



SPECIAL
EDITION



IF YOU CARE ABOUT
LEAST DEVELOPED COUNTRIES,
CARE ABOUT NON-TARIFF MEASURES



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A technical note by the UNCTAD secretariat



Summary

The sustainable development goals call for a doubling of least developed country (LDCs) export. Two main elements to achieve this goal are to increase productive capacity and improve market access conditions for LDCs. These two elements are closely related as even the best market access conditions cannot be exploited if productive capacity is unable to meet increasingly demanding international markets. Although DFQF treatment remains essential for LDCs, actual market access is increasingly determined by other requirements many of which are more linked to productive capacity. These requirements are generally referred to as Non-Tariff Measures (NTMs) to trade and include a wide range of requisites from technical standards (TBTs) and sanitary and phytosanitary (SPS) measures to anti-dumping, rules of origin and other administrative provisions.

All these measures add to the cost of trading for all exporters. However, the costs of compliance with many of these measures are asymmetrical across exporters because compliance depends on technical know-how, production facilities, and an infrastructural base that, while usually available in developed and emerging markets, is often lacking in many LDCs. In short, the presence of NTMs often makes LDCs exporters unable to compete in international markets. Moreover, the presence of NTMs is particularly large in sectors of fundamental importance for LDCs growth potential such as textile and apparel and many agricultural sectors. All considered, about two-thirds of LDC exports are subject to some form of NTMs. A concern for LDCs is that the trade regulatory framework makes a substantial part of LDCs products uncompetitive or even unmarketable and therefore diverted to less profitable markets.

Policy responses are important. Least developed countries package at MC10 should go beyond DFQF to include technical cooperation and trade facilitation mechanisms to help them comply with the asymmetric and increasing costs associated with NTMs. Global regulatory convergence towards international standards to the extent possible is important so that LDCs do not face different regulations in each market. Furthermore, ensuring effective and coherent regulations within LDCs is important to strengthen participation in regional and global value chains.

Least Developed Countries in World Trade

Trade has been recognized as a key driver for LDCs development: “Trade has an important role in ensuring least developed countries’ sustainable economic development.”¹ However, least developed countries’ participation in international trade remains marginal and has been stagnating since 2008 at about 1.1 per cent². This compares to a share in the world population of about 12 per cent and in world GDP of about 2 per cent. The low share reveals challenges due to a number of deficiencies including low productive capacities, weak infrastructure, etc.³.

This note shows that unfavourable market access conditions for LDCs export products significantly add to the difficulties of LDCs to utilize trade for development. Since LDCs benefit in most markets from preferential market access facing zero tariffs for most products⁴, restrictions stemming from non-tariff measures account for the unfavourable conditions. “It is essential to seriously work towards creating favourable market access conditions for all products originating in least developed countries, including through the reduction or elimination of arbitrary or unjustified non-tariff barriers and other trade-distorting measures”⁵.

NTMs' high market restricting effect

NTMs refer to a wide range of policies other than ordinary customs duties that can impact trade. The concept of NTMs does not bear a judgement about a measure's trade impact or legitimacy. Many NTMs are an integral part of a country's autonomous right to regulate internal matters. For example, the WTO's TBT Agreement and SPS Agreement refer to measures aiming to protect the environment, or human, animal or plant health. Such measures are referred to as non-tariff *measures* because they are de jure non-discriminatory not supposed to be used for protectionist purposes. They may increase or decrease trade. For example, measures guaranteeing that imports are safe increases trust and thus demand for such products.

In contrast, the term "non-tariff barriers" (NTBs) does imply a judgement about a measure's trade impact. They include traditional trade policy instruments aiming to affect the quantities or prices of traded goods, such as quotas or price controls. NTBs constitute barrier to trade through their discriminatory and protective design. Rules of origin in the context of regional or preferential trade agreements also fall into this category and are of particular importance to LDCs. They can set out complex country of origin requirements that may be hard to satisfy. This can cancel out the preferential access advantage.

However, the majority of measures observed today, primarily address public policy objectives such as public health, food safety and environmental protection. Many of these

¹ Istanbul Plan of Action, A/CONF.219/3/Rev.1

² LDCs' world exports in 2014, UNCTADstat.

