WAYS OF IMPROVEMENT OF NON-TARIFF MEASURES OF INTERNATIONAL TRADE REGULATION

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The unequal development of individual countries, the economic and political crises, deepening of foreign economic relations have led to the fact that tariffs often do not provide the necessary level of national markets protection. As a result, countries governments are turning to the use of non-tariff regulation. And the range of instruments of non-tariff measures of international trade regulation is constantly expanding. Therefore the study of non-tariff measures in the system of state regulation of international trade is vital and that of a current interest. The purpose of this paper is to improve the development of measures of non-tariff regulation of international trade. In this study authors used such scientific methods as system analysis, the grouping method, the method of comparative analysis and statistical method. This article determines the main problems of non-tariff regulation in the global trading system and proposes the ways of their solution. The conducted studies will help to organize the effective regulation of countries foreign economic activity. Therefore, the results of the research can be used for further theoretical research in the field of international trade.

Keywords: quantitative restrictions, non-tariff measures, non-tariff protectionism, pre-shipment inspection, measures, technical barriers to trade, price-based measures.


1. Introduction

Nowadays, many countries have gained grate experience in protecting the domestic commodity markets and national producers from unfair foreign competition, as well as promoting access to external markets. However, due to the liberalization of international trade in according to the WTO rules there was a transition from the application of customs tariff to a predominantly non-tariff regulation. Indeed, if at the end of World War II, the average level of tariffs was about 50%, now in developed countries, it is about 4%, as well as in developing countries – only 13%. At the global level, more than half of world import is made duty free. Goods and services imported by Hong Kong (China), Macao (China) and Singapore face zero-rated custom duties.
A significant reduction of tariff rates and tariff binding led to the occurrence of more efficient and flexible protection in the global trading system, that is based on non-tariff methods of trade regulation that are constantly modified and complicated.

In recent years, non-tariff measures became widely used in international practice in developed and developing countries and nowadays these instruments rather than tariffs are creating a major threat to the current global trading system, developed in the last decade. And the range of instruments of non-tariff regulation of international trade is constantly expanding. The use of non-tariff measures require economic evaluation of their impact on economic development and international trade and forecast of possible consequences for countries engaged in the process. Therefore, the problem of non-tariff protectionism is currently relevant, as this policy may cause a trade war, which has a negative impact on world trade as a whole and may prevent further global economic recovery. Problems and prospects of international trade non-tariff regulation practice lie among interests of both domestic and foreign researches. Among the scientists who explore the theoretical and practical aspects of non-tariff regulation in the global trading system, as well as the mechanism of non-tariff regulation in Ukraine, we should mention T. Zigankova, (2003), A. Mazaraki (2003), T. Melnik (2014) and others. Problems of non-tariff regulation of international trade have been the object of in-depth study of foreign scientists, as R. Baldwin, (1970), M. Ferrantino (2006), C. Mann, D. Wilson and T. Otsuki (2001) and others. The problem of measurement of the non-tariff measures impact on trade in the global economy is mentioned in research papers of such foreign scientists as B. Bora, A. Kuwahara and S. Laird, (2002), J. Walter (1972), A. Deardorf and R. Stern (1970), I. Dumylen (2009) and others. They distinguish a different number of methods that can be used to determine the impact of non-tariff measures on the economy. Also the analysis of non-tariff measures in international trade is conducted by international organizations, in particular, by WTO, UNCTAD, the World Bank and others. However, in modern scientific literature the problem of non-tariff regulation in the global trading system at the present stage of development of international trade remains under-investigated.

The main aim of the article is to suggest ways of the non-tariff regulation of international trade improvement. Thus, the suggested aim of the research outlined such main problems to be solved: to give a definition of non-tariff measures and to classify them, to explore the current state of non-tariff instruments in the world practice of foreign trade regulation. The object of the study is the system of non-tariff regulation of international trade.

