

# The customs and administrative entry procedures economics essay

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Introduction Throughout the years, various changes took place in the way trade is conducted. Indeed, the multilateral rounds of negotiations and the unilateral liberalization have led to significant decrease in the use of trade barriers. Tariff, which is the levy of ordinary custom duty, has witnessed a significant decline, in accordance with the aim of the WTO. Nonetheless, countries are having recourse to other tools in order to protect the domestic producers and they include the use of non-tariff measures (NTMs), which gained emphasis over time. What Are NTMs? NTMs can be defined as those restrictive measures imposed to prevent foreign goods from entering the country. Unlike tariff, NTMs are less transparent in nature and they do not bring any revenue. It is a way through which an economy controls its trading activities with other countries. Some examples of NTMs are quotas, voluntary export restraints, packaging and labeling requirements amongst others. Actually, the non- tariff barriers encompass a wide range of measures and can be segregated into different groups as listed below;

### **Specific limitations**

It includes quotas, embargoes, quantitative restriction, exchange controls, import license requirements, quantitative safeguard measures, and prohibitions, amongst others. As the name suggests, these measures are adopted to restrict the quantity of goods entering the country. While a quota is a restriction on specific quantity of a good, an embargo is a complete ban of the good. Besides, another way to control foreign goods from entering the homeland is through the control the amount of currency being exchanged. If a given limit is set for the amount being exchanged, the importers will not be able to import for more than what they have actually allowed to.

## **Customs and administrative entry procedures**

The customs and administrative procedures take into account the various rules imposed by the government. Issues concerning the rules of origin, pre-shipment inspection, importing licenses, transit fees, and anti-dumping duties among others are taken into consideration.

## **Technical barriers to trade (TBT)**

It refers to those technical specifications of products or production processes that need to be observed to gain access in a particular country. It also considers the co formality assessment (WTO, 2004). Indeed the use of international standards and harmonization are encouraged. Some main examples of TBT are the standard disparities, issues regarding packaging, labeling and marking, inadequate testing and certification arrangements amidst other.

## **Sanitary and phyto-sanitary measures (SPS)**

Sanitary and phyto-sanitary measures may be defined as those measure implemented in order to protect human, animal and plant lives from the risks associated with toxins and other nefarious products present in foodstuff and to prevent the proliferation of diseases in a country. It encompasses the hygienic requirements, storage and transport conditions, testing requirement and certification of products

## **Charges on import**

These are measures, other than tariffs, that increase the cost of importation. For instance the administrative fees, the border taxes or the import license fees. Indeed, it has been noted that the composition of NTMs has been

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changing quite rapidly for the past few years. Quantitative restriction which was mainly used is on the decline while technical regulations are on the rise. As a matter of fact, NTMs have been present a very long time ago but its use accentuated in the 1980's. In fact, concrete use of NTMs was seen when the Japanese restricted automobile export to the United States in 1981 followed by the imposition of quotas on sugar exports by the US government. In fact, the index of economic freedom demonstrated that countries like Cuba, Zimbabwe or North Korea are ranked 177, 178 and 179 respectively in the index for economic freedom while Mauritius positions itself at the 8th place. The country to rank first in the world in terms of this economic freedom is presently Hong-Kong. Why NTMs? Non-tariff measures, such as TBT/SPS measures, are often the first-best instruments to achieve public policy objectives, including correcting market failures arising from information asymmetries (where one party has more or better information than the other) or imperfect competition, and pursuing non-economic objectives, such as the protection of public health. Improve welfare through reduction in negative externalities (e. g. through reduced risk of importing pests or diseases) or informational asymmetries through a label providing to the consumers details on the product. Below is a detailed description of the reasons explaining the presence of NTMs.

### **Remedy to externalities**

A large proportion of NTMs attempt to remedy external effects. Externalities refer to costs imposed on agents not associated with production or consumption of the good. Externalities can take the form of consumption externalities, while those where the impact arises in production will be called

production externalities. As an example, consider harmful chemical residues that arise in production, but their possible health impact occurs on the consumption side; this type of externality will therefore be referred to as a consumption externality.

## **Reducing Information asymmetry**

Information asymmetry refers to a situation where one set of agents involved in an economic transaction or exchange has an informational advantage over other parties. Information asymmetry is also relevant to international trade. Suppose that countries differ in the safety or quality of the goods that they produce, with the home country specializing in high-quality products and the foreign country specializing in low-quality ones. Imagine that consumers in both countries differ in their preference for quality, with some willing to pay more for high-quality products, and others unwilling to pay more. In this scenario, consumers are also unable to tell the difference between high-quality and low quality products because these goods are not distinguished by origin. Under these circumstances, Bond (1984) shows that the country with high-quality products may lose if it trades with the country producing low-quality products. This arises because trade reduces the average quality of products sold in the market of the high-quality producing country, which spills over to affect the expected welfare of all consumers in the importing country. The first best policy is labeling to allow consumers to distinguish between home (high-quality) and foreign (low-quality) products. Consumers with a taste for high-quality goods will purchase home goods and consumers satisfied with low-quality goods will purchase foreign goods, resulting in a two-way trade in equilibrium. Each product will sell for the "

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right" price – high-quality goods at higher prices and low-quality goods at lower prices. Thus, both countries would be better off as a result of trade because it expands the variety of products available to consumers, and leads to a better match between consumer tastes and products. Giving the consumer all the necessary information unambiguously improves the welfare of the importing country.

