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**Direct and
Indirect Linkages between
Non-tariff Measures and
the Sustainable Development
Goals***

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Financial services and financial inclusion for sustainable development
Direct and indirect linkages between Non-tariff Measures and the
Sustainable Development Goals

Setting a new agenda for sustainable development

The year 2015 may witness a significant directional shift in the development paradigm. In July, the Member States of the United Nations will present a new development agenda for the 2015-2030 timeframe. The envisaged *universal* agenda will be applicable to all countries, not only to developing countries. The primary focus is to achieve development that is sustainable in the social, economic and environmental dimensions.

Many of the most impressive success stories of economic development in recent decades are based on trade-led growth. For least developed countries (LDCs), much of the growth relied on rising revenues from commodities such as fuels and minerals. But the ongoing negotiations on the post-2015 development agenda and the sustainable development goals (SDGs) suggest that the world should transform its natural resource-dependent growth pattern into a more "*inclusive, sustained and sustainable*" one.¹

Trade creates economic development; sensible (trade) policy can make it sustainable

Trade creates employment opportunities, income, reduces costs for industries and consumers, motivates entrepreneurs and innovators, and attracts investment in essential infrastructure. Trade and economic development can generate substantial private and public financial means to then pursue social and environmental dimensions of sustainable development. Table 1 provides an illustrative overview of potential links between trade and SDGs.

Certainly, the development impact of trade is not unconditional. Firstly, economic development needs an appropriate nature and sequencing of trade openness as well as an enabling environment of other policy and non-policy factors.

Secondly, for economic development to turn into "*inclusive, sustained and sustainable*" development, another layer of conditions applies. For example, a positive effect on poverty reduction relies on favourable sectorial growth patterns and inclusive employment and social policies. The latter are important to address potentially arising inequalities within economies as a result of trade.

¹ United Nations (2014), "The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet: Synthesis report of the Secretary-General on the post-2015 sustainable development agenda", (A/69/700)

In this context, and with falling tariffs, non-tariff measures (NTMs) have moved to the forefront of trade policy making. The proliferation of NTMs plays a crucial role in shaping global trade patterns and their sustainability.

Table 1: Potential positive links between trade and sustainable development goals (SDGs)

Goal 1: <i>End poverty in all its forms everywhere</i>	<i>Trade is an engine for economic growth and poverty reduction.</i>
Goal 2: <i>End hunger, achieve food security and improved nutrition and promote sustainable agriculture</i>	<i>Trade is an engine for economic growth, income and agricultural production. Trade therefore affects access, availability and stability of food security.</i>
Goal 5: <i>Achieve gender equality and empower all women and girls</i>	<i>Trade can provide opportunities for the economic empowerment of women.</i>
Goal 7: <i>Ensure access to affordable, reliable, sustainable and modern energy for all</i>	<i>Trade and global value chains are drivers for technological innovation and production of renewable energy sources.</i>
Goal 8: <i>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</i>	<i>Trade is an engine for economic growth and employment.</i>
Goal 9: <i>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</i>	<i>Trade is an engine for economic growth and industrialization.</i>
Goal 10: <i>Reduce inequality within and among countries</i>	<i>Trade is an engine for economic growth. Trade-led growth in many developing countries has contributed to reduce inequality between countries.</i>
Goal 17: <i>Strengthen the means of implementation and revitalize the global partnership for sustainable development</i>	<i>Trade is an engine for economic growth and key "means of implementation" for sustainable development.</i>

Non-tariff *measures* (NTMs) and non-tariff *barriers* (NTBs) need to be distinguished

Before going into the specific linkages between NTMs and sustainable development, a brief look at the universe of NTMs is worthwhile.

NTMs are defined as policy measures, other than ordinary customs tariffs, that can have an economic effect on international trade.² NTMs thus include a wide array of policies. Some are traditional instruments of trade policy, such as quotas, price controls, export restriction or

² UNCTAD (2010), Non-Tariff Measures: Evidence from Selected Developing Countries and Future Research Agenda. Developing Countries in International Trade Studies. UNCTAD/DITC/TAB/2009/3

trade defence measures. These measures are often termed non-tariff *barriers* (NTBs) due to their unequivocally discriminatory and protective nature.

However, the distinctly neutral definition of NTMs does not imply a direction of impact nor a judgement about the legitimacy of a measure. It notably comprises Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT), which may equally apply to domestic producers and stem from non-trade objectives related to health and environmental protection.