2. Research methodology

To achieve the objectives of the study general scientific methods of research were used: a systematic method was used to identify problems of non-tariff regulation; by the method of comparative analysis the author investigated major non-tariff measures used in developed and developing countries. The statistical method was
used to calculate the correlation of non-tariff measures to the level of GDP per capita, and using the method of grouping we analyzed statistical data on non-tariff measures and systematized the effects caused by usage of non-tariff measures. As main information sources we used scientific studies in sphere of international economic in recent years and the materials provided by the global and sectoral international organizations engaged in the field of international trade (WTO, UNCTAD, the World Bank and others).

The practical significance of the study’s results is determined by the relevance of the article’s problems, and orientation of the work on the improvement of the system of non-tariff regulation of international trade, which contributes to the organization of effective country’s foreign economic relation regulation.

3. Results

At present, one of the important areas of foreign trade regulation is non-tariff methods, the role of which in the total amount of regulatory instruments is constantly rising. 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 (Non-tariff..., 2013). Taking into account the large number and variety of non-tariff regulation, international organizations and individual researchers have developed different systems of their classification. The proposed classification of non-tariff measures, developed in 2009 by researchers and experts from UNCTAD, the WTO, the OECD and other organizations, includes the following measures: import measures (technical measures: sanitary and phytosanitary measures, technical barriers to trade, pre-shipment inspection and other formalities; non-technical measures: contingent trade-protective measures, non-automatic licensing, quotas, prohibitions and quantity-control measures other than for SPS or TBT reasons, price-control measures, including additional taxes and charges, finance measures, measures affecting competition, trade-related investment measures, distribution restrictions, restrictions on post-sales services, subsidies (excluding export subsidies under), government procurement restrictions, intellectual property, rules of origin) and export measures (export licenses, quotas, subsidies and others). Besides, researches outline a number of procedural obstacles that also apply to non-tariff measures: the work of civil servants, inconsistencies between local and national procedures and legislation, excessive documentation requirements, administrative delays, incomplete information about the procedures and requirements, the practice of informal payments, etc. At present we face, the transformation of the traditional instruments of foreign trade regulation in the direction from the explicit to the hidden protectionism. For example, assume that the average tariff rate in developed countries on agricultural imports from countries with low income is 5%. If instead of tariff, non-tariff restrictions are applied, the corresponding tariff equivalent (non-tariff measures) in the considered product group may reach 27%. It means that, when farmers from developing countries export agricultural products to developed countries
they have to compete with the farmers from developed countries, who has a possibility to receive subsidy, while he must obtain the necessary permits in accredited laboratories, to find an effective and inexpensive method of transportation, pass the border control and inspection in the country of destination, to ensure that their products feet standards of the private consumer in the country of destination etc. In the long term prospective, ensuring compliance with production standards and regulations on export markets could mean for exporters from developing countries higher product’s quality and, consequently, higher value-added and the possibility of establishing higher prices. However, in the short term prospective, non-tariff measures may adversely affect the competitiveness of developing countries’ exports, as the fulfilment of the technical and safety requirements abroad increases their cost of production (Global ..., 2013).

The consequences of the application of non-tariff measures can be divided into positive (stimulate the development of export potential; do not affect the restrictions on domestic production or exports; ensure the growth of trade, thus, promote exports; facilitate production and exchange, reduce operation costs; guarantee the quality and provide public goods) and negative (restrict international trade; directly limit or discriminate against imports to the domestic market, reduce world welfare, bound the size, deform structure and distort the direction of trade in goods and services; hinder free international trade).

To date, according to the UNCTAD estimates non-tariff measures cover from 18 to 30% of world trade. Particularly developed countries use non-tariff measures against 17% of imports, including 50% of steel, 25% of textile products, 44% of agricultural output. Recently, non-tariff measures are increasingly applied and by developing countries – up to 40% of total imports, including 50% of food imports are face such restrictions.