### **To protect the infant industry as well as domestic producers**

While many NTMs are concerned with consumer protection, NTMs can also be utilized by political incumbents to protect domestic producers. Countries are looking for new ways to protect domestic producers from import competition. The different forms of NTMs carry different costs and benefits for different parts of society. For example, banning non-compliant beers from the German market has benefited some domestic beer producers by excluding foreign competition. NTMs also facilitate the infant industry protection. For instance, if the home country has a high-cost industry it will find it difficult to compete with foreign goods. However, there are dynamic learning effects that are external to the firm and beneficial to the country. The experience that domestic firms accumulate by producing the good will reduce their costs over time. Furthermore, these learning effects will also benefit other firms in the industry. Thus, the government provides temporary support to those firms. Under these conditions, the solution for the government is to use a production subsidy rather than a tariff to assist the infant industry (Bhagwati and Ramaswami, 1963). It directly targets the source of the market failure by supporting learning in the domestic industry

without penalizing consumers with a higher price for the product, which is the principal drawback of using a tariff.

## **Health, safety and environmental considerations**

Economic, social and technological advances together with the growth in global trade and the potential for spread of human, plant, and animal diseases such as avian flu, H1N1 have resulted in higher consumer demand for food safety and posed new challenges in managing globally fragmented supply chains. Food safety measures have proliferated as a tool to respond to these challenges. As a consequence, various approaches to mitigate possible negative trade impacts, such as harmonization of standards, equivalence and commitment to a set of rules, are receiving widespread attention. Sanitary and phytosanitary measures (SPS) is used to protect human health and protect plant and animal health. With increased international integration, trade is increasingly becoming a vector of external effects, and governments have responded with a wide array of NTMs to the need to safeguard domestic concerns (Levine and d'Antonio, 2003). Imports can carry invasive species such as pathogens, pests, or weeds, foreign to an economy's ecology (CABI, various). Different trade partners may have different food safety standards and institutional capacity to enforce these standards. This may lead to imports of food that do not meet domestic requirements. Imperfect and incomplete monitoring at the border where it occurs compounds the health or environmental risk. Pollution and the environment is another market failure justifying government action. Nowadays, the public and policy-makers are much more conscious about the environmental consequences of certain economic activities. Many

governments pursue environmental objectives using non-price measures, such as performance standards, emission quotas, and mandated technologies. Governments may prefer these measures for distributional or competitive reasons, because of uncertainty about the costs and benefits of abatement, or to avoid the cost of monitoring and enforcement (Bovenberg and Goulder, 2002). For instance, a pollution tax requires firms to pay for each unit of emission while an emission quota does not. While both instruments might lead the firm to curtail emissions by the same amount, the tax saddles the firm with an additional liability that it does not face with a quota. If policy-makers are uncertain about the true cost of mitigating environmental damage, but are certain that passing beyond a threshold level of environmental damage would be catastrophic, quantity-based measures will be preferred to price based measures.

## **Increase Trade**

Trade can be increased rather than reduced by:- Providing assurances to consumers about safety and quality of imported products- Spurring developing-country exporters to modernize their supply chains- Using Streamlined and transparent customs procedures- Reduce risks, more transparency, and more information. In addition, NTMs can expand trade as they enhance demand for a good through better information about the good or by enhancing the good's characteristics. In the presence of disease risks, well designed NTMs may allow for some limited amount of trade, while in the absence of measures, such as strict border inspections or restricting imports to products from a specific country or region within a country, no trade might take place at all. There is also an implicit presumption in much of the



existing literature that harmonization of NTMs is welfare improving. When harmonized, these regulations can reduce unit cost of production via economies of scale and can guarantee free movement of goods on a unified market, such as has happened in the EU. But consumer choice might also be reduced if the goods being harmonized are initially differentiated and if tastes differ across countries (Moenius, 2006).

### **Global-commons issues**

Global commons or common-pool resources refer to resources perceived as belonging to the (global) community and requiring collective stewardship. They are open access or common pool resources, for which property rights are not well defined or not defined at all. Examples of such global commons problems include unsustainable resource use in forest products, depletion of fish stocks through over-fishing, and agricultural production with negative ecological impacts. Consumers do not need to consume a specific good themselves to suffer the externality. However, consumers may benefit from consuming products certified as respecting the commons. Eco-labels and fair trade are well known examples of measures providing perceived benefits to consumers with global-commons concerns. Although the analytical treatment of global commons cases will often be closely related to the treatment of externalities affecting consumers, it is worth distinguishing the former as an increasing number of trade frictions between OECD and developing economies are based on global commons issues and as interest in sustainable practices expands. A NTM in the importing country may attempt to alleviate the global commons problem in the sourcing country.

## **Imperfect monitoring and other government failures**

This applies in situations where the existing regulatory policies are imperfectly monitored and incompletely enforced by government which sometimes calls for additional interventions, or may necessitate policies that would not be welfare-optimal if monitoring were perfect. Mitigating the institutional deficiencies can have strong trade implications and bring costly policies. A failure to detect FMD (Foot and Mouth Disease) can induce a collapse of trade if partners are closing borders as an emergency measure. If institutional capacity for border inspection is limited, a country might choose to designate just one port of entry for imports of certain food products, and this measure can lead to an additional trade cost. Other policy responses may be more cooperative when they can be planned, especially in the North-South context. For example, coordination of policies such as certification of South exporters by importing countries in the North providing the additional capacity missing in the exporting country (e. g. the EU assisting Latin American meat packers to meet EU food safety and phytosanitary standards). In many countries, full traceability and monitoring may elude the authorities. Even the highly developed regulatory frameworks in OECD countries cannot completely prevent salmonella and E-coli outbreaks. Theoretically, optimum monitoring should equate expected cost and benefits of monitoring activities, and this often means that complete monitoring and total prevention would be excessively costly. The ability to effectively regulate the agri-food sector is generally more limited in low income countries that lack institutional experience as well as financial resources. The limited capacity to inspect and monitor will exacerbate the issue of food

safety and global-commons externalities, as consumers do not have information on process and product characteristics of the imported food they buy. In this context, private standards have emerged to pick up some of the tasks. (Fulponi 2006, Garcia Martinez et al., 2007).