NTMs are as diverse as the multitude of their linkages sustainable development

The diversity of types, mechanisms and objectives of NTMs also reflect in the sheer amount of linkages to dimensions of sustainability. To grasp the ways in which NTMs interact with sustainable development, it is helpful to first distinguish between two types: indirect linkages and direct linkages.

Indirect means that NTMs influence trade. In turn, as previously discussed, trade can foster economic development and spill over to sustainable development. For these indirect linkages, all respective and aforementioned conditionalities apply.

Direct linkages refer to those policies that have an immediate effect on sustainability. Many policies that primarily aim at the protection of health or the environment also, secondarily, impact on trade and are therefore considered NTMs.

While not within the scope of mandatory NTM policies, voluntary private standards can also influence sustainable development in both direct and indirect ways. While positive effects on economic, social and environmental aspects of development are possible, the fragmentation of such standards gives cause for concern for many developing country exporters.

Indirect linkages: trade costs slow down trade as an engine for economic growth

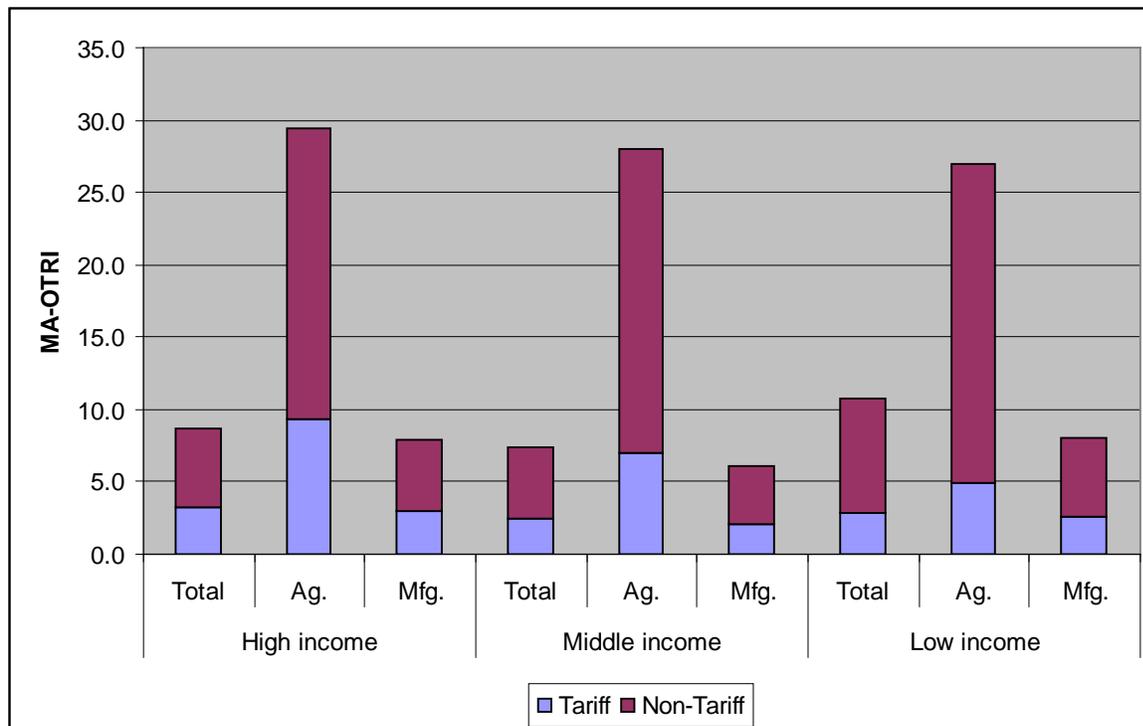
Based on the premise that trade is a driver for economic growth and development, as illustrated in table 1, NTMs may be viewed as trade costs. In this context we may simply look at them as barriers, NTBs. Nevertheless, even legitimate NTMs that have non-trade objectives can have significantly restrictive and distorting effects on international trade.

Figure 1 reports the ad-valorem equivalents of tariffs and NTMs faced by exporters in high-, middle and low-income countries. On average, the contribution of NTMs to restricting access to markets is more than double that of tariffs. The impact is particularly striking in sectors of high relevance for developing countries. For instance, while the agricultural exports of low-income countries face an average tariff of only about 5 per cent, the overall level of restrictiveness jumps to about 27 per cent when taking into account NTMs. While it is conceivable that high

production standards may induce consumer trust and therefore increased demand, the aggregate figures show that this effect is outweighed by costs.

