Quadrant II – Transcript and Related Materials

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Notes

Non-Tariff Barriers

Introduction:

Non-tariff barriers to trade (**NTBs**; also called **non-tariff measures**, **NTMs**) are trade barriers that restrict imports or exports of goods or services through mechanisms other than the simple imposition of tariffs.

Non-Tariff Barriers (NTBs) refer to non-tax restrictions that result from prohibitions, conditions, or specific market requirements that make importation or exportation of products difficult and/or costly. NTBs also include unjustified and/or improper application of Non-Tariff Measures (NTMs) such as quotas, subsidies, embargo, sanitary and phytosanitary (SPS) measures and other technical barriers to Trade (TBT).

NTBs arise from different measures taken by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements, and Government procedures which effect the overseas trade of private sector business practices, or prohibitions that protect the domestic industries from foreign competition.

Most of the NTB can be defined as protectionist measures, an example of this is safety standards and labelling requirements.

The need to protect sensitive to import industries, as well as a wide range of trade restrictions, available to the governments of industrialized countries, forcing them to resort to use the NTB, and putting serious obstacles to international trade and world economic growth. Thus, NTBs can be referred as a new form of protection which has replaced tariffs as an old form of protection.

Nature of non-tariff barriers:

- Non-tariff barriers support by inflicting rules and regulations for the import to happen.
- Non-tariff barriers are flexible if there are good ties between the two countries.
- Non-tariff barriers do not support in earn revenue to the Government.
- Non-tariff barriers affect both the price as well as the quantity to be sold in the foreign nation.
- Non-tariff barrier does not affect the overall profit made by the importer as it is a non-taxable measure.

Types of non-tariff barriers:

Non-tariff barriers may take the following forms:

1. Protectionist barriers

Protectionist barriers are designed to protect certain sectors of domestic industries at the expense of other countries. The restrictions make it difficult for other countries to compete favourably with locally produced goods and services. The barriers may take the form of licensing requirements, allocation of quotas, antidumping duties, import deposits, etc.

2. Assistive policies

Although assistive policies are designed to protect domestic companies and enterprises, they do not directly restrict trade with other countries, but they implement actions that can restrict free trade with other countries. Examples of assistive barriers include custom procedures, packaging and labelling requirements, technical standards and norms, sanitary standards, etc.

International companies must meet the requirements before they can be allowed to export or import certain goods into the market. The governments also help domestic companies by providing subsidies and bailouts so that they can be competitive in the domestic and international markets.

3. Non-protectionist policies

Non-protectionist policies are not designed to directly restrict the import or export of goods and services, but the overall outcomes lead to free trade restrictions. The policies are primarily designed to protect the health and safety of people and animals while maintaining the integrity of the environment.

Examples of non-protectionist policies include licensing, packaging and labelling requirements, plant and animal inspections, import bans for specific fishing or harvesting methods, sanitary rules, etc.

Examples of non-tariff barriers:

Non- Tariff Barriers to trade can be categorized in six types:

I. Specific Limitations on Trade:

Quota shares

Quotas are quantitative restrictions that are imposed on imports and exports of a specific product for a specified period. Countries use quotas as directive forms of administrative regulation of foreign trade, and it narrows down the range of countries where firms can trade certain commodities. It caps the number of goods that can be imported or exported at any given time.

For example, the US has imposed a quota on textiles imported from India and other countries.

Import licenses/ Restrictive licenses

Licenses are one of the most common instruments that most countries use to regulate the importation of goods. The license system allows authorized companies to import specific commodities that are included in the list of licensed goods.

Product licenses can either be a general license or a one-time license. The general license allows importation and exportation of permitted goods for a specified period. The one-time license allows a specific product importer to import a specified quantity of the product, and it specifies the cost, country of origin, and the customs point through which the importation will be carried out.

For example, in Washington, cheese and cheese products are subject to the requirements of the Food and Drug Administration and the Department of Agriculture and most importations of cheese require an import license and are subject to quotas administered by the Department of Agriculture, Foreign Agricultural Service. In Mauritius, pesticides require import licence from the Ministry of Health, arms and ammunitions require import permit from the police and many others.