## **Monopoly power**

Imperfect competition often leads to the existence of monopoly power which is another market failure requiring government intervention. Competition rules will prevent a firm from colluding with others thus preventing the abuse of a dominant position. For example, a small country is only able to import a specific product from a foreign monopolist because it is not produced domestically. The importing government's objective is to expand imports and reduce the artificial scarcity resulting from the foreign monopolist's control of the domestic market. Instead of NTMs being used to restrict trade, in this case NTMs will be used to try to expand trade and/or reduce the price charged by the monopolist. The optimal policy is a price ceiling on the imported product set equal to the monopolist's marginal cost of production (Helpman and Krugman, 1989). In other words, the foreign monopolist will be allowed to sell to the home country only if it caps its price at the ceiling established by the importing country. Other NTMs, such as import subsidies and minimum import volume requirements can also be used to induce foreign firms with market power to supply more to the importing country( Helpman and Krugman(1989)).

## **Profit-shifting non-tariff measures**

Non-tariff measures can also be used to shift profits from the foreign to the home country. This is most relevant in imperfectly competitive markets where firms have market power, and can effectively use NTMs, such as subsidies, export taxes and TBT/SPS measures, to take market share and profits away from foreign rivals. Suppose that two firms, the home and foreign firm, compete in selling to a third market. Competition between them can take many forms but only two types of competition are considered—through their choice of output (Cournot competition) or through their choice of price (Bertrand competition). Under Cournot competition, Brander and Spencer (1985) demonstrate that a government can use export subsidies to help the home firm expand output, thereby forcing its foreign rival to contract production and concede market share. The subsidy has the effect of committing the domestic firm to a more aggressive strategy which in turn induces the foreign firm to produce less. From the point of view of the home country, even though the subsidy payment is just a transfer from the government to the home firm, the profit-shifting effect results in the firm's profit rising by more than the amount of the subsidy, creating a net gain to the home country. If firms compete in prices, Eaton and Grossman (1986) show that the optimal policy will be an export tax rather than an export subsidy. Under Bertrand competition, both firms would like to charge a higher price but if only one firm does so it will face lower export demand. However, a price hike would not prove detrimental to the home firm if its rival follows with a price increase of its own. Both firms will earn positive profits as a result. By imposing an export tax on its firm, the home

government in effect commits the home firm to charge a higher price for any given price chosen by the rival. This persuades the foreign firm to follow suit - match the home firm's higher price - which benefits it and the home firm as well.

## **Income distribution**

In least-developed countries (LDCs), where fiscal systems are less developed and social safety nets are often non-existent, governments use trade policy instruments and NTMs to achieve income distribution goals. Kalenga (2012) provides evidence that import and export bans and quota restrictions on commodity trade continue to make up a significant part of NTMs in sub-Saharan Africa. The use of export restrictions by a number of emerging economies when commodity prices spiked in 2008 was motivated to alleviate the pressure of high food prices on the most disadvantaged countries (Organisation for Economic Cooperation and Development (OECD), 2009).

## **Institutional Constraints**

Institutions have constrained of using tariffs and thus lead policymakers to search for other means—nontariff measures by default--of achieving their objectives. The most far-reaching of these institutions is the General Agreement on Tariffs and Trade (GATT), in which signatories commit themselves to rigid rules in the use of tariffs, including that any change in tariffs be done on a most-favored nation (MFN) basis. But other such institutions also exist within the sovereign countries of the trading world, such as the separation of powers within the United States government that relegates to Congress the power to levy tariffs and leaves the administrative

branch to search for other means that is using nontariff means, of manipulating trade. Thus, institutional arrangements such as these are the sole reason for the preference for NTBs.

## **Imperfect Competition**

Much of this literature has been identified with the issue of the equivalence, or nonequivalence, of tariffs and quotas. The seminal contribution on this subject was Bhagwati (1965), who noted that with perfectly competitive markets, tariffs and quotas are equivalent, but with imperfect competition that equivalence fails. That is, with perfect competition, exactly the same results can be achieved with a quota and also with a tariff of an appropriate size, and vice versa, so long as the revenue from the tariff and the rent from the quota accrue to, and are spent by, the same individuals. With imperfectly competitive markets, on the other hand, the differences that a tariff and a quota will depend on the elasticity of demand facing the domestic industry. In this case, a tariff and a quota will have different effects on the domestic price and/or on the level of production in the domestic market. Reasons for nonequivalence therefore carry with them reasons why one or the other policy might be preferred, and therefore, potentially, reasons why governments might show bias in their selection of policies.

## **Retaliation**

The issue of retaliation in itself may be a reason for one particular form of NTB. It is often suggested that the use of voluntary export restraints (VERs), which are quantitative restrictions are chosen over both tariffs and import quotas because they are less likely to lead to retaliation. Hence, the quota

rents generated by a VER are presumed to remain in the exporting country, either being collected by its government in return for export licenses, or being earned by the exporting firms themselves.

