

Non-tariff barriers to trade are damaging too

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On average, the economic costs of non-tariff barriers (NTBs) now far exceed those of tariffs, which have generally been falling as new free trade agreements are implemented.

Indeed, NTBs to trade are particularly malignant. Their costs are harder to quantify and the benefits easier to overstate, especially if they can be justified on grounds of 'health and safety' or protection from 'unfair' competition.

Food standards should be proportionate and science-based. Too often they are not, particularly in Europe. Multiple studies have shown big economic gains from removing anti-competitive market distortions, including NTBs.

Attempts by powerful lobbies to promote NTBs on the basis of flimsy evidence therefore need to be resisted at every turn, with a focus instead on putting consumers' true interests first.

Introduction

Discussion of government-imposed barriers to international trade has traditionally focused on measures that directly raise the cost of imports and exports, notably customs tariffs and other forms of taxes and levies. However, the emphasis is now shifting to non-tariff barriers (NTBs), or bureaucratic 'red tape'. These measures include: import quotas, licensing and outright bans; 'technical trade barriers', such as special certification and customs inspection requirements; and standards which discriminate, even if only indirectly, against goods which are produced in other countries.

A recent paper by Fabian Wallen and Magnus Wiberg (2018), jointly published by the IEA, EPICENTER and Timbro, summarised evidence that NTBs are particularly damaging to trade and economic growth. Unfortunately, it also showed that the years following the global financial crisis have seen a marked increase in the number of NTBs and other harmful measures introduced for the first time. Indeed, data compiled by Global Trade Alert (2018) suggest there have been over 10,000 new government interventions since 2008 that have restricted trade, compared to less than 4,000 that have liberalised it. What's more, a study by Evenett and Fritz (2017) estimated that new trade distortions held back EU member states' export growth to destinations outside of the EU by between 10 and 20 percentage points between 2008 and 2014.

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Why non-tariffs barriers (NTBs) matter, and seem to be on the rise

The switch in emphasis away from tariffs and towards NTBs reflects three (related) factors. First, new bilateral and multilateral free trade agreements and the rules of the WTO have been relatively successful in lowering existing tariffs and, just as importantly, preventing the introduction of new ones. As a result, tariffs on goods now average only 3% worldwide, and this figure has continued to fall. In contrast, it has been estimated, by Minford (2015) and others, that NTBs add as much as 10% to 20% to the cost of trade.

Second, NTBs are often harder to measure, and therefore more difficult to monitor and police. Import tariffs are, by design, usually transparent and obvious, making it relatively straightforward to identify their costs. In contrast, NTBs may impact different businesses and consumers in different and more subtle ways.

Third, NTBs are often easier for supporters to justify, for example on the grounds of consumer health and safety, animal welfare, or to shield domestic producers from 'unfair' competition. The growing strength of environmental pressure groups, and the popular backlash against the perceived injustices of 'globalisation', have arguably made this task easier still.

NTBs are often harder for their opponents to police, and easier for their supporters to justify, particularly on health and safety grounds.

This is not to say, of course, that non-tariff barriers can never serve a useful purpose. There may be good reasons, for example, to operate a system of 'rules of origin' to identify where a good was made, with associated border checks. The WTO (2018) notes the importance of such rules in implementing policies such as preferential treatment for developing countries, maintaining quality standards, and meeting labelling requirements that allow consumers to make more informed choices.

The risks of going too far

Nonetheless, NTBs more often work against the interests both of consumers and of the wider economy, and are frequently used as cover for protectionist measures that are both unfair and inefficient. For example, many NTBs actually reduce consumer choice and raise prices under the cloak of protecting consumer (or animal) welfare. The burden, especially of measures that impact the availability of essentials such as food, often falls hard on poorer households,

It is therefore essential that measures that discriminate against particular goods and production methods are proportionate and science-based. This can't always be said of the EU's (excessively) precautionary approach to regulation, such as restrictions on GM crops and bans on or hormone-injected beef or chlorinated chicken. As Spence (2017) illustrates, these barriers rely more on popular prejudice than hard evidence, provide no health benefit, but do leave consumer worse off.

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Here, Wallen and Wiberg (2018) also note a marked increase in the number of international health and safety requirements for food, animal and vegetable products since the global financial crisis. It might be that the risks to consumers from unsafe foods happen to have grown over this period. But it is surely far more likely that governments have responded to heightened protectionist pressures at a time of relatively weak economic growth.

There is overwhelming empirical support too for the idea that the removal of anti-competitive market distortions, including NTBs, would boost productivity and economic growth. In contrast, needlessly burdensome regulation raises production costs and harms consumer welfare. Consistent with this, the European Commission (2002) estimated that the reduction in barriers thanks to the Internal Market boosted EU GDP by 1.8% over ten years. But the potential gains from liberalising the economy are bigger still: Bayoumi, Laxton and Pesenti (2004) suggest that the adoption of US-style product market regulation could boost euro area GDP by 8.6%, primarily by strengthening competition.

Multiple studies have shown big economic gains from removing anti-competitive market distortions, including NTBs.

Conclusion

Non-tariff barriers (NTBs) to trade are particularly malignant. Anyone can see the damage cause by tariff barriers. But the costs of NTBs are harder to quantify and the benefits easier to overstate, especially if they can be justified on grounds of 'health and safety' or protection from 'unfair' competition. Attempts by powerful lobbies to promote NTBs on the basis of flimsy evidence need to be resisted at every turn, with a focus instead on putting consumers' true interests first.

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