Exchange controls

This is monitoring the amount of foreign exchange available to residents for purchasing foreign goods domestically or while travelling abroad is another way of restricting imports. Foreign exchange restrictions and foreign exchange controls occupy a special place among the non-tariff regulatory instruments of foreign economic activity. Foreign exchange restrictions constitute the regulation of transactions of residents and non-residents with currency and other currency values.

Import bans/ limitations

This is a government order forbidding imports of a specific kind or from a particular country. For example, in order to protect the domestic manufacturers against cheap competition from the neighbouring country, the government of India imposed ban on the import of Chinese toys. Moreover, many countries, like for example India, have impose a ban on food imports from Japan fearing contamination. Furthermore, following a milk scandal that led to the widespread poisoning of babies in China, India banned the import of milk and milk products from China.

Embargoes

Embargoes are total bans of trade on specific commodities and may be imposed on imports or exports of specific goods that are supplied to or from specific countries. They are considered legal barriers to trade, and governments may implement such measures to achieve specific economic and political goals.

For example, the United Nations imposed an embargo on trade with Iraq as a part of economic sanctions in 1990.

II. Customs and Administrative Entry Procedures

Customs Valuation

There is a commonly held view that the invoice values of goods traded internationally do not reflect their real cost. This gave rise to a very subjective system of valuation of imports and exports for levy of duty. If the value ascribed to a particular product would turn out to be considerably higher than its real cost, it could end in affecting its competitiveness by increasing the total cost to the importer due to the excess duty. This would hence act as a barrier to international trade.

Antidumping practice

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be “dumping” the product. Antidumping is prohibiting a country to dump, that is, to export goods at usual lower prices.

Documentation requirements

This is when complicated and unnecessary documentation requirements are asked by the importing countries. In Mauritius, according to the Mauritius chamber of commerce and Industry of Mauritius, these imports documents are required; invoice, showing the FOB and CIF value of goods; packaging lists; bill of lading; bill of entry; and where applicable; insurance certificate, certificate of inspection, certificate of origin and imports permits.

Rules of origin

Determining where a product comes from is no longer easy when raw materials and parts across the globe are used as inputs in the manufacturing plants. Rules of origin are important in implementing such trade policy instruments as anti-dumping and countervailing duties, origin marking, and safeguard measures.

III. Technical barriers to trade

Technical Barriers

Countries generally specify some quality standards to be met by imported goods for various health, welfare and safety reasons. In Mauritius, rice (imported by traders other than the State Trading Corporation) should not exceed 10% broken rice, bakery additives shall not contain potassium bromate as an ingredient, etc. This facility can be misused for blocking the import of certain goods from specific countries by setting up of such standards, which deliberately exclude these products. The process is further complicated by the requirement that testing and certification of the products regarding their meeting the set standards be done only in the importing country.

The Precautionary Principle

The precautionary principle, is a Government restriction on trade in the context of environmental and health concerns, often regardless of cost or scientific evidence. The precautionary principle has been interpreted by some to mean that new chemicals and technologies should be considered dangerous until proven otherwise. It therefore requires those responsible for an activity or process to establish its harmlessness and to be liable if damage occurs.

Sanitary and phyto-sanitary conditions

This is a restriction on imports from certain places in order to protect consumers, the environment, or agriculture from harmful diseases or pests that may accompany the imported product. For instance, in Mauritius, agricultural goods require a phytosanitary certificate from the ministry of Agriculture, prepared foods, drugs, and chemicals with potential adverse effects on health require phytosanitary certificate from the Ministry of Health.

Packaging conditions, labelling conditions and product standards

Countries usually impose standards on classification, labelling and testing of products in order to be able to sell domestic products, but also to block sales of products of foreign manufacture. These standards are occasionally entered under the excuse of protecting the safety and health of local populations. In Mauritius, the establishment in charge for the control of standards mainly for food and other items is the Mauritius Standards Bureau.