## **Uncertainty**

This literature about uncertainty in the context of trade has been surveyed by Pomery (1984). Two of the more recent examples from this literature, show how quotas may emerge as superior to tariffs. Young and Anderson (1982) added risk aversion to a model. In their general equilibrium model an economy faces a random world price, and seeks to maximize consumer welfare subject to a ceiling on expected imports. Because of risk aversion, the optimal policy attempts to stabilize real income, and thus requires that import prices rise and imports fall when their world price happens to be low. Neither a tariff nor a quota achieves this outcome, but since a quota at least holds both constant, it is closer to the optimum and is preferred to a tariff. A second example is a model of Falvey and Lloyd (1985) which state that there is a partial equilibrium model that is distinctive in that they divide population into both a producer group and a consumer group, depending on ownership of factors in the industry being studied. They are then able to derive properties of the optimal policies from the standpoint of each group, defined as functions relating domestic price to the state of the world. Not surprisingly, producer interests are promoted by a policy that is similar to a quota. Thus it is ultimately risk aversion that leads to a preference for quotas in these models. Whenever uncertainty originates outside a country through randomness in the world price or the import supply curve, then a quota can stabilize both the price and the quantity of imports, effectively insulating the

country from the uncertainty, hence, considering the importance of a quota over a tariff. Thus a quota protects the economy or the industry from a possible good outcome at the same time that it protects it from a bad one, a form of protection that is typically optimal for risk-averse individuals. Costs and benefits of NTMsBenefits

## **The protection of domestic industries**

NTBs help in the protection of domestic industries and as such they also help in preserving jobs in the domestic market as trade and competition with other countries could very well destroy jobs in the home country. Moreover, new industries sometimes claim they need temporary trade restrictions to get started while older industries sometimes argue that they need temporary trade restrictions while they restructure to become more competitive. In 2002 Bush imposed temporary tariffs on imported steel, claiming the domestic steel industry needed some time to restructure itself. The banning of non-compliant beers from the German market has benefited some domestic beer producers by excluding foreign competition.

## **Encourages transparency**

Another NTB which brings certain benefits is the rule of origin which is fundamentally a criteria used to define where a product was made. It is an essential part of trade rules because a number of policies discriminate between exporting countries: quotas, preferential tariffs, anti-dumping actions, and countervailing duty (charged to counter export subsidies). The Rules of Origin Agreement requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting or



disruptive effects on international trade; that they are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standard (in other words, they should state what does confer origin rather than what does not. It may help in revealing the missing information and lead to differentiation of consumer demand between domestic and foreign varieties.

## **Increases in GDP**

When two or more countries co-operate and work together in the setting up of NTMs this may be an advantage rather than a drawback as this will encourage growth instead of hampering it. The alignment of NTBs between the US and the EU yield a few advantages for both parties. Indeed, for the US benefits from aligning NTMs are estimated at €41 billion per year in increased GDP and a 6 percent increase in exports to the EU. Cost savings would be generated mainly in electrical goods, chemicals, pharmaceuticals, financial services, and insurance. On the other hand for EU the benefits could translate into a potential annual gain of €122 billion in GDP and a 2 percent increase in exports to the U. S. Cost savings would accrue primarily from gains in motor vehicles, chemicals, pharmaceuticals, food, and electric goods.

## **Trade Creating**

NTMs such as technical measures may even be trade creating. The existence of technical measures may enhance the flow of goods by providing reassurance to potential foreign purchasers and by making imported goods closer substitutes for domestic analogues. The imposition of technical

measures may not even necessarily affect exporters more adversely than importers. The imposition of measures concerning corporate average fuel economy in the United States, for example, was generally seen as enhancing the position of Japanese exporters relative to domestic U. S. auto manufacturers.

## **Environmental protection**

Many export restrictions are put into place for environmental reasons or to preserve natural resources. In order for them to satisfy this objective, however, they must result in lower production levels. Indeed, Environmental protection is among the most frequently cited policy objective of NTBs. The rationale given by the Chinese government for the imposition of the export restrictions measure was for environmental reasons (residue from the mining industry, for example, and excessive use of energy to process products of the extractive industries) and for reasons of preservation of natural resources. China holds 44% of known worldwide reserves of molybdenum and is responsible for 28% of its production. To be effective in achieving objectives such as the conservation of natural resources and protection of the environment, export restrictions should affect production levels. The government applying the restrictions expects that, by reducing export volume, they will reduce the volume of production.

## **Help in improving macroeconomic objectives**

The achievement of macroeconomic objectives has been facilitated through the imposition of NTMs. Indeed, NTMs have helped in achieving price stability and economic growth by restricting imports and thus avoiding import-

induced inflation and protection of domestic industries respectively.

Although export restrictions in certain sectors may support fiscal revenues and broad development objectives, the general economic situation in which these export restrictions were introduced is very important.

## **Less Retaliation**

The price differential that is usually brought about by voluntary export restraints is normally captured by exporting companies from the foreign countries and as such this leads to a reduction in the likelihood that a particular country will take retaliatory actions against such restrictions. Indeed, with the right demand conditions, NTMs such as voluntary export restraints may cause a significant redistribution from consumers in the importing country to producers in the exporting country. A very popular example would be the U. S-Japanese voluntary export restraint on automobiles led to increased benefits to selected Japanese auto producers ranging from \$1 billion to \$5. 25 billion in 1984. Costs

## **Threatens trade liberalization**

According to Alan Winters NTBs are the greatest single threat to a liberal world trading system and this can be illustrated by the fact that in 1983, among sixteen major industrial countries, 27% of total imports were subject to at least one official, commodity-specific barrier. Imports 'managed' in this way covered some \$225 billion of trade (at 1981 values), exceeding by nearly 50% the total imports of the planned economies of Eastern Europe and the USSR. Furthermore, NTBs have been spreading: in 1983 there were 2, 500 more barriers than in 1981, covering \$13 billion of imports. These

barriers create particularly serious problems for the developing countries: 34% of their exports to industrial countries face NTBs. Non-tariff barriers are most common in textiles, agricultural goods, fuels and iron and steel. The NTBs which most severely affect developing countries' exports are quantitative restrictions and 'voluntary' export restraints. In 1981, for example, Japan, the EEC and the United States imposed quantitative restrictions on some \$10 billion of imports (excluding textiles) for which a developing country was the principal supplier. It was observed that, 84% of the benefit of liberalizing these flows would accrue to developing countries, 27% of which would go to the principal suppliers themselves. Recognizing their importance in distorting international trade, the Non-Agricultural Market Access (NAMA) negotiations launched pursuant to the Doha Round Ministerial meeting (2001) agreed to discuss textual proposals to deal with Non-Tariff Barriers (NTB's) in particular on products of export interest to developing countries. Below is the case of Argentina which illustrates the extreme measures adopted by the country.