The development potential of trade is therefore significantly impaired by trade costs arising from NTMs. However, elimination of NTMs is often not an option, as the direct linkages to sustainable development will show.

Figure 1: Ad valorem equivalents of non-tariff measures compared to tariffs, by income group and sector (Ag: Agriculture; Mfg: Manufacturing)



Source: United Nations Conference on Trade and Development (UNCTAD), (2012). Non-Tariff Measures to Trade: Economic and Policy Issues for Developing Countries. Developing Countries in International Trade Studies. UNCTAD/DITC/TAB/2012/1. Estimations are based on a methodology developed by Kee, Nicita and Olarreaga (2009).

Some costs of NTMs can be reduced without compromising any policy objectives

Before turning to the important direct linkages where NTMs have direct positive impacts on sustainability, let us first focus on mitigating their pure trade costs side. There are two rather low-hanging fruits that can reduce NTM-related trade costs without even touching the actual policy level: increasing transparency and reducing procedural obstacles.

Despite the widespread use of NTMs, there is a significant transparency gap. This causes a particular challenge to developing countries with limited recourses to assess the implications of

NTMs. UNCTAD, with several partners in the Transparency in Trade Initiative (TNT)³, leads an international effort to collect comprehensive data about of currently imposed mandatory regulations in many countries. Detailed information for each NTM comprises the sources of information, the measures and the affected products and countries. To date, data for 51 countries has been collected and coverage of over 90 per cent of world trade is envisaged for 2015. NTM data collection is the essential basis for UNCTAD's research and technical cooperation.

Every NTM comes with an implementation procedure. As a rule of thumb one could say that, as the underlying NTM requirement becomes more complex or discretionary, associated procedures also become more burdensome. The procedures related to a simple ad-valorem tariff are negligible compared to the discretionary assessment processes that may be related to non-automatic licenses. This causes additional costs and often long delays. In this context, the WTO Trade Facilitation Agreement has the potential to drastically reduce procedural obstacles and delays at the border.

Direct linkages: many NTMs are more than *trade* policy instruments, they are sustainable development policies

The growing majority of NTMs are SPS and TBT measures, whose objectives are to protect human, animal and plant life as well as the environment. Mostly applied in a non-discriminatory way to domestic and foreign firms, they directly regulate issues related to sustainable development: food, nutrition and health (Goals 2&3), sustainable energy (Goal 7), sustainable production and consumption (Goal 12), combat climate change (Goal 13), protect the environment (Goals 14&15). A non-exhaustive and illustrative list is presented in table 2.

Evidently, these measures are necessary to protect us and our planet. We need these NTMs.

It is, however, also rather clear that most of these NTMs restrict trade and therefore also the indirect linkage to economic development. Essentially, direct and indirect linkages between NTMs and sustainable development are not mutually exclusive. On the contrary, most NTMs with direct linkages also create an indirect impact through trade. Take an example of SPS regulations to restrict pesticide residues on food products: the NTM directly contributes to human health and nutrition (see SDGs 2&3); however, the NTM also restricts trade, causing reduced income in exporting countries and higher consumer prices in importing countries.

We thus face tough trade-offs between trade restrictions and direct sustainability.

³ Joint multi-year program launched and implemented by UNCTAD, the World Bank, International Trade Centre and the African Development Bank.