In addition, European exporters and investors are facing an increasing number of unjustifiable non-tariff barriers in the form of product certification, labelling standards, import approval requirements and customs clearance delays.

Also, many of the Chinese standards such as the CCC standard require certification by the Chinese authorities before a product can be put on the Chinese market. Important information has to be submitted and the factory has often to be inspected at the expense of the exporter.

IV. Government Participation in Trade

Complex regulatory environment

Some countries have complex regulatory framework, for e.g., complex business registration and license, and thus this hamper free trade. For instance, rules recently enacted in China, prohibit European financial information agencies and operators to sell directly their services customers in China.

Government procurement policies

This is another type of NTB where governments pretty frequently follow the policy of procuring their requirements (including that of government-owned companies) only from local producers, or at least extend some price advantage to them. This closes a big potential market to the foreign producers.

Subsidies to Local Goods

This occurs when governments directly or indirectly subsidize local production in an effort to make it more competitive in the domestic and foreign markets. For example, tax benefits may be extended to a firm producing in a certain part of the country to reduce regional imbalances, or duty drawbacks may be allowed for exported goods, or, as an extreme case, local firms may be given direct subsidies to enable them to sell their goods at a lower price than foreign firms.

Countervailing duties

This is a duty placed on imported goods that are being subsidized by the importing government. This helps to even the playing field between the domestic producers and the foreign producers receiving subsidies.

"Buy national" policy

This is a policy hosted by the government to help the national economy. For instance, in 2009, the Paraguayan Finance Ministry specified changes to public procurement policy in relation to the national stimulus plan. That is, public bodies that seek to spend money from the stimulus money are to give preference to national goods and services. More specifically, domestic goods shall receive a preferential margin of 70 percent over imported products. In terms of labour, the announcement declares that at least 70 percent of the labour involved in stimulus projects shall come from local employees living in the territory of the contracting public authority.

V. Charges on imports

Variable import levy

A variable import levy is a levy on imports that raises their price to a level at least as high as the domestic price. Such levies are adjusted frequently in response to changes in world market prices, and are imposed to defend administered prices set above world market prices.

Under the Uruguay Round Agreement on Agriculture, the variable levies of the EU have been converted into fixed tariffs or tariff-rate quotas.

Border taxes

It is a tax system for imports and exports, especially one that compensates for internal taxes in Common Market countries by levying fees or paying rebates.

VI. Others

Voluntary Export Restraints:

This is an act of limiting exports. It happens when a country facing a persistent huge trade deficit against another country pressurized the latter to adhere to a self-imposed limit on the exports. For instance, after facing consistent trade deficits over a number of years with Japan, the US persuaded it to impose such limits on itself.

Direct and Indirect Restrictions on Foreign Investments:

A country may directly restrict foreign investment to some specific sectors or up to a certain percentage of equity. Indirect restrictions may come in the form of limits on profits that can be repatriated or prohibition of payment of royalty to a foreign parent company. These restrictions discourage foreign producers from setting up domestic operations. Foreign companies are generally interested in setting up local operations when they foresee increased sales or reduced costs as a consequence. Thus, restrictions against foreign investments add impediments to international trade by giving rise to inefficiencies.

Conclusion:

Free trade, will surely benefits many countries. Thus, in order to allow trade to occur freely, tariffs as well as non-tariff barriers need to be reduced.

However, sometimes for safety reasons, some NTMs are required. For instance, the import ban on food is necessary in order to avoid the proliferation of the radioactive contamination.

Thus, some trade restrictions may be necessary for countries to ensure the safety of the food supply and the health of plants, animals and the environment. However, sometimes governments go beyond what is necessary to protect domestic industries.

Moreover, free trade can increase the poverty gap. This is so because developing countries and LDCs will not be able to compete with developed countries and multinationals may implant themselves in the LDCs just to reap the benefit of cheap labour and resources and does not contribute more to the development of those LDCs.