### **Case of Argentina**

Argentina has increased the list of products subject to non-automatic import licensing requirements since 2008. For approximately 600 tariff lines in Argentina's goods schedule, import licenses are needed. The goods concerned are namely: laptops, home appliances, air conditioners, tractors, machinery and tools, autos and auto parts, plastics, chemicals, tires, toys, footwear, textiles and apparel, luggage, bicycles and paper products.

Argentina adopted an additional licensing requirement that applies to all imports of goods into the country in 2012. Moreover, Argentina has adopted

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informal measures, such as companies seeking to obtain authorization to import products must agree to export goods of an equal or greater value, make investments in Argentina, lower prices of imported goods and/or refrain from repatriating profits. This depicts how discouraging it becomes to import goods and it may even spark retaliation from other countries. It also deeply hampers trade.

## **Hampers Competitiveness**

The national economy suffers a lot over time due to such NTBs as on one hand, it decreases the sense of competitiveness among the domestic companies, on the other hand it is harmful for the consumers as well who may have to compromise of the quality and the choice. Organizations like the WTO, EU, or NAFTA are working towards lowering such barriers but exporters around the world are still advised to work with those countries that encourage imports.

## **Delays, additional expenses and prevents trade**

The NTBs between EU and Canada have caused a lot of problems namely: delays, additional expense and general inhibition of trade. There is overlap in the problems identified by both EU and Canada, who concentrated, in particular, on standards-related measures. Barriers related to foodstuffs and technical standards were identified, Europeans cited quotas, sanitary approvals, differences in standards, provincial marketing of wines and spirits, and labeling and packaging requirements as key barriers to the free flow of goods between the EU and Canada. Moreover, a lack of transparency regarding technical and safety standards caused a significant barrier to trade

in industrial products. It was reported that two-thirds of Canadian exporters had faced regulatory barriers to trade with Europe, certification being an important issue. Other barriers included labeling and packaging requirements, and health and safety standards. Canadian exporters also identified specific NTBs relating to agricultural trade as a further contributing factor to Canada's trade deficit in this sector. Most barriers identified were sanitary and phytosanitary measures, such as the EU's ban on hormone-treated beef and its approval process for genetically modified organisms. For African countries it could be observed that NTBs evolve around business registration and licensing, customs procedures, police road checks, road axle regulations and control, and standards and certification requirements (EABC 2005) and those procedures inhibit formal trade between the EAC countries as well as distort relative prices thereby encouraging informal cross-border trade- a more costly alternative. The biggest constraint were the customs procedures, indeed license or border clearance procedures and documentation are not in sync across borders and at check points such as road blocks weighbridges, council and municipalities it is very time consuming. Road blocks were perceived by traders as very expensive both in monetary and time losses. There were too many roadblocks coupled with bribery and hostile police checks. As such, the cost of doing business kept on increasing. The widespread use of bribes in the region's trading route was also observed. At least 50% or more of traders reported paying a bribe at any of the customs clearance points along the trading routes with the amount of the bribe determined by the consignment value. It was also found that the East African region loses more than US \$ 57, 730 to corruption for

every 100 transactions in tax revenue along the Northern Corridor. In a bid to shorten the process of clearance so as to have a quicker release of goods customs officials are bribed. Other causes of bribery include police harassment and discrimination. Another way in which traders and transporters of both maize and beef cattle waste time is when they have to wait in line at customs offices, indeed the longest time spent in queues per trip was approximately 7 hours in Uganda by maize traders and transporters.

### **Higher Costs incurred by firms which lead to higher consumer prices**

EU and US companies are deeply interlinked and invest heavily in each other's countries due to the fact that transatlantic tariff barriers are quite low, however, " behind the border" non-tariff measures (NTMs) and regulatory differences are far more important impediments. It was observed that NTMs cause higher costs for firms in about 60 percent of cases for both the EU and the US, while causing the creation of market power in 40 percent of the cases. With cost increases, consumer prices are expected to go up because firms increase prices to cover the higher cost of doing business, which constitutes a welfare loss to society. Moreover, there is also a decrease in competition which has led to higher levels of market concentration and thus to lower trade and investment levels at higher prices for traded goods and services. The higher prices lead to a fall in consumer welfare and production costs of companies are higher due to the fact that regulation is not aligned and also due to the higher level of NTBs.

## **Heavy losses incurred by exporters in LDCs**

Most of the major agricultural export items from Bangladesh and Cambodia face NTMs from EU, USA, Japan, India and Thailand. Under the EU-Everything But Arms (EBA), exports from Bangladesh and Cambodia do not face import quotas but fish and tobacco related product (main export items) are affected by import licenses and subsidies. USA imposes import licenses on fish, tobacco and vegetables, and import quotas on sugar and tobacco, and also provides export subsidies on vegetables, rice, maize and wheat. NTBs in Japan are tariff quota, state trading, and state procurement which are imposed mainly on tobacco, raw sugar and cereal products. Thailand's major non-tariff barriers are related to import license, technical measures, and quantity control. Major barriers imposed by India are import monitoring, import quota, government procurement, and state trading. India monitors imports of rice, maize, tea and vegetables procures wheat and rice and imposes import quotas on maize. SPS is the most crucial non-tariff barrier for agricultural exports from Bangladesh, Cambodia and other LDCs.