Among non-tariff measures technical barriers to trade, sanitary and phytosanitary measures, quantitative restrictions, price-based measures and pre-shipment inspection are most commonly used. According to the newly collected data, TBTs are by far the most commonly used regulatory measures, with the average country imposing them on about 30 per cent of products and trade and sanitary and phytosanitary measures to about 15%, which is shown in Figure (Non-tariff ..., 2013). Developed countries use technical barriers to trade, sanitary and phytosanitary measures more active in comparison with developing countries. Now among the developing countries, the index coverage ratio of technical barriers and frequency index of their application for most countries in Africa (0.41 and 0.39, respectively), mostly due to the process of harmonization of standards with the main trading partner – the EU. First of all technical measures are used for food, pharmaceuticals, textiles and clothing, motor vehicles, household appliances and electrical equipment.

Among non-tariff measures also quantitative measures can be found. Coverage ratio of such measures is 23% and the frequency index is 18%. However, if we compare the use of quantitative measures in 2010 to 1999, their number has considerably decreased, which is probably primarily due to the progressive tariffication of quotas.
Basically quantitative measures applied to products of plant and animal origin, food, cars, etc. Price measures as methods of non-tariff regulation of international trade in comparison with other non-tariff barriers affect a relatively smaller part of the goods traded. The frequency index of their application is 5% and the coverage ratio of trade is 8%. However, if we compare the frequency of application of price measures in 2010 and 1999, we can observe the trend of growth, that occur due to the increase in the share of trade defense instruments, in particular anti-dumping, countervailing and safeguard measures.

Today, the practice of pre-shipment inspection gets spread all around the world. Major goal of pre-shipment inspection is to provide some assurance on the quality/quantity of the shipment. On average, the coverage ration of trade is 20%. Coverage ratio and frequency index of pre-shipment inspection index are the highest in Africa and on average are about 0.28 and 0.25, respectively (Non-tariff ..., 2013). Inspection in the countries of the African continent is mainly used in order to fight corruption, to facilitate and accelerate custom procedures and ultimately to help in the correct evaluation of imports and their proper taxation. Thus, this kind of non-tariff regulation, on the one hand, contributes to international trade, and on the other – creates additional costs, which may decrease countries competitiveness and restrict trade activity. Inspection is carried out mainly in respect of products of plant origin, living goods, food products, footwear, textile.

The purpose of non-tariff measures practice is not only to strengthen the competitive position of the importing country, but also to protect its domestic industry, the protection of life and health of population, the environment and national security.

Combination of factors that lead to an increase in the number of non-tariff measures can be devided into groups: economic (significant reduction in the average level of customs duty, the uneven development of individual countries, increasing competition on world markets, a sharp increase in imports in many countries has led to a negative trade balance, that worsened the financial position of these countries; modification of commodity production; deepening of foreign economic relations, the relative alignment of the prices of similar goods in different countries, country’s level of corruption); political and legal (the level of political stability, state’s protection of the entrepreneurs’ interests, political crises, the level of the legal framework, corruption, etc.) social (standard of living, the purchasing power of the population, the increasing problem of unemployment has also led to an increase in the number of non-tariff measures that help to prevent the closure of domestic enterprises due to the pressure from foreign competitors); environmental (environmental conditions, including the level of its contamination, level of humans, animals and plants health); global (globalization of the world economy, a significant reduction in tariff rates and tariff binding according to the WTO practice, the global economic crisis, the aggravation of international competition).

In our research we examined the correlation between number of non-tariff measures and such an indicator of the country’s welfare as GDP per capita in 2010 among developed and developing countries (26 countries (Table)). As a result we re-
ceived data that confirm the direct dependence of non-tariff measures on the level of development of the country.

As a result we received the level of correlation 0.58, so we can say that the dependence of the number of non-tariff measures from GDP per capita is significant. If GDP per capita increased by 10,000, the number of non-tariff measures on average will increase by 42 units. Dependence of non-tariff measures from GDP per capita therefore is noticeable (Fig.).