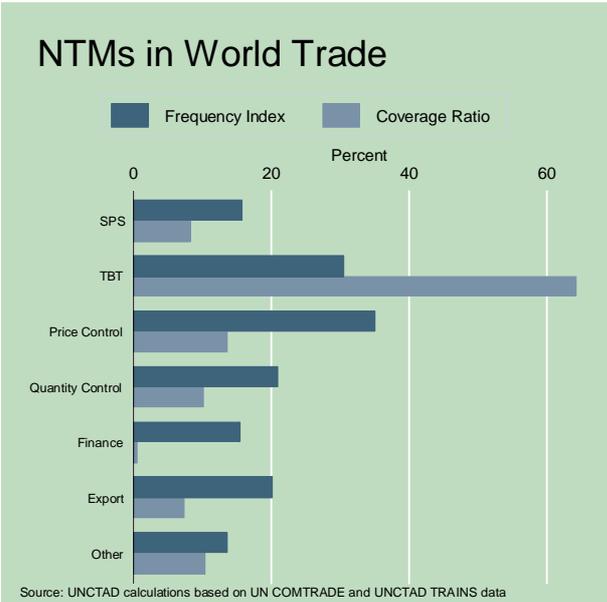
³ UNCTAD, The Least Developed Countries Report 2014 - Growth with structural transformation: A post-2015 development agenda, UNCTAD *The Least Developed Countries Report Series* 2014.

⁴ UNCTAD Post-2015 Policy brief No. 06

⁵ Istanbul Plan of Action, A/CONF.219/3/Rev.1

regulations apply equally to domestic producers but still have important restrictive effects on international trade. These regulations can become non-trade barriers if the trade restrictiveness, whether or not deliberate, exceeds what is needed for the measure’s non-trade objectives. The SPS and TBT agreements provide measures to prevent the use of such measures as disguised protectionist measures but it is often difficult to be clearly identified as illegitimate. An exporting country may perceive the hygienic production requirements for a specific product as too strict, while the importing country may argue that these requirements legitimately pursue the highest level of consumer safety.

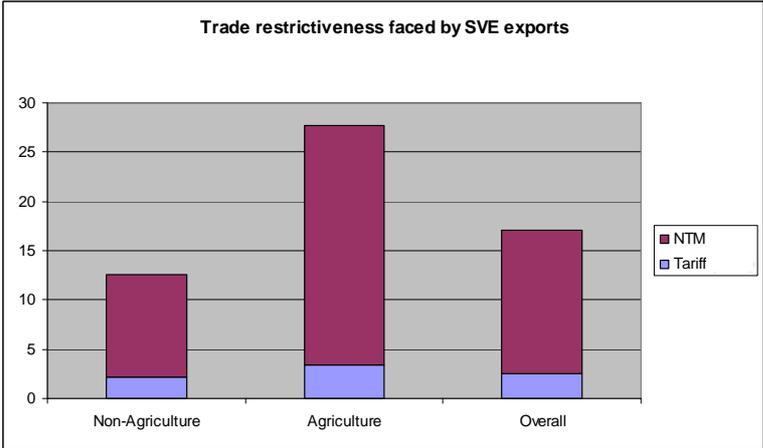
Figure 1: Prevalence of Non-Tariff Measures, by Type (2014)



Addressing non-trade concerns or commercial interests, and being legitimate or not, NTMs represent an immense challenge for exporters and importers and have on average a significant trade restricting effect. A recent analysis by UNCTAD⁶ based on data collected during the 2008-2012 period shows that in general NTMs are more significant in restricting developing country market access than are tariffs (Figure 1). This restrictive effect is more stringent for agricultural products. The study shows that while agricultural imports from low-income countries face average tariffs of about 5 per cent, once the effects of NTMs are included, the overall trade impediment is equivalent to about a 27 per cent tariff.

⁶ United Nations Conference on Trade and Development, 2013, “Non-tariff measures to trade: Economic policy issues for developing countries”, *Developing Countries in International Trade Studies* (UNCTAD/DITC/TAB/2012/1), New York and Geneva.