Bhattacharya and Mukhopadhaya (2002) reported that almost all exports from Bangladesh to the EU market are subject to SPS and TBT measures. Non-compliance with the SPS requirements can have devastating effects for the exporting country. Bangladesh has already suffered from an SPS related trade ban in 1997, when the EU banned the import of shrimps, as SPS requirements were not correctly fulfilled. The cost of EU ban to Bangladesh was about US\$ 65. 1 million. Some of the plants did succeed in diverting a large part of their intended shipments to the USA and Japan and, thereby were able to cut down the losses. In spite of such efforts, the estimated net



loss was equivalent to about US\$ 14.7 million. These were evidently short-term losses. The medium to long-term losses stemming from loss of the sector's momentum, market diversions and erosion in price offered to exporters were much higher. These frequent changes in sanitary requirements put a heavy financial burden on the smaller transporters.

**Measure of NTMs**The term non-tariff measures is defined to include export restraints and production and export subsidies, or measures with similar effect, not just import restraints. The most theoretically satisfying definition is that of Baldwin (1970a), who defines non tariff distortion as any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real world income. There are a wide variety of non-tariff measures. UNCTAD (1994) uses a classification of over 100 trade measures, including tariffs with a discretionary or variable component. Following Laird and Vossenaar (1991), NTMs may be broadly classified according to the intent or immediate impact of the measures, they identify five such categories.

### **Measures to control the volume of imports**

These include prohibitions and quantitative restrictions (QRs) on imports as well as export restraint agreements. Measures employed for the administration of bilateral agreements under the Multi-Fibre Arrangement (MFA).

## **Measures to control the price of imported goods**

These include the use of reference or trigger price mechanisms, variable levies, antidumping duties and countervailing measures. Tariff-type measures such as tariff quotas and seasonal tariffs also are usually intended to increase import prices under given circumstances. Voluntary export price restraints fall under this broad category of intent.

## **Monitoring measures, for example price and volume investigations and surveillance**

Such practices are often associated with charges by domestic interests of unfair trading practices by exporters, e. g. dumping and subsidization. Licences are sometimes used as a monitoring instrument. Monitoring measures may be a prelude to other actions, and, if seen as such, may lead to export restraints. They may have a harassment effect.

## **Production and export measures**

Subsidies may be directly applied to output or value added, or they may be indirectly applied, i. e. paid to material or other inputs into the production process. They may arise from payments or the non-collection of taxes that would otherwise be due. Restrictions by means of taxes or prohibitions may also be imposed on production or exports.

## **Technical barriers**

Imposed at the frontier, these are used to apply various standards for health and safety reasons to imported products to ensure that imported products conform to the same standards as those required by law for domestically produced goods. They may lead to the prohibition of non-complying imports

or necessitate cost increasing production improvements. Approaches to Eliminating NTMs NTMs have been a concern for many countries around the world. Many countries are working towards the reduction or removal of NTMs. Elimination of NTMs is slower than tariff reduction. However coherent strategies are being developed to overcome NTMs. In addition, NTMs can be dealt with at the national, regional level in the context of a Regional Integration Agreement in which the country participates; or multilateral level as in e. g. the Trade Facilitation negotiations at the WTO.

### **National**

When pursued at the national level, there is no concern about delegation of authority to a supra-national level. The goal should be harmonization and recognition at the regional level so that the RIA is ' deep' and hence welfare-enhancing for all members. Mexico presents an interesting national program of NTM elimination.

### **Regional**

To be successful, NTM removal at the regional level requires some delegation of authority to the supra-national level. The case of the EU is the example of the deepest form of NTM removal among sovereign States.

### **Multilateral**

The WTO with its wide-reaching mandate for trade policy surveillance, negotiations and dispute settlement, offers different mechanisms for addressing NTMs. Non-tariff measures were a concern at the multilateral level already under the GATT. During the Uruguay Round, five earlier agreements were multilateralized and several new multilateral NTM-related <https://assignbuster.com/the-customs-and-administrative-entry-procedures-economics-essay/>

agreements were negotiated. Reforms aim at reducing trade costs (simplification of trade procedures, harmonization of commercial rules and transparent information and procedures as well as the recourse to new technologies allowing trade promotion and more secure means of payment). Furthermore elimination of NTMs can be pursued through a sensible approach of classifying them further as:- NTMs unnecessary (such as automatic licensing)- NTMs potentially non transparent and discriminatory (RoO)- NTMs that is transparent but discriminatory (selected technical regulations)- NTMs that are transparent and apply to both domestic and imported goods could be retained (unless they are welfare-reducing). Based on this classification, elimination could then proceed in the order classified above, starting with automatic licensing and other unnecessary NTMs, and then proceeding with the others.

## **Approaches**

Two approaches at eliminating NTMS can be pursued: The vertical approach which would identify the NTMs measures which are most welfare-reducing. This is for instance the strategy proposed in World Bank (2008b) for the EAC. NTMs are identified in function of how much they restrain Intra-EAC trade and of their political economic complexity. The horizontal approach identifies priority sectors and then eliminates NTMs plaguing these sectors. The ASEAN approach at eliminating NTMs chose the horizontal approach, identifying 11 priority sectors and classifying the NTMs into Red, Amber and Green boxes according to their restrictiveness, regulatory objectives and WTO consistency.

