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NON-TARIFF REGULATIONS TRENDS IN THE CONTEXT OF ECONOMIC GLOBALIZATION

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Abstract

This paper is designed in order to highlight the non-tariff regulations and barriers trends in the context of economic globalization and integration in a single market.

Despite the achievements of single market integration and globalization, many non-tariff barriers (NTBs) persist, preventing realization of its full economic potential. These arise from laws, technical regulations and practices, and create obstacles for trade. NTBs can be of a general character, such as problems with the implementation and enforcement of law at the national level, missing or differing e-government solutions, or complex VAT requirements in trade. NTBs can also be sector-specific and concern only specific markets for goods, services or retail. Advancing to a universal - single market in an ambitious way is likely to help to remove many persisting NTBs. Many studies on reducing barriers recommended that strategies, product market and sector regulation including public procurement, need to be prioritized as areas of action due to the size of expected benefits.

Timeliness of the topic

The world's competitiveness is due to the trade links between these countries and demonstrates how national economies manage in present, in the conditions of the crisis, but especially their future. The whole world is under the impact of globalization, and international trade is considered the main vector of its manifestation.

The proposed research methods are: scientific reading, analysis and synthesis, organization and systematization of information.

Keywords: *Trade, Non-tariff barriers, Import, Export, Economics, EU.*

JEL CLASSIFICATION: F1

The usage of non-tariff barriers is highly correlated with the income level of an economy. High income countries appear to use non-tariff barriers more often than low or middle-income countries. Despite the difference in the number of non-tariff barriers implemented, the relative importance of non-tariff barriers compared to traditional trade defense measures or tariff increases also varies across income levels. The implementation of non-tariff barriers substantially varies across countries. The United States implemented by far the largest number of non-tariff barriers. With close to 800 non-tariff barriers the US government implemented twice as much protectionist policies as the Indian government, which ranks second. The two BRICS economies, India and Russia rank second and third among the countries that implemented the most non-tariff barriers, with 310 and 204 implemented measures, respectively. Larger European economies like Germany, the United Kingdom and France implemented between 50 and 100 non-tariff barriers, which is only about one tenth of the amount of non-tariff barriers implemented by the United States.

Subsidies and state aid measures make up the largest number of implemented non-tariff barriers in the considered database. These measures are mainly driven by the extensive provision of financial grants provided to domestic companies that discriminate against foreign competitors. Over 500 such financial grants have been provided in the period between 2009 and 2017. Other important subsidies and state aid instruments have been state loans, bailouts and taxes or social-insurance

reliefs. Localization requirements in public procurement are the second most often applied non-tariff barriers, with over 360 implemented restrictions.

Not only have non-tariff barriers been increasingly applied as trade restricting measures, but they also have had a significant import reducing effect. On average bilateral imports decrease in response to the implementation of at least one non-tariff barrier by 12%. Similarly, on average yearly-bilateral trade decrease by around 11%, if at least one trade defense measure is implemented. However, non-tariff barriers are used substantially more often than trade defense measures, which include anti-dumping, anti-subsidy and safeguard measures.

The effect of non-tariff barriers on imports turns out to be very diverse across different industries, countries with different income levels and individual countries. A main reason for this heterogeneity can be found in the strong variation on how often and which type of non-tariff barriers are implemented in the different groups.

The identification of non-tariff barriers remains a major challenge. Contrary to data on non-tariff barriers provided by other sources, the GTA database for example records only very few Sanitary and Phytosanitary (SPS) and Technical barriers to trade (TBT) measures. One reason for this pattern may stem from the fact that other sources like the WTO do not distinguish between non-tariff barriers and non-tariff measures. Different to non-tariff barriers, non-tariff measures do not necessarily have a protectionist character, but could also liberalize trade.

The implementation of non-tariff barriers substantially varies across countries. The United States implemented by far the largest number of non-tariff barriers. With close to 800 non-tariff barriers the US government implemented twice as much protectionist policies as the Indian government, which ranks second two BRICS economies, India and Russia rank second and third among the countries that implemented the most non-tariff barriers, with 310 and 204 implemented non-tariff barriers, respectively. Saudi-Arabia, Indonesia and Belarus are also among the top 10 imposing countries. China, as the world's largest trading economy and often criticized for its unfair trade practices, ranks 9th, with close to 100 interventions implemented.

What makes the United States in terms of non-tariff barriers the by far most protectionist country. Besides political motives that are difficult to be identified there might be technical reasons, in the way how non-tariff barriers are identified. On the one hand, the observed differences in observed NTB measures could be driven by the tendency of the US government to announce each policy separately, which leads to over-reporting within the GTA database compared to other countries that announce policies in bundles. The United States made extensive use of discriminatory state aid measures and subsidies as well as public procurement policies. It accounted for more than 70% of all worldwide implemented public procurement policies and about 25% of all subsidies and state aid barriers. SPS and TBT measures do not play a role in the United States protectionist profile. Generally, the comparison across countries depicts that the use of instruments is diverse. India for example mostly applied discriminatory import and export policies and localization policies. In contrast to the United States, public procurement and state aid were not outstandingly more often applied by India than by other countries.

The usage of non-tariff barriers is highly correlated with the income level of an economy. High income countries appear to use non-tariff barriers more often than low or middle-income countries. Despite the difference in the number of non-tariff barriers implemented, the relative importance of non-tariff barriers compared to traditional trade defense measures or tariff increases varies across income levels. This finding is not surprising. Especially large economies that adopted all WTO regulations face little scope for tariff increases within the regulatory framework. The increasing implementation of non-tariff barriers relative to tariff increases might reflect how high-income economies substitute towards other instruments to protect their economy. For high income countries, the share of non-tariff barriers of all implemented protectionist is around 50%. Tariffs account only for a small proportion of all implemented protectionist policies. In contrast, low income countries tend to use tariffs rather than non-tariff barriers to protect their economies. Since 2011, more than 80% of all protectionist policies implemented by low income countries were increases in import tariffs.

