



Opinions


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# Protectionism and Non-Tariff Measures: Myths and Truths



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Rising protectionism has recently become an increasing concern amongst a number of trade economists and policymakers. At the 2017 G20 Hamburg summit, G20 leaders agreed to fight protectionism including all unfair trade practices.<sup>1</sup> However, the language of the final declaration on trade was weak and ambiguous. It did not suggest any promising way forward. Although international organizations and fora including the World Trade Organization (WTO) have made an effort to fight against protectionism, we have yet to see much progress. It has become more common these days to see domestic politics win over global agenda.

If so, are we reliving the 1930s, the era of tariff wars? This is partly correct, and partly wrong. The global economic environment is different from the 1930s. In the 1930s, the Tariff Act of 1930 (or the Smoot-Hawley Tariff Act) raised US tariffs on over 20,000 imported goods, leading to America's trading partners imposing retaliatory tariffs. Compared

<sup>1</sup> The members of the G20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States and the EU.

with the 1930s, many developing countries as well as developed countries have reduced their tariffs under the WTO and through many other regional trade agreements.<sup>2</sup> The latest Global Trade Alert report (2017) also points out that, contrary to the 1930s, G20 nations have tended to cut tariffs more often than raise them. Nevertheless, we are still seeing and worrying about the current rise of protectionism. What are we missing?

Today if we focus only on tariffs when talking about protectionism, many issues are apt to be overlooked. Trade policy includes not only tariffs but non-tariff measures (NTMs) as well.<sup>3,4</sup> As the Global Trade Alert report (2017) indicates that the falling tariffs of the post-war era resulted in governments resorting to non-tariff measures, there is a trend of more countries substituting tariffs with NTMs. This is because tariffs are already low for most countries and it is not easy to increase tariff rates under the WTO monitoring system. Thus, when discussing recent protectionism, reviewing NTMs is not optional but essential. However, it is not easy to compare NTMs with tariffs and reducing NTMs is much more difficult in the short term because NTMs are primarily attached to regulations and their impacts are hard to quantify.

First, NTMs have multiple aspects. Some types of NTMs such as poorly designed regulations are not innocuous, whereas other types of NTMs are beneficial in respect of human health, environmental quality, technology developments and so on despite their potential adverse effects on trade. All NTMs are not necessarily non-tariff barriers (NTBs). The problem is that it is extremely difficult to distinguish legitimate NTMs from protectionist NTMs. This is the reason why more countries fall into the temptation to raise NTMs to protect their domestic industries while maintaining low tariff rates. According to WTO agreements, NTMs are allowed under certain circumstances. This means that governments are allowed to pursue legitimate policy goals even if NTMs lead to increased trade costs. For example, expensive

<sup>2</sup> Tariffs for agricultural products are still relatively high.

<sup>3</sup> UNCTAD defines that NTMs include all policy-related trade costs incurred from production to final consumer, with the exclusion of tariffs. For example, NTMs include sanitary and phytosanitary (SPS) measures such as hygiene requirements, levels of pesticide residues, testing and inspection, technical barriers to trade (TBT) measures such as labelling, technical specifications and quality requirements and other traditionally used measures such as quotas, price control, exports restrictions, government procurement or distribution restrictions and so on.

<sup>4</sup> UNCTAD developed the international classification of NTMs. The classification of NTMs encompasses 16 chapters (A to P), and each individual chapter is divided into groupings with depth up to three levels. For more details, refer to UNCTAD "International Classification of Non-Tariff Measures".

certification and quarantine requirements, which may raise the price of imports, could be used to protect domestic consumers or for food safety under the WTO.

Second, unlike tariffs most NTMs are qualitative and the effects of NTMs on trade are heterogeneous across countries and products. This ambiguity makes it difficult to reach an agreement on free trade negotiation among countries. Although many studies developed ad valorem equivalence (AVE) estimation methods of NTMs, it is still a big challenge to identify and analyze NTMs on a comparable basis. For example, Kee, Nicita and Olarreaga (2009) developed a new AVE estimation method and find that tariffs and NTMs are negatively correlated. So if we ignore NTMs in a trade policy analysis, the trade policy effects might be underestimated.

Despite efforts to eliminate tariffs, the world is still far from frictionless trade. It is because the use of protectionist NTMs is prevalent all over the world. Trade economists and policymakers need to pay more attention to identifying disguised protectionism within NTMs in future multilateral or bilateral trade agreements. Moreover, in order to reduce the opacity and address the heterogeneity issues of NTMs, international cooperation on NTMs will be essential and a rulesbased multilateral trading system needs to be restored. As Korea is one of the major beneficiaries of the multilateral trading system, it is imperative for the Korean economy to keep the momentum of trade liberalization. Toward this end, persistent efforts are called for in identifying, monitoring and removing NTMs at the national level as well as in the regional and global community. **KIEP**

## References

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