1. ***Discuss The Various Forms Of Non-Tariff Barriers Used By Countries To Limit The Free Flow Of Trade.***

'A non-tariff barrier may be defined as any regulation other than a tariff or other discretionary policy that restrict international trade. This includes measures taken at the border such as quantitative restrictions on access and procedures that favour domestic products over imports, for instance, subsidies' [1]

Gilberto Sarfati

With the success of trade liberisation in manufacturing products, the major remaining barriers to trade are non-tariff barriers (NTB), such as government procedurement policies, customs procedures, health & sanitary regulations, national standards and a broad range of other laws and regulations that discriminate against imports or other assistance to exports.

Other examples of non-tariff measures are regional policy, agricultural policy, consumer & environmental protection. Governments have tried to insulate the domestic economy from international competition through various national policies.;

- Use of a combination of tax and financial incentives and requirements for local content, export performance and technology transfer for foreign investors

- Use of subsidies & tax preferences to help ailing industries, e.g. steel / ship building

- Provide incentives for the development of new, technologically sophisticated industries – aerospace, IT / computers

As can be seen, many mechanisms are used to restrict imports, which of course can be implemented in various ways. All forms of protectionism are intended to improve the position of a domestic relative to foreign producers.

[1] http://eiop.or.at/eiop/pdf/1998-002.pdf

The control of NTB's was far more difficult than the regulation and removal of tariffs and quotas, during the 1990's because such policies were usually a fundamental part of national economic and social policies. NTB's can be:

- Quotas
- VER's – Voluntary Export Restraints
- Subsidies
- Exchange controls
- Safety & technological standards etc

1.1 Quotas

A quota is the alternative to a tariff when the intention is to restrict foreign producers' access to the domestic market. There is a maximum limit imposed on importers, they can only sell a limited amount of products in the home market over a specific period of time.

A quota causes prices to increase in the home market, thus inducing domestic producers to increase production and consumers to reduce consumption. The diagram below shows the effect of a quota[2]:

1.2 Voluntary Export Restraints – VER's

VER's were developed as a response to pressure for protection from import sensitive industries. Under agreements as such, sometimes, low cost exporters 'voluntarily' restrict sales to countries where their goods were threatening industry and employment.

VER's became an accepted mode of trade regulation in the 1970-80's, and intensified in various sectors, textile, steel, automobiles, electronics etc and covered trade among the industrial nations.

A managed regime was necessary as such regime would recognise the reality, of government intervention in national economies to decide comparative advantage and intergovernmental agreements to shape international free flows.

[2] The effect of a quota – Applied Economics, 9th Pg 717

However, VER's pose a particular problem for international trade regulations. Although, GATT (General Agreement on Tariffs Trade) explicitly concerns the use of quantitative trade restrictions, (and allows for retaliatory sanctions by injured parties), VER's effectively bribe foreign governments and producers with tariff equivalent revenue if they agree to limit exports.

Open confrontations that ordinary quotas invite are avoided when using this system, e.g. as in the case of Japanese restrictions on automobile exports to the US, can be worth billions of dollars to exporters and to the government of the exporting country. Since VER's produce transfers of wealth to the exporting country, these exporters are unlikely to complain to the GATT council. This inevitably suggests that VER's are likely to become trade restriction of choice for all the poorest nations.

1.3 Import Licences

Import licences have proved to be very effective mechanisms for restricting imports. Under this scheme importers of a commodity are required to obtain a license for each shipment they bring into the country. Without explicitly utilizing a quota mechanism, a country can simply restrict on a basis it chooses through its allocation of import licenses.

For instance, prior to the implementation of NAFTA (North American Free Trade Agreement), for example Mexico required that wheat & other agricultural commodity imports be permitted only under license.

1.4 Labour Standards

The EU and Japan broadly support this position, however, most developing countries view it as a form of protectionism by the advanced industrialised countries and reject the idea. Protectionist laws raise taxes (tariffs) on imported goods/ and or impose limits (quotas) on the amount of goods government permit to into a country. The laws not only restrict the choice of consumer goods, but also contribute greatly both to the cost of goods and to the cost of doing business. The US is currently proposing a working party to look at the relationship between trade and labour rights; with the objective trying to prevent trade liberisation leading to job loses or lower wages.

1.5 Exchange Controls

A system of exchange controls was in force in the UK from the outbreak of the World War, 1979, when in order to allow the free flow of capital, they were abolished, thus enabled the government to limit the availability of foreign currencies and so restrict excessive imports.

To some extent, countries can and have used exchange rate policies to discourage imports and encourage exports of all commodities. The exchange rate between two countries' currencies is simply the price at which one currency trades for the other.

Through implementation of multiple exchange rate policies, some countries have targeted specific types of imports, under which importers were required to pay different exchange rates for foreign currency depending on the commodities they were importing.

The objectives of programmes as such have been to reduce balance of payments problems and to raise revenues for the government. Multiple exchange rate programmes were rare in the 1990's, and generally have not been exploited by developed countries.

1.6 Technical Barriers To Trade

All countries impose technical rules about packaging, product definitions, labelling etc. In the international trade context, such rules may also be used as non-tariff trade barriers, often imposed in the knowledge that certain imported goods will be unable to meet the requirements. The British government used such standards, to prevent imports of French turkeys and ultra-heat treated UHT milk. The ban on turkeys was to prevent 'Newcastle Disease', a form of fowl pest found in Europe, reaching the UK. However the European Court ruled that the ban was merely an excuse to prevent the free flow of imports.