None of the low-income countries implemented any trade defense measure. This could be explained by the fact that imposing trade defense measures is costly, as the country has to file a lawsuit at the WTO and provide all necessary documents. An interesting pattern shows up in the development in upper middle-income countries. In 2009 non-tariff barriers and tariff changes were equally often implemented. Since then, the development diverged and non-tariff barriers account for more than 50% of all protectionist policies, while the share of tariff changes dropped to about 10% in 2016.

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With all these open challenges, we could deduct a clear message. Protectionism has been on the rise not in form of tariffs but with trade policy instruments which are less harmonized. The non-tariff barriers may be responsible for about 16% of the observed global trade slowdown. Clearly, making such a projection remains difficult as the prediction of a potential trade level is complicated. Depending on the assumptions made the results may change significantly.

It becomes clear that the world needs to take decisive steps to prevent the further rise of non-tariff barriers. A right step had been taken with free trade agreements such as the Transatlantic Trade and Investment Partnership or the Trans-Pacific Partnership in which the reduction and harmonization of non-tariff barriers was a major aim. Reviving these initiatives should be a major aim in the near future.

Equally, there is a clear message for the multilateral trading system. The world has been very successful in regulating import tariffs but there are new protectionist measures which require international coordination. These challenges give an important task, namely bringing the countries together and achieving the same success as in the case of tariffs.

On the other hand, now days the European Union and the United States took an important step in de-escalating the threat of a trade war by agreeing to not only begin walking back US tariffs on European steel and aluminum and Europe's retaliatory measures, but also by starting to discuss an ambitious forward-looking agenda for reducing trade barriers and expanding trade liberalization in other sectors, such as energy, soybeans, services, and non-tariff barriers (NTBs).

The goal of eliminating NTBs is laudable, but achieving this goal even on a bilateral basis between the world's two largest economies will be far from easy. It will require regulatory changes to currently protected sectors in the United States as well as the European Union. If the United States and EU can get some easy initial wins, leverage the opportunity of new technologies, and respect existing regulatory processes, however, they can avoid the pitfalls that posed problems for prior transatlantic negotiation efforts.

The United States and the European Union represent the world's largest bilateral economic relationship. Recent data from the European Union indicates that the United States is the largest export market for EU goods (accounting for 20% of EU exports) while the EU is the second largest market for goods made in the United States (accounting for 13.6% of EU imports). Both imports and exports have grown dramatically since the recent financial crisis. Recent data from the United States Trade Representative indicates that trade in services exports from the United States (\$231bn) were nearly equivalent to goods exports (\$270bn).

In addition, the United States and the EU have the largest mutual investment relationship in the world, which helps support a significant part of transatlantic trade. US and European firms employ more than 9 million on both sides of the Atlantic with up to 5 million more jobs supported by the resulting economic activity.

Given the depth and interconnectedness of the transatlantic economic relationship, even small efficiency gains associated with decreasing or eliminating NTBs at the transatlantic level could therefore generate substantial economic benefits on both sides of the Atlantic. Yet policy makers have failed consistently in the last decade to decrease NTBs despite the existence of robust, science-based regulatory processes, and considerable high level political will.

The new pledge to reduce or eliminate NTBs represents the third significant transatlantic initiative in this area since 2007. Policy makers are now proceeding down a familiar road with well-known and often emotional pressure points both in the goods sector (chlorinated chicken and genetically modified seeds) and in the services sector (financial services and professional services). If they are to succeed where the two preceding transatlantic efforts have failed, they should keep in mind some lessons learned:

Start Small: Policy makers should focus on a limited set of regulatory policy measures where a high degree of policy convergence already exists and use these areas to build confidence and establish solid working relationships before tackling more complex or emotional issues. It is possible that the soybeans export portion of last week's agreement represents such an initiative. The European Commission recently reported that as of July 2018 (before the Trump-Juncker meeting), the United States represented 37% of all EU soybean imports, with a substantial increase (+283%) from July 2017. In July 2017, the United States represented only 9% of all EU soybean imports. The substantial increase likely reflects the European Commission's July 2017 decision to allow certain genetically modified soybean varieties.

Take on Newer Technology: Cross-border regulatory cooperation and NTB reductions have foundered in part because policy makers to date have focused on traditional areas where domestic political priorities often have decades of entrenched perspectives. Change is hard everywhere and always. The deepening technological revolution underway in Europe and the United States presents opportunities for policy makers to identify areas where rules do not yet exist or are still evolving and where NTBs could more easily be reduced. Safety standards regarding autonomous vehicles and vehicles using alternative energy, for example, have not yet been fully defined on either side of the Atlantic, meaning that if European and American officials define new standards together, they can eliminate the application of NTBs to new vehicles.

Respect Existing Regulatory Processes: The current political environment on both sides of the Atlantic remains hostile to cross-border trade generally. NTB reductions will acquire more political support if they can be implemented by working with the grain of existing domestic regulatory processes. It will be important for policy makers to avoid giving the impression that trade agreements represent attempts to evade or avoid existing national regulatory processes.

Serious economic studies have argued that there is significant economic gain for both Europe and the United States in reducing non-tariff barriers. If they begin with carefully-selected sectors to get some early wins, the United States and the EU can start generating momentum to harvest these potential gains.

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