purpose of GNTM is to discuss the definition, classification, collection and quantification of non-tariff measures so as to identify data requirements, and consequently to facilitate our understanding of the implications of NTMs. To advance the activities on NTMs, the GNTM, comprised of eminent personalities, met for the first time in UNCTAD Geneva on 12 July 2006, and adopted the following terms of reference:(a) To make recommendations on the definition, classification and quantification of NTMs; (b) To define elements of and draw up a substantive work programme relating to the collection and dissemination of NTM data, with a special focus on issues and problems faced by developing countries;(c) To provide guidance on the further strengthening of UNCTAD´s Trade Analysis and Information System (TRAINS) database;(d) To review and make recommendations on capacity-building and technical cooperation activities in favour of developing countries in the area of NTMs;(e) To provide policy advice on inter-agency collaboration and coordination on activities relating to NTMs;(f) To promote cooperation with the donor community; and(g) To prepare comprehensive recommendations on follow-up to its work.

Eliminating NTMs is part of a broader trade-facilitation agenda aimed at the reduction of overall trade costs. Countries have been in the past decade seriously addressing the issue: Asia-Pacific Economic Cooperation (APEC) countries have in the APEC’s 2001Shanghai Accord pledged to reduce trade costs by 5%. They project to gradually eliminated NTMs, create an APEC tariff database and compile a list of measures recognized as non-tariff impediments and a list of products affected by those impediments. Association of Southeast Asian Nations (ASEAN), as per the World Bank, hasimplemented a proper strategy for overcoming NTMs. Elimination of NTMs are being more lengthy than that of tariffs but ASEAN have taken important commitments. Their roadmap specifies that NTMs are to be eliminated by 2010 by ASEAN-6 founding countries and 2018 for Cambodia, Laos, Myanmar and Vietnam. On a regional basis, the ASEAN free trade area (AFTA) has adopted the simplest origin requirement of 40 regional value content or wholly obtained for all products, which is significantly less restrictive than other PTAs. The European Union (EU) elimination of NTMs is based on three principles ofNon-discrimination, mutual recognition and community legislation. Since 1995 the Trade Barriers Regulation (TBR) has given European businesses a tool for tackling trade barriers in export markets. Businesses can use the TBR to ask the European Commission to investigate restrictions on their sales abroad, discriminatory treatment in foreign markets, difficulty obtaining patents or licenses or any other form of unfair barrier to their export of goods or services. TBR cases have improved export conditions for carmakers in Colombia, pharmaceutical products in Turkey, textiles in Brazil and in many other cases. Also, being a signatory of the WTO TBT agreement, harmonized legislation was adopted when existing rules on health, safety or environmental protection differed too much across Member. Physical barriers (border checks and customs formalities) were eliminated. IndiaThe ascent of NTMs holds special significance to developing countries like India. It has been encountering difficulties in accessing developed country markets because of restrictive standards, burdensome regulations, and expensive compliance costs. For example, around 44 % of Indian exports to US face several NTMs – technical requirements and labelling requirements. The main commodities affected are textiles, including ready-made garments, iron and steel, fish and seafood. Participating in WTO negotiations of DDA, India is trying gradually to suggest measures to be take against NTMs and hence increase its trading activities. MauritiusMauritius operates a rather liberal trading regime. In terms of tariffs, the most important achievement has been in July 2006 when differences between the rates of excise duties on imports and local goods were eliminated. A VAT of 15% now applies to both imports and domestically produced goods. As far as NTMs are concerned, a series of documents are required by exporters and importers at the instance:• Invoice • Packing list• Bill of lading / Airway bill • Bill of entry• Insurance certificate (if applicable) • Certificate of inspection (if applicable)• Certificate of origin (if applicable) • Certificate of health (if applicable)• Export permit (if applicable)Nevertheless, operators state that for regulars these license especially the phytosanitary of the health certificates have become a routine exercise. Also, it is recognize that as

Mauritius is a small island, a minimum level of protection is essential. In the World Bank's recent Open Data Initiative, a dataset of the Mauritius's non-tariff measures has been created as a tool to guide businesses and policy makers as they sort through government regulations. This harmonization encourages negotiations on trade flows and investment at the regional and multilateral levels. Mauritius has eliminated customs duty on 87 percent of tariff lines, but there are still remaining challenges in liberalizing non-tariff measures that hamper the productivity of firms and negatively impact the investment climate. Similar effort is being made to gather data in a number of East African countries including Kenya, Namibia, Tanzania and Zambia with the goal of identifying and reducing non-tariff barriers.

Conclusion:

NTMs have both their advantages and disadvantages, but their disadvantages seem to be overhauling its benefits. The impact of NTMs should be that it reflects our culture and allow trade to take place in the right conditions. World trade has been taking a new dimension since the past two decades. Liberalization is at the center of this development. Economies are shifting to open up market access and be part of a global village. It is, hence, important that all trade barriers are addressed so as to allow globalization of trade in goods, services, agriculture, intellectual property, technology and many other tradeables. Since its creation in 1947, the GATT has had as mission the reduction of tariffs. As it was replaced by the WTO, the negotiations continued. It can be said that over the years, much success has been achieved in this line. Nevertheless, creativity of people has brought about all sorts of non-tariff measures which are, in turn, impeding on productivity and trade relations. NTMs effect on economies is debatable. Therefore, a level of barrier is permissible to the extent that it is not excessive and unnecessary. It is important to note that tough NTMs are harming the world economy, countries everywhere are aware of this fact and willing to take action. In this line, many negotiations have been signed and trading blocs have affirmed their commitment in eliminating NTMs. Tackling NTMs is a difficult task but with robust organizations like the WTO and trading blocs such as the ACEP, ASEAN and the EU, gradually NTMs are being reduced. This is with the expectations that other loopholes and hence barriers to trade do not come up.