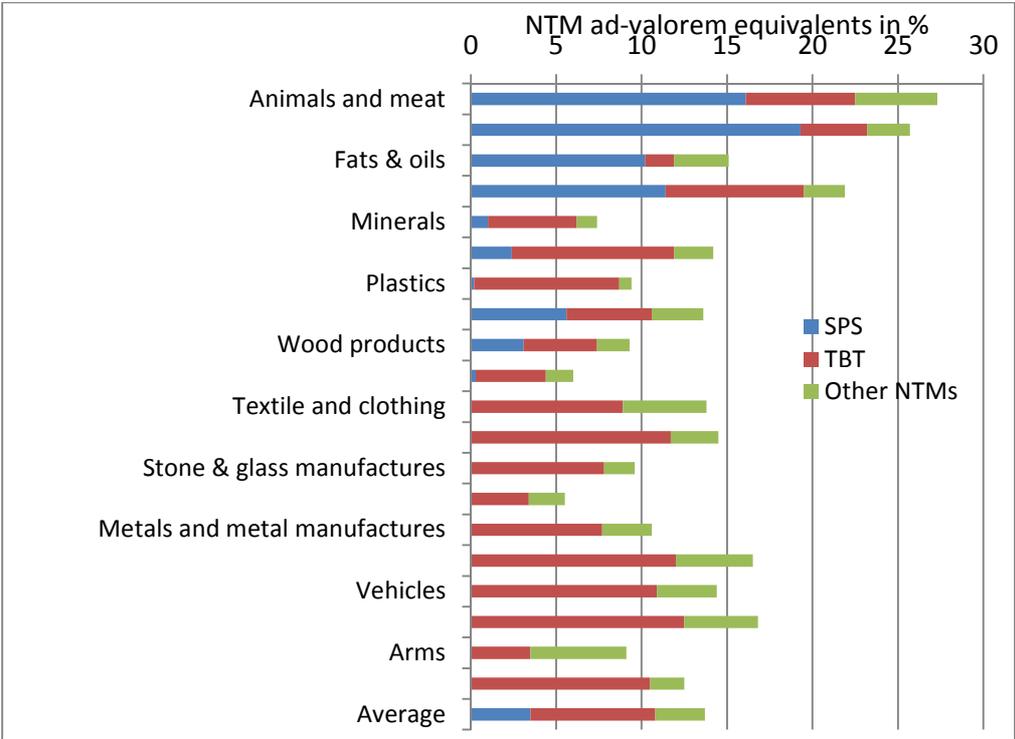
Figure 2: Importance of tariffs and non-tariff measures



Source: UNCTAD.

Assessing the level of restrictiveness by measure type and expressing it again in a tariff equivalent (ad-valorem equivalent) reveals that SPS and TBT have a higher effect than other NTMs. The latter includes the traditional non-tariff barriers with protectionist objectives. The highest effect is in the agricultural sectors but also some labor-intensive sectors such as textile and clothing have a relatively high level of restriction.

Figure 3: Ad valorem equivalents of SPS, TBT and other NTMs, world average by sector

