3 Non-tariff Distortions of Trade

As tariffs have been progressively reduced by multilateral agreements in GATT and by regional trade agreements such as EEC and EFTA, attention has focused more and more on other impediments to trade. Some non-tariff measures have been recognised and discussed for a long time; for example quotas, export subsidies and differences in industrial standards. Many other measures, however, either were not apparent or were considered to be of little consequence when tariffs were high. Following the very substantial reduction in tariffs agreed during the Kennedy Round negotiations and the increased significance of non-tariff barriers in EEC and EFTA now that industrial tariffs have been eliminated, these distortions of trade flows have developed into a major issue of commercial policy. In part the interest derives from a wish to extend trade liberalisation beyond tariff reductions, and in part because of the fear that non-tariff barriers may be substituted for tariffs removed according to international agreements.

The issue of non-tariff distortions of international trade is only one aspect of a much larger problem. Liberalisation of tariffs and other restrictions on industrial trade under the auspices of international organisations, together with the revolution in transport and communications, have facilitated a rapid increase in international economic interdependence. At the same time, however, national governments have adopted policies involving more active intervention in the pursuit of economic stability and full employment. More recently, as Ohlin points out [49], these policies have been extended in attempts to stimulate regional development, industrial adjustment, technological research and labour mobility. A contra-
diction has evolved, therefore, between these new responsibili-
ties of governments and the general movement towards a
more liberal international trading regime. The dilemma has
been aggravated by inflexibilities in other economic variables,
such as price and exchange-rate stability.

The significance of non-tariff distortions as an international
policy issue is evident from the attention that has been given
to studies undertaken in recent years by GATT, OECD, EEC
and EFTA. Comprehensive lists have been compiled under
separate headings for a wide range of measures and practices.
Attempts to negotiate for the removal of the trade-distorting
aspects of many measures, however, are likely to prove difficult
owing to the specific domestic objectives that many such
policies are designed to meet, quite apart from any protective
effects they may have. Some non-tariff measures can be clearly
shown to be for regulation of international trade, such as
quotas, export subsidies and certain border charges. In many
cases, however, the impact on international trade may be
secondary to a domestic policy objective; regional development
schemes, government procurement policies and most produc-
tion subsidies appear to fall under this heading. Moreover,
even in the former case, measures introduced to control trade
flows may have been specifically chosen in the short run to
overcome balance of payments difficulties, or to alleviate
regional industrial adjustment problems simply because more
conventional measures, such as raising tariffs and altering the
exchange rate, are no longer acceptable. Mixed motives and
the diffuse consequences of economic measures make the issue
of non-tariff distortions of international trade a difficult area
for negotiations. Measuring the impact of a specific measure
on trade poses many difficulties. Furthermore, it is insufficient
to examine most measures from the points of view of their
trade-distorting effects alone. Firstly, the wider implications
for the economy as a whole must be considered. Secondly, it
is possible that an individual measure has been introduced
to overcome another distortion, in which case its removal would
create a new distortion. This interrelationship implies that all
measures affecting trade flows must be included in an assess-
ment.