## **Countries experience with NTMs**

### **Mexico**

Regulatory reform has been a fundamental element of Mexico's transition from a closed to an open market-based economy. The process started in the mid-1980s, when general frustration with macroeconomic instability and years of stagnant growth and inflation in the wake of the 1982 debt crisis led to a revamping of economic policy based on three interdependent pillars: trade liberalization, privatization, and regulatory reform. The progressive trade liberalization began with a significant unilateral reduction of tariffs and import licenses in the framework of Mexico's accession to the GATT in the mid-1980s. Mexico pursued its openness policy through the negotiation of FTAs with a large number of partners. An UDE was created within the Mexican trade ministry in 1989 to review the national economic regulatory framework. The LCE established a Commission on Foreign Trade, COCEX, to review the regulations. Thus, the tandem of UDE and COCEX would tackle existing regulatory bottlenecks and new NTM proposals to avoid entry barriers and unnecessary restrictions on trade. In 2008, Mexico decided to push the process of unilateral market opening, based on a general reduction of MFN tariff levels, the simplification of exceptions and customs procedures, and the strengthening of COCEX's institutional design.

### **A roadmap for NTM streamlining based on the Mexican experience[1]**

The review of the Mexican experience suggests that the NTM/regulatory improvement toolbox has essentially four elements, each of which can play a role separately or in combination with the others: 1. A consistent and

mutually-reinforcing reform agenda, and a strong and permanent political anchor, such as a binding trade agreement (like NAFTA)<sup>2</sup>. International support in the form of technical assistance to the regulatory-improvement body, and international (typically regional) cooperation in the elimination of NTM; 3. A credible institutional setup revolving around a strong oversight body with independence, competence, and high-level political support. 4. Engagement of national administrations, in particular middle-level civil servants, in a Regulatory Impact Assessments process for new regulations and NTMs, taken seriously and used in conjunction with systematic exposure and consultation with stakeholders.

## **Indonesia**

Indonesia has embarked on the most ambitious reform program in the ASEAN under the leadership of its Ministry of Trade. Starting in 2004 the government implemented a series of reforms to lower tariffs, improve trade facilitation, and design measures to improve the regulatory environment for private investment. Indonesia initiated a unilateral tariff harmonization program in 2005 that not only lowered the average MFN tariff rate, from 9.9 percent in 2004 to 7.5 percent in 2010, but also reduced tariff dispersion and tariff peaks. As tariff rates went down, Indonesia faced a new challenge in rationalizing the use of NTMs.

## **Government's response to NTM pervasiveness**

The Indonesian government realized early on that reforming the NTM regime could help Indonesia internally and externally. The government addressed the NTM agenda through different mutually reinforcing lenses: Transparency

on Indonesia's NTMs was significantly enhanced when INSW authority made them available online for importers and exporters through an online database of Indonesian Import-Export Prohibition and Restriction Regulations (LARTAS database). The government anchored the reforms to the regional commitment to operationalize the ASEAN Single Window by 2010. The process is quite complex because it requires strong coordination across eight ministries, representing 80 percent of the regulations. A pilot program establishing a review process for NTMs has just been launched. The main thrust of the program is to remove the responsibility for reviewing NTMs from the unit that implements them and to equip the reviewing unit with adequate capacity to conduct regulatory impact analysis for NTMs.

### **Association of Southeast Asian Nations**

ASEAN members have implemented a number of measures that aim to rationalize tariffs and NTMs as part of their regional trade agenda. ASEAN also implemented a strategy for defeating NTMs, including a roadmap to eliminate trade-restrictive NTMs by 2010. The approach adopted by the ASEAN Secretariat was to classify NTMs in broad classes using several criteria. NTMs were first classified on the basis of the WTO principles regarding NTMs. However, given the difficulties of quantifying the welfare impact of NTMs, more practical alternatives have been considered. These criteria are not mutually exclusive and can be used singly or in combinations to set priorities. Based on the above criteria, NTMs were grouped into the following categories: (1) Red Box: NTMs impeding trade in ASEAN that require immediate elimination; (2) Amber Box: NTMs that could not be clearly identified or classified as barriers; and (3) Green Box: NTMs that could

be justified, including measures that have a scientific basis and are applied to both domestic and imported goods.

## **Priority Sector Criterion[2]**

In 2004, ASEAN singled out eleven sectors as priority integration sectors.

These priority sectors include nine goods sectors (agro-based products, fisheries, healthcare, rubber, wood, textiles, information technology, electronics, and automotive) and two service sectors (air-transport and tourism). The ASEAN Secretariat identified that reducing the incidence of NTMs in these critical sectors is important for the development of these sectors. In their effort to eliminate NTMs, ASEAN have examined every identified non-tariff measure in light of the four WTO criteria.

## **ASEAN Strategy for NTM elimination[3]**

Reexamine each of the verified NTMs and classify them correctly, indicating their purpose and implementing procedures. Select NTMs that are unnecessary and can be removed without being replaced with alternative measures. Automatic licensing is an example. Prepare to eliminate the first set of NTMs identified above as potentially highly non-transparent and discriminatory. Specify the requirements of the alternative measures that will replace them. In the case of tariffs which are to replace non-automatic licensing, quotas, or administrative pricing, estimate the rates for each product affected. Determine the fiscal incentives which are to replace enterprise-specific restrictions. Risk management and post-entry audit at customs which is to replace pre-shipment inspection. Undertake similar preparations for the second set, i. e. tariff quota duties, prohibitions on non-



sensitive goods, and single channel for imports. For the last, a longer timeframe will be necessary if it involves changing the sole mandate of a government agency. Study the main official documents (laws, regulations, decisions) which serve as the legal basis for each NTM. Ascertain the procedural and time requirements for amending these. Draft the necessary amendments to the legal documents. This will include the rationale, replacement measure, date and period of effectivity. A transition period for the replacement measure may be specified, e. g. tariffs may be phased down or the whole tariff structure may be transformed into a low uniform rate. Secure the necessary amendments within the targeted timeframe.

