Non-Tariff Measures (NTMS) In International Trade

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Abstract: NTMS are very popular concept. non-tariff measures (NTMS) are policy measures other than ordinary custom tariffs. these measures have the potential to affect the international trade in goods. the effect of NTMS on trade may either be the primary goal of the policy (for example quotas and prohibition), or only the by-product of another policy objective (for example quality control and packaging requirement).

According to WTO agreements, the use of NTMS is allowed under certain circumstances. still, NTMS are sometimes used as a mean to avoid free-trade rules and favour domestic industries at the expense of foreign competition. in these situations, the ntms becomes non-tariff barriers (NTBS).

This paper is concerned with the brief introduction of NTMS. The paper studies how the use of NTMS by governments distorts the policy of trade liberalisation many times, thus discusses relationship between the NTMS and NTBS, accordingly regulated by the WTO.

Key Words: NTBs, NTMs, WTO.

1. NON-TARIFF MEASURES: AN INTRODUCTION

Almost, all the trade agreements has been the mutual reduction of straight use of tariff barriers. With respect to the grab-bag of policies referred to as non-tariff measures(NTMs), trade agreements dating back to the original general agreement on tariffs and trade(GATT) have primarily been concerned with the potential for policy substitution. That may be as tariff are bound, countries will respond by using alternate policies as a secondary trade barrier.

NTMs are nothing new. They have existed since countries started to trade. They has been subject to General Agreement on Tariffs and Trade disciplines since 1947. As tariffs have come down, however, NTMs have acquired growing importance. At the same time, changes in the trading environment have brought about a transformation of NTMs, raising new challenges in the multilateral trading system.

What are NTMs?

Non-tariff measures (NTMs) can be defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both'. These consist of mandatory requirements, rules, or regulations that are legally set by the government of the exporting, importing, or transit country.

Hillman (1996) defines NTM or nontariff barriers (NTB) as all government measures, other than tariffs or customs taxes that restrict international commerce of domestic and imported goods and services. According to Hillman, NTM or NTB can be classified into technical NTB when they refer to quality product attributes and nontechnical NTB otherwise.

NTMs are nowhere defined as a negative concept, including the realm of measures that are not import tariff but can have an impact on international trade flows. This definition lays the set of NTMs is extremely diverse in terms of intent, i.e. whether the purpose of the measure is to lower trade or to achieve a public goal. The opinion differs in respect to the type of policy i.e. whether it is a price, quantity, or regulatory measure. There are various views regarding the action takes place i.e. whether the measure applies at the border, discriminating between foreign and domestic producers, or not.

Practically, NTMs are import quota to shield domestic producers from foreign competition, or an export tax to lower the price of an essential good such as staple food, or domestic regulation to lower the health risk associated with the use of certain chemicals in production.

There is no single, specific type of NTM. Rather, they form a group of different types of regulations that accompany products throughout their life cycles, from creation through distribution and on to final consumption. Technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, certification or testing requirements, quotas, import or export licenses, additional taxes
and surcharges, financial measures, rules of origin, and many others, are all examples of NTMs.

 WHY GOVERNMENTS USE NTMS:

Then a question arises why do government use NTMs? During all GATT rounds, the most traditional and familiar of all the round’s negotiating areas was Tariff. GATT indeed came into being as an agreement to improve market access through the reduction of tariffs, the means by which countries have traditionally restricted imports in order to protect their domestic producers. Trade agreements are the disciplinary policies that distort the trade without compelling governments in their pursuit of other legitimate public policy objectives, such as consumer health and safety protection—even if these happen to affect trade.

Various ways would justify that why government use them namely interventions aimed at increasing national welfare and those motivated by “political economy” goals. NTMs include interventions to correct market failures and to exploit a country’s imports. Political economy motives are likely to lead to policies that shelter favoured producers and reduce trade flows at the expense of national welfare.

The NTMs are used for National welfare and public policy objective other than for economic issue. Governments are responsible for safeguarding national security. Governments may wish to firmly uphold certain moral and religious tenets. In order to restrict the supply of goods in international trade, that are freely available in the country.

NTMs can be classified according to whether they are applied at the border, to exports( e.g. exports taxes, quotas or bans) and imports (e.g. import quota, import ban), or behind the border like domestic taxes, other charges, and subsidised.

 WHAT CONSTITUTES NTMS THEN?

There are many measures used as NTMs by countries. That may be in the form of Import prohibitions/bans, general or product –specific quotas, quality conditions, and Proofs, sanitary and Phyto-sanitary conditions, determination of eligibility(geographical) Documentation: certificate of origin, etc., Import licenses, Export subsidies, Fixation of a minimum import price, Voluntary Export Restraints, Origin Exchange , market control, Export restrictions, Packaging measures and many more.

 THE GROWING ROLE OF NON-TARIFF MEASURES IN TRADE:

Trade liberalisation has developed the interest of the developing and least developed nations in the international trade. Trade liberalisation has benefited to the nations in various corners. Trade liberalisation is meant to lowering of tariffs and opening the doors for more trade. However, the positive effects of lower tariffs have been overshadowed by a shift towards misuse of NTMs. The sound use of NTMs to ensure consumer health, protect the environment and safeguard national security is legitimate. However, countries are resorting to NTMs as alternative mechanisms to protect domestic industries. NTMs have been negotiated within the General Agreement on Tariffs and Trade and at the World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly dealt with in regional and bilateral trade agreements.

Being ‘defined by what they are not’, NTMs comprise an innumerable policies other than tariff duties. NTMs are complex legal texts specific to the product and applying country. They are more difficult to quantify or compare than tariffs. Depending on how they are applied, these measures may or may not amount to trade barriers.