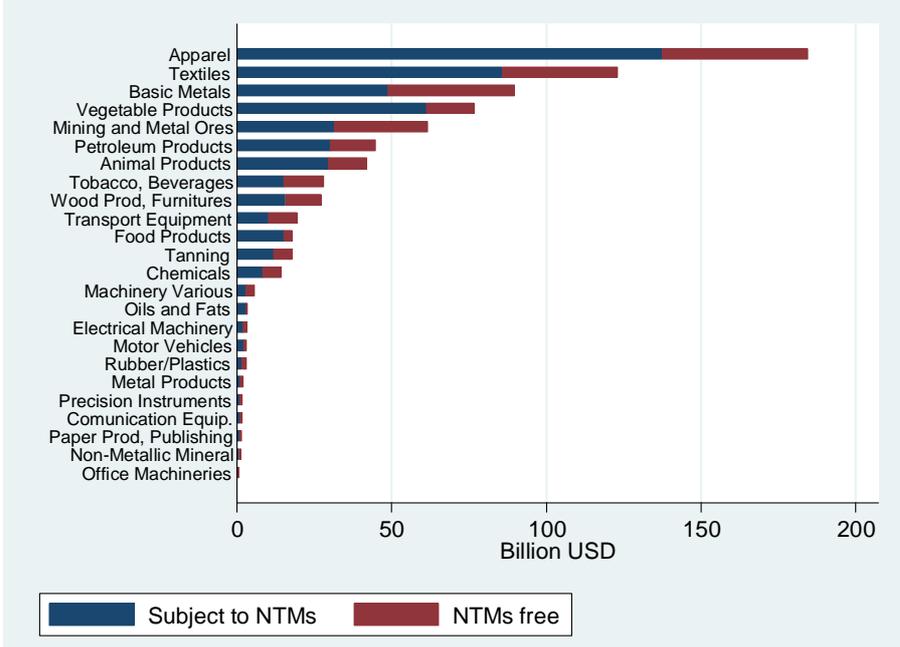


Source: Cadot et al, 2015, Deep Regional Integration and Non-Tariff Measures (UNCTAD/ITCD/TAB/71).

LDCs often export in sectors where NTMs are prevalent

About 75 per cent of LDC exports face NTMs in their destination markets. Technical barriers to trade (TBT) are widely used to regulate international trade in most sectors and regard the vast majority of world trade. Sanitary and Phytosanitary (SPS) measures are typically applied to agricultural products and some other products that may have inherent health hazards due to contaminants. Quantity and price control measures are widely applied to many sectors, mostly by developing countries. They cover a large share of world trade, mainly agricultural related products.

Figure 4: Least developed countries' exports facing NTMs



Source: UNCTAD calculation based on TRAINS data.

NTMs have a relatively higher negative effect on LDC exports

Recent evidence suggests that exports from low-income countries or LDCs are disproportionately affected. Least developed countries and their enterprises often have a more limited capability (or incur relatively higher costs) in meeting the NTMs requirements although the requirements are de jure the same for all producers including domestic producers. Limited capacity is essentially due to inadequate production processes, weak trade-related infrastructure and poor export support services. Empirical investigations⁷ based on firm-level data show that the exporters from developing countries encounter significant additional costs while adapting their production processes to comply with foreign regulatory measures. These costs appear to stem from developing countries' lack of administrative, technical and scientific capacities to comply with foreign standards. Further,

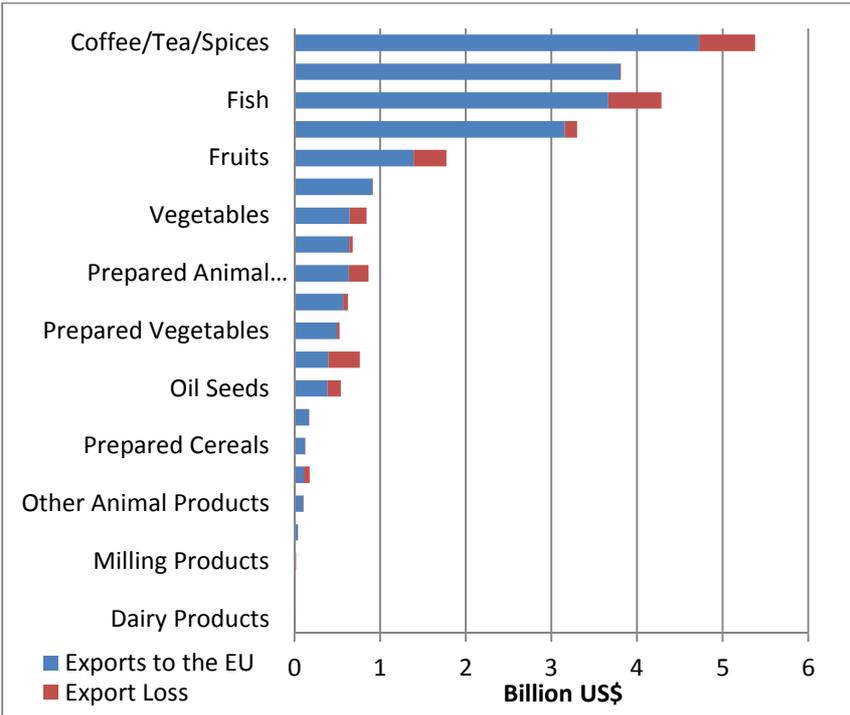
⁷ Maskus K E, Otsuki T and Wilson J S (2004). The costs of Complying with Foreign Product Standards for Firms in Developing Countries: An Econometric Study, Research Program on Political and Economic Change, Working Paper PEC 2004-2004.