## **NTMs in Southern Africa**

Regional integration efforts in Southern Africa, such as the COMESA, SADC, and SACU, have all sought to liberalize trade between countries in order to increase bilateral trade flows, diversify exports by overcoming the limits of small markets, and deepen specialization by achieving economies of scale. Yet, despite these efforts, regional trade in Southern Africa has remained low because of trade barriers, particularly non-tariff barriers (NTBs) that persist at the regional level. The commitment of Southern African countries to remove NTBs has focused so far on raising awareness and improving transparency, through identification and monitoring of NTBs. All agreements include clauses to eliminate NTBs. Article 6 of the SADC Trade Protocol calls for the elimination of all existing forms of NTBs and for member states to refrain from imposing new ones. While implementing this article remains a major challenge, SADC Ministers of Trade have identified ten categories of

NTBs for "immediate" action. In some of these areas there has been progress, but in most, barriers still remain.

## **NTMs in the European Union**

The single market of the EU is the most comprehensive example of economic integration and elimination of NTBs based on the three principles of (i) non-discrimination; (ii) mutual recognition; (iii) Community legislation to ensure the functioning of the common market. The EC prohibits all types of trade remedies which include Anti-dumping, safeguards and countervailing measures. New law (harmonized legislation) was adopted when existing rules (mostly on health, safety or environmental protection) differed too much across Members and starting in 1985 physical barriers (border checks and customs formalities) was eliminated. More recently, Central European Free Trade Agreement (CEFTA) members that aim to join the EU have committed to eliminate NTMs with the EU. The fact that all countries in the region are adopting European standards means that their systems are converging, which in the long-run will eliminate TBTs in the bloc.

## **Non-tariff Measures (NTMs) in the EAC**

With the reduction in tariff barriers, NTMs have increased in importance and have become the most important component of trade costs. The EAC wants to consider the elimination of the NTMs within the context of its evolving common trade policy. Estimates of the costs of the tariff equivalent of NTMs in the EAC are high. In the EAC, article 13(1) of the EAC Protocol states that Partner States must refrain from imposing new NTBs, and must eliminate existing ones. They have classified NTBs along the dual criteria of "political

complexity" and "intra-regional trade impact" into four categories (A, B, C, D) where category A NTBs would be least politically-sensitive (i. e. a low-hanging fruit) that could be rapidly eliminated by consensus, and category D the most contentious. Figure 1, identifies 4 quadrants (from A to D), illustrating one way to organize the NTMs that exist in the EAC. Figure 1: Categorization of NTMs in EAC: a ranking by the ease of action for removal[4] Given capacity constraints in the REC and its member governments, EAC wants to first target action on quadrants A and B reflecting NTMs that are both relatively noncontroversial for EAC-wide consensus building for removal and have a negative impact on trade. The intra-EAC trade would benefit more from EAC's prioritizing those NTMs located in quadrant B during the preparation of action plans for implementation of reduction/removal. In contrast, far greater trade enhancement may be expected out of targeting one or two NTMs identified in quadrant C, even though significant time and effort would be needed to devise, build consensus around, and implement a plan for their removal.

## **Mauritian Context of NTMs Reduction**

Mauritius was reoriented from a labor-intensive model to become a more competitive, innovative, and knowledge- and skill-based economy, creating more value-added jobs and increasing per capita levels. In 2005, a competitive agenda of policy measures was called for. The new agenda included a number of cross-cutting measures that addressed inefficiencies in the investment, incentive, and labor regimes. It also aimed at improving competitiveness of firms by reducing and then eliminating tariffs to become a duty-free island.

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## **Emergence of the NTM agenda: Developing procedures**

With the reduction in tariffs, NTBs emerged as a clear obstacle dampening the competitiveness of the domestic economy. Compliance with foreign NTBs was also harming the country's competitiveness and integration with the world economy by holding back its export performance. The PRC was established to review the need for import/export permits where they existed and also to submit proposals for the simplified processes and procedures for the issue of such permits and clearances. The PRC identified about 19 types of permits that were affecting trade. The necessity for these import/export permits was found unnecessary or unwarranted in 72 instances. Recognizing the need to carry out rigorous regulatory review for NTMs, the Government of Mauritius established a public-private review committee for NTBs chaired by the Ministry of Foreign Trade in April 2009. Given the government's continued commitment to remove barriers to trade, it further strengthened the business regulatory review mechanism in early 2012 by establishing a joint public-private business facilitation task force to coordinate and strengthen the review process for business regulations and procedures, including a committee dedicated to the review of NTMs.

Conclusion Ultimately, the proliferation of the NTMs entailed several consequences and the prime one is that the overall level of trade is lower than it optimally should be. Besides, international prices are not at the level dictated by the law of one price. NTMs are also responsible for the dampening of the elasticity of trade flows to price changes. It can also be argued that the limits which result from prohibitions, conditions or specific market requirements sometimes make importation or exportation of

products difficult and costly and this can indeed prove to be a hindrance for small exporters and those located in low income countries. Nevertheless, the WTO Agreements allow its members to adopt these measures so as to protect the health of human, to conserve natural resources or to ensure the quality of goods in their markets.