Therefore, the change in the number of non-tariff measures on 33% depends on the GDP per capita. For example, in 2010 in Madagascar, the level of GDP per capita was $413, while the number of non-tariff measures – 8, while in the United States, GDP per capita was $48,358, the amount of non-tariff measures – 482, from which 354 technical barriers. This indicates that the developed countries while increasing the welfare of the population tend to use technical barriers that enhance the safety and

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita, $</th>
<th>Number of non-tariff measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>2804</td>
<td>45</td>
</tr>
<tr>
<td>Kenya</td>
<td>793</td>
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</tr>
<tr>
<td>Madagascar</td>
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<td>8</td>
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<tr>
<td>Morocco</td>
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<tr>
<td>Senegal</td>
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<td>South Africa</td>
<td>7176</td>
<td>11</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>525</td>
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</tr>
<tr>
<td>Uganda</td>
<td>472</td>
<td>139</td>
</tr>
<tr>
<td>Cambodia</td>
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<td>173</td>
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<tr>
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<tr>
<td>USA</td>
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</table>
quality of imported goods. It should be also mentioned that introduction of non-tariff barriers could lead to a reduction in imports; higher prices for imported goods, which in turn may have negatively effect the industries that use imported goods for processing and the production of finished products; changes in the demand elasticity of imported goods; production losses resulting from deviations of production from the optimal amount increasing under the influence of non-tariff measures; consumer losses and deformation of different social groups incomes’ structure.

Fig. The correlation between the number of non-tariff measures and GDP per capita

However, so far a quantitative assessment of the non-tariff measures impact on foreign trade and the economy in general is rather difficult. Existence of difficulties and limitations in measuring and quantifying the impact of the application of non-tariff measures on trade and economy as a whole, gives the prospective for further improvement of the rules of non-tariff regulation in the framework of the WTO. American researcher I. Walter (1972) noted that each customs duty exactly determines the amount of surcharges on imports and is expressed in numbers, which can be used for comparison, calculation and collation in order to identify the real level of protectionism. This technique is unsuitable for non-tariff measures because these kinds of restrictions very rarely exist in such defined forms.

Both theoretical and practical aspects of quantifying non-tariff methods are very important, due to their role in the multilateral trade negotiations when clear quantitative comparisons of various non-tariff measures is required in order to determine the equality of concessions and commitments, to increase the effectiveness of foreign trade operations and to determine the strategy and tactics of on non-tariff barriers reducing negotiations.

Economic impact of non-tariff measures can be very significant. The aggregated effect of complicating the paperwork, customs procedures, licensing procedures, transport, insurance and payment requirements can significantly exceed the cost of

A recent study by economist K. Berden (2009) of non-tariff measures in the field of trade and investment between the United States and the EU has shown that the potential positive impact for the EU from the convergence of non-tariff measures will add 158 billion dollars annually to its GDP and also will increase exports to the United States by 2%. The greatest benefits would have been gained by vehicle manufacturers, chemical, pharmaceutical, food and electrical goods producers. For the United States the positive effect is estimated at 53 billion dollars and an increase in exports to the EU by 6%. The main beneficiaries are manufacturers of electrical, chemical and pharmaceutical products as well as providers of financial and insurance services. Not surprisingly, the USTR called non-tariff measures a key barrier to access to international markets for American firms.

The complexity of quantitative assessments of the application of non-tariff barriers (both individually and as a whole), and their impact on trade and economic development of countries occurs due to several reasons: the great diversity and heterogeneity of non-tariff measures, the emergence of new forms of non-tariff barriers (including measures of disguised protectionism), the lack of systematic data, problems with categorization of non-tariff barriers. As a result, difficulties with the unification of the rules of non-tariff regulation of international trade appear. Despite this, the WTO on a global level improves existing and new ones protective mechanisms and methods for understanding and mastering the use of which is necessary for the effective implementation of national economic interest in modern conditions and to strengthen competitive position on international markets.

Moreover, in the global trading system of the WTO there are more than 300 requirements for the notification of non-tariff measures, which cover a large range of agreements and arrangements, such as the use of subsidies, anti-dumping measures, and so on, although the information provided by member countries is still not explicit. All this undermines the basic principles and rules of the global trading system.