even if the relative impact of compliance costs is small on average, the supply response by enterprises in least developed countries' is often more sensitive and thus such firms might tend to avoid higher-cost markets while favoring markets and products with a lower regulatory burden.

This can lead to de facto discrimination against exports of those countries that have the highest difficulties to comply with the regulations in export markets.

Those mechanisms are empirically analyzed in a recent study by UNCTAD.⁸ The study examines the European Union framework of SPS measures and investigates the extent to which these measures affect trade flows from low income countries.⁹ The study finds that the comprehensiveness of the EU regulatory framework, as well as its higher stringency vis-à-vis frameworks implemented by trading partners, act as an important market access barrier for low income countries. In quantitative terms, the study finds that trade distortionary effect of the European Union (EU) SPS measures vary across product groups and results to a total loss of about 3 billion \$US (or about 15 percent of exports) for low income countries exports (Figure 5).

Figure 5: Exports to the EU of LDCs and exports loss due to SPS measures



Preliminary analysis using UNCTAD TRAINS data for a larger group of countries including the United States, Brazil and other G20 members point to similar conclusions and suggests that

⁸ UNCTAD Blue Series Policy Paper No. 68, Marina Murina and Alessandro Nicita, 'Trading with conditions: the effects of sanitary and phytosanitary measures on lower income countries' agricultural exports', 2014. Forthcoming in *The World Economy*.

⁹ Using the UNCTAD's TRAINS database on non-tariff measures, this paper utilizes a gravity model of bilateral trade to investigate the effect of the European Union's sanitary and phytosanitary (SPS) measures for 125 exporting countries and covering about 700 different products in 21 agricultural sectors.

NTMs distort trade to disfavor poorer countries. In very general terms the econometric results indicate that the lower is the income per capita of a country, the higher is the negative effect of NTMs on its exports. These results show some variance depending on the imposing country and the economic sector, with agricultural exports being relatively more vulnerable to the presence of NTMs than manufacturing. Still, more analysis is needed to reach robust conclusions.

A similar strand of the literature, using time series data, points into the same direction. Evenett and Fritz¹⁰ use Global Trade Alert data and assesses how new measures categorized by the authors as protectionist measures has increased globally since the financial crisis and how it has affected the development prospects of LDCs. According to the study, the value of these countries' exports could have been 31% higher if no protectionist measures had been implemented since the beginning of the crisis. A preliminary UNCTAD analysis uses WTO notifications during a similar period and finds again trade diversion effect against LDCs.

Implications

Existing empirical analysis indicates without much ambiguity that NTMs do represent a real challenge for low income countries and LDCs. Overcoming this challenge may not be obvious and immediate without the support of the international community. Two components would be crucial to an action plan that aims at being effective and efficient. The first component consists in an intensified and targeted technical assistance program aiming at helping low income countries and LDCs meet international standards and regulations, and at helping them to overcome domestic constraints in order to build capacity both to comply and to demonstrate compliance with export markets' requirements.¹¹ The second component is the promotion of transparency, coherence and possibly streamlining in the formulation of NTMs regulations. Convergence at the international level towards international standards should be implemented to the extent possible.

¹⁰ Evenett and Fritz (2015). "Throwing Sand in the Wheels: How Trade Distortions Slowed LDC Export-Led Growth." CEPR 2015.

¹¹ An example in this regard is the established Standards and Trade Development Facility (STDF), a global partnership that provides support and financial assistance to developing countries in building their capacity to implement international SPS standards.