 IMPACT OF NON-TARIFF MEASURES

High tariff rates is the popular being used as barriers to international trade. However, in recent years with the growing number of multilateral, regional and bilateral trade agreements, the tariff rates applied by countries around the world have fallen remarkably at low rate. In most cases, goods being traded are not subject to custom tariffs but are likely required to comply with various regulations before they are allowed to enter the destination market. Examples of such regulations include licenses or permits to import, quality requirements, inspections and price controls, packaging requirements and many more.

The effect of tariff is very immediate and straightforward (for example ad valorem duties) or can be easily calculated (for example ad valorem equivalence [AVE] of specific duties), whereas the impact of NTMs is not immediately observable. Their impact differs across countries and sectors, and does not always necessarily imply a decrease in trade. Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) regulations, for example, have ambiguous effects on trade. On the one hand, compliance with these regulations can lead to higher costs and prevent market access for importers. On the other hand, they can raise consumer confidence in the quality of imports, thus increasing demand. Developing countries are...
affected the most by the negative effect of NTMs. The NTMs may result in trade prohibition, or cause the diversion of trade. It may impact the reduction in the trade flows.

NTMs can have effect on domestic market in both importing and exporting countries. In the case of importing countries, NTMs may raise the quality or safety of a product, causing consumer demand for both domestic and foreign supplies to increase.

**NTMS TO NTBS:**
Gradually the use of tariff is reduced with the negotiations among nations, but use of non-tariff barriers, is developed. Governments have attempted to undermine the effects of lower tariff levels by replacing them with various non-tariff measures. As trade was being liberalised, many governments were developing “new industrial policies” to facilitate economic adjustments required by lower tariff levels. These policies involved the use of measures such as incentives for regional development, manpower restraining, labour mobility, industrial reorganisation, and research and development; government purchasing preferences; and various other kinds of subsidies meant to both protect the domestic market and encourage exports. To some extent, these policies created new barriers to trade and prevented part of the needed adjustment to lower tariffs. These policies are the non-tariff measures used by Governments in the national interest but somehow created non-tariff barriers to the international trade. It is difficult to distinct NTMs and NTBs, in practice. The NTMs involves all measures altering the conditions of international trade including policies and regulations that restrict trade as well as those that facilitate it. There is a basic difference between NTMs and NTBs that the prior comprises wider set of measures than the later. But now-a-days NTMs are generally intended only as discriminatory NTMs by governments to favour domestic over foreign suppliers. The reason behind it is in the past most of the NTMs were largely in the form of quota or Voluntary export restraints. These measures are restrictive by design that made them to be introduced as “barrier”. In the present scenario, policy interventions take many more forms, and therefore it is preferable to refer them as “measures” instead of “barriers” to underline that the measure may not be necessarily welfare or trade reducing.

Practically NTMs are defined as "Non-tariff measures (NTMs) are policy measures, other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both". Whereas NTBs were defined as policies that are not tariffs. In nutshell, all NTMs that not on legitimate grounds are all the forms of NTBs obstructing the international Trade.

**TRANSPARENCY OF NTMS:**
Transparency can be defined as the absence of information asymmetry, a situation where policy makers and relevant economic agents have the same information. Information asymmetry generates uncertainty for the agents with less information. Those with access to private information may try to manipulate the beliefs of others and thereby indirectly alter economic behaviour. Thus, economic efficiency requires information be publicly available.

**NTMs and WTO:**
Non-tariff measures (NTMs) is a topic of real interest, sometimes even of preoccupation, since the Tokyo Round when GATT Contracting Parties realized that the main threat to international trade was no longer tariff barriers to trade but rather non-tariff barriers (NTBs) to trade. It is interesting to note the semantic shift that took place over time. However, the WTO aims for freer trade that is lowering the trade barriers including the measures that are creating barriers to international trade. WTO basically regulates the NTMs via different agreements, and treaties. The NTMs are the measures that are allowed to be used in the national welfare or security, pursuing a legitimate public policy purpose, public health or environmental objectives. On becoming it’s discriminatory in nature, are said to be used as NTBs. These NTBs are regulated by WTO and its legal text. The scope of WTO agreements go beyond the traditional trade issues like reducing tariffs and quotas as barriers to trade on goods at country boarders but were extended to cover the other forms of NTBs. In recent periods, a numerous of non-tariff barriers are subjected to a number of multilateral and legally binding WTO rules and agreements. These agreements deal with technical and bureaucratic measures or legal issues that could involve hindrances to trade or be used as instruments for restrictive and discriminatory trade policies.

As a whole, the Agreements on Technical barriers to trade, Anti-dumping, Subsidies and Countervailing Measures, Import Licensing, and Customs Valuation are modified and amended versions of the agreements concluded at the end of the Tokyo Round (1973-79). That is, they were binding only on those parties that have accepted them. However, after the Uruguay Round (1986-
94), they have acquired “multilateral” status, i.e. they became binding on all members. On the other hand, the Agreements on Sanitary and Phytosanitary Measures, Pre-shipment Inspection, and Rules of Origin are the results of the Uruguay Round and they shall also be applied by all the WTO member states.

CONCLUSION

Concluding, NTMs are and will remain an important component of trade regulation. Some clear understanding of the policy objectives and constant review of their impact and appropriateness is needed. The NTMs are not a trade distorting factor in fact, however as the journey they travel from the NTMs to NTBs is a major trade distorting factor. International standards are important. However, international standards should not be the only yardstick by which the legality of NTMs is assessed within the multilateral trading system or the only foundation upon which international coherence is built. Multilateral treaties are very significant for the diffusion of NTMs, and for that very reason the WTO should be permeable to them when challenged by NTMs.

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