Thus, today there are several problems associated with the use of non-tariff measures: difficulty in identifying new forms of non-tariff measures; the lack of systematic data; the complexity of the unification of the rules of non-tariff regulation of international trade.

Therefore, international community’s efforts for unification of the rules of non-tariff regulation of international trade should be aimed at improving the system of non-tariff regulation, and especially try: to promote better compliance with the rules, norms and commitments undertaken by WTO members; achieve greater transparency and a better understanding of the trade policies and practices of member countries (through a review of their trade policy and the notification of non-tariff measures).
Trade Policy Review mechanism could be an important tool for the detection of excessive trade barriers that are created by non-tariff measures, without the need for using trade dispute settlement procedure (Zahrnt, 2010). In this case, it will be possible to take advantage of transparency – to use domestic and international pressure to remove unnecessary barriers and to improve decision-making processes to ensure that such unjustified measures do not come in force. However, this will need to provide the WTO Secretariat with more power and resources. It would be very helpful to publish a review of trade policy on non-tariff measures in a separate report. It is also necessary to apply the new classification system of non-tariff measures to facilitate the collection and analysis of data to provide data validation by the government to encourage the placement of data on non-tariff measures on the Internet after checking them, to strengthen the institutional process of regulatory review.

4. Conclusions

1. Non-tariff measures are the foreign trade regulation instruments (excluding custom duties), by which the government restricts imports / exports and stimulate the country's exports. That as a result affects the volume of trade, the commodity structure, the direction of trade, products’ price and quality, country’s welfare and can lead to both positive and negative consequences.

2. The key problem of international trade regulation today is assessment of the impact of non-tariff barriers on international trade and economic development. In theory, there are many methods of measuring the quantitative assessment of non-tariff measures: the frequency index of use of non-tariff measures, import coverage ratio of non-tariff measures, econometric methods. However, the lack of relevant and up to date data on non-tariff measures complicates an assessment of non-tariff measures using these methods.

3. To improve the analysis of non-tariff measures and their quantitative evaluation it is necessary to establish new methods of analysis and comparison of non-tariff measures that could be used to show why different types of non-tariff measures are used in specific situation.

4. An alternative to elimination of non-tariff measures is their simplification on the individual level (by one country), regional level (harmonization / mutual recognition agreements) and multilateral level (through negotiations within the framework of the mechanism of NAMA).
Literature


NETARIFINES PRIEMONES INTERNACIONALIZUOTO PREKYBOS REGULIAVIMO GERINIMO BŪDAI

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Kijevo Vadymo Hetmano nacionalinis ekonomikos universitetas

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Santrauka

Nevienodas atskirų šalių vystymasis, ekonominės ir politinės krizės, užsienio ekonominių santykių stiprinimas lėmė tai, kad tarifų dažnai neužtikrina lygio nacionalinių rinkų apsaugos. Todėl šalių vyriausybės imasi naudotis netarifiniu reguliavimu ir reguliavimo netarifinių priemonių instrumentų tarptautinėje prekyboje diapazonas yra nuolat plečiamas. Dėl to netarifinių priemonių valstybinio reguliavimo tarptautinėje prekyboje sistemos tyrimas yra labai svarbus ir šiuo metu aktualus. Šio straipsnio tikslas – tobulinti netarifinių reguliavimo tarptautinėje prekyboje raidą. Šiame tyроме naudoti sistemos analizės, grupavimo, lyginamosios analizės ir statistikos metodai. Įvardintos pagrindinės netarifinio reguliavimo problemas pasaulinėje prekybos sistemoje ir siūlomi jų sprendimo būdai, kurie padės organizuoti veiksmingą šalių užsienio ekonominės veiklos reguliavimą ir gali būti naudojami kituose teoriniuose tyrimuose tarptautinės prekybos srityje.

Raktiniai žodžiai: kiekvienosios aprūpomosios, netarifinės priemonės, netarifinės protekcijos, inspekcija prieš išsiuntimą, priemonės, prekybos techninės kliūtys, kainomis grindožiamos priemonės.

JEL kodas – F13.