Meanwhile, the EU is continuing to ban US beef treated with hormones, despite a ruling from the WTO that the meat fulfils the requisite safety conditions.

1.7 Subsidies

Alternative method is to provide a subsidy to domestic producers so as to improve their competitiveness in both the home and world markets. In general subsidies can be focused upon specific industries or upon the export activities of the industry.

The revenue implications for a government are vital in distinguishing between tariffs & subsidies. Subsidies involve the government in paying out money, whereas a tariff generates income for the government. In all cases, the protected industry is being subsidised by the rest of the economy. The effect of a general subsidy:

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2. ***How Successful Has The WTO Been In Tackling The Problems Posed By This Form Of Protectionism?***

Protectionist measures are aimed at reducing the level of imports either because of the 'damage' they cause to particular domestic industries, or because of their adverse effects on the balance of payments. The objectives of the WTO are essentially the same as GATT's; that is to reduce tariffs and other barriers to trade and eliminate discrimination in trade.

The aim of the WTO is to reduce tariff barriers, however, there are a number of circumstances in which a country will be allowed to maintain such barriers.

'Article 6 of the original GATT permits retaliatory sanctions if 'dumping' can be proven. Article 18 also provides a number of 'escape clauses' for the newly industrialising economies allowing some protection of both infant industries and their balance of payments. Article 19 permits any country to abstain from a general tariff cut in situations where rising imports may seriously damage domestic production'.[3]

As a consequence of numerous GATT negotiations in the early post war period (The Dillon Round in 1960-1961 & The Kennedy Round in 1962-1967) the merchandise trade of industrial countries grew from 1950 through 1975 at an average rate of 8% a year. After 1967, although the total value of the world trade continued to expand, structural changes led to domestic political challenges to international management of trade to new forms of protectionism.

[3] GATT / WTO, Applied Economics, Pg 710

The following are examples of changes leading to economic protectionism; the result of these structural changes, in the global trading economy was a surge in protectionist policies in developed countries. The following examples show how the WTO tried to overcome problems posed by various forms of protectionism:

- The shift to floating exchange rates and the consequent unpredictable behaviour of the states led to measures designed to protect payments balances such as exchange controls and special duties. Also it complicated the process of trade negotiations (difficult to estimate the impact of agreements of trade and payments).

- The OPEC revolution in the winter of 1973-1974 and the massive increase in the price of world energy led to a dramatic increase of the rate of growth of world trade (developing countries went into debt; developed countries increase competition for export markets)

- The intensification of Japanese competition increased the volume of manufacturing goods at the same time that the volume of world was declining.

- The entry of newly industrialised countries (NIC's) into world markets. Hold-ups in capital investment in the developed countries plus raising labour productivity, lower labour costs and aggressive export policies in some LCD's led to a shift in manufacturing from the industrialised nations to the NIC's e.g. South Korea, Taiwan, Mexico, Brazil. Protectionism against exports from Japan and NIC's was necessary to safeguard the living standards of the most advanced economies

- The enlargement and increasing enclosure of the EEC – since the mid-1970's, the Europeans have attempted to protect their traditional industries and safeguard employment against imports from Japan and NIC's

- Increased interdependence –the level of political sensitivity to trade as trade came to affect more sectors and more jobs. Merchandise trade among the developed countries more than quadrupled between 1963-1973; increased over two and a half times from 1973-1983; and grew more than two times again between 1983-1990.

- There was also a growing convergence of the developed countries economies; in 1970, labour costs in the US and West Germany was over twice-labour costs in Japan, in 1986 the costs were roughly equal.

'We have allowed First World countries to raise trade barriers protecting their companies, even as we have served as their forum for insisting that Third World countries lower their trade barriers more and more'

Unfair Trade Barriers[4]

2.1 WTO & Protectionism At Present

The World Trade Organisation (WTO) launched a new round of trade talks in Doha in November 2001. Politicians reacted to the depression of the 1930s by putting short-term national interests first and erecting trade barriers. This simply intensified the slump. Protectionism has proved an ineffective means of sustaining employment, which distorts domestic markets, pushes up the prices faced by consumers and insulates inefficient sectors from competition. Protectionism also penalises foreign producers and encourages the inefficient allocation of resources both domestically and globally.

However, with globalisation increasingly being seen as the cause of much upheaval and insecurity in industrialised countries, the risk remains of a retreat towards protectionism.

'Protectionist policies are used by governments to shield domestic producers from foreign competition. However, they do not serve the long-term national interests, as they tend to preserve inefficient, unproductive industries rather than encouraging potentially more prosperous ones. Whilst trade liberalisation alone does not produce economic success, over the past thirty years those countries with the highest levels of integration in the world economy have achieved the fastest growth in living standards.

An open, transparent and stable world trading system maximises global prosperity. Trade allows countries to specialise in the activities, which employ their relative strengths, resources and expertise. Countries are able to specialise in producing the things they are best at relative to other countries. This results in much better allocation of resources. Allowing countries to specialise in the production of goods and services in which they have a comparative

[4] http://www.gatt.org/

advantage, and exchange them in international markets, increases the incomes of all countries over the longer term'[5]

[5] http://www.dti.gov.uk/ewt/whymore.htm