Table 2: Direct linkages of NTMs to sustainable development goals

<p><i>Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture</i></p>	<p><i>NTMs in the shape of SPS measures and TBT are also directly linked to several pillars of food security. SPS measures protect the health of humans, animals and plants; including the protection of agricultural production from pests and diseases.</i></p>
<p><i>Goal 3: Ensure healthy lives and promote well-being for all at all ages</i></p>	<p><i>NTMs/SPS measures are employed to protect human health from risks arising from additives, contaminants, toxins or disease causing organisms in food and drink. Codex Alimentarius provides recommendations for science-based SPS regulations. TBT also allow countries to regulate food for consumer protection, e.g. labelling of fat or sugar contents. Furthermore, NTMs/TBT regulate the safety of imported pharmaceutical products as well as any hazardous substances that may have an adverse effect on human health.</i></p>
<p><i>Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all</i></p>	<p><i>NTMs apply to clean energy products in different ways. On the one hand, some countries use subsidies, often "feed-in tariffs", to promote the import and use of clean energy technologies. On the other hand, some apply local content requirements for these benefits, which may slow down the proliferation of clean energy sources. Furthermore, photovoltaic products have been subject to antidumping duties and WTO disputes.</i></p>
<p><i>Goal 12: Ensure sustainable consumption and production patterns</i></p>	<p><i>NTMs/TBT enable countries to regulate production and imports of products that cause environmental damage.</i></p>
<p><i>Goal 13: Take urgent action to combat climate change and its impacts</i></p>	<p><i>NTMs/TBT are employed to regulate production and trade with respect to carbon footprints, following the UN Framework Convention on Climate Change and the Kyoto Protocol. Trade restrictions of ozone-depleting substances and products through the Montreal Protocol also reduced global warming.</i></p>
<p><i>Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development</i></p>	<p><i>A primary legitimate objective of NTMs/TBT is the protection of the environment. These measures comprise restrictions on the trade with hazardous substances or pollutants that could harm aquatic or terrestrial ecosystems. These trade restrictions are often related to multilateral agreements such as the London Convention, Basel Convention, Rotterdam Convention or Stockholm Convention.</i></p>
<p><i>Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</i></p>	<p><i>Countries also restrict the trade of endangered flora and fauna through TBT, often following the Convention on International Trade in Endangered Species (CITES). SPS measures and TBT also protect ecosystems and biodiversity from pests and invasive species.</i></p>
<p><i>Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development</i></p>	<p><i>All of the above direct linkages between NTMs and sustainable development show a strong need for global partnership and coordination.</i></p>

Elimination of SPS and TBT is not an option, thus regulatory convergence is paramount

Finding the fine line between excessive trade restriction and serving crucial non-trade objectives is a key challenge.

The WTO SPS and TBT Agreements include valuable principles that prescribe a science-based approach and the adherence/harmonization to international standards.

The fact that SPS requirements and TBTs are often very different across countries makes harmonization a complex policy priority. Studies on harmonization of SPS measures and TBT find that divergence from international standards creates significant trade losses. Furthermore, even measures applied in a non-discriminatory way implicitly create *de facto* discriminatory effects against developing countries, especially LDCs, which dispose of limited resources and infrastructure to deal with complex technical regulations that differ across markets.⁴

If SPS regulations are necessary (e.g. for food safety), then commonly agreed science-based international standards should facilitate trade by harmonizing the production process across countries. In practice, the harmonization of standards should reduce many fixed and variable costs of trade, as production processes do not need to be customized to meet requirements particular to each export market.

Multilateral harmonization to international standards creates trade, whereas bilateral and regional harmonization is ambiguous due to trade diversion effects

The multilateral system is confronted with a growing 'spaghetti bowl' of bilateral, regional and mega-regional agreements that also increasingly aim at recognizing or harmonizing SPS and TBT requirements. In this context, the question is "how?" to harmonize NTMs to generate sustainable development.

Studies show that the adoption of international standard guidelines is generally positive for developing countries, whereas the benefits of bilateral/regional harmonization and mutual recognition are more uncertain. In particular, when developing countries adopt more stringent requirements of developed markets, improved product characteristics go hand in hand with higher prices in the South. Ultimately, developing countries may increase their exports to the North, but at the expense of South-South trade and diversification into new markets.⁵

In several cases, the international community has indeed come together to jointly and scientifically define regulations and sign conventions and agreements. Table 2 gives emphasis to important examples of multilateral collaboration and coherence.

⁴ For instance, see Czubala, Shepherd and Wilson (2009), Gebrehiwet, Ngqangweni and Kirsten, (2007), Wilson, Otsuki and Majumdsar (2003), Nicita and Murina (2014), Penello Rial (2014) and Cadot, Asprilla, Gourdon, Knebel, and Peters (2015).

⁵ See, for example, Disdier, Cadot and Fontagné (2012) and Shepherd (2007)

International standard guidelines like Codex Alimentarius are not binding, however. Some countries adhere to them, whereas others are more or less stringent on food safety. Similarly, many international conventions are effectively plurilaterals that only oblige signatories, while non-members tend to lag behind in their contribution to global environmental sustainability. Therefore, strengthening multilateral cooperation in the field of NTM harmonization is paramount.

A successful pursuit of the Sustainable Development Goals will require addressing synergies and trade-offs between means of implementation

The multi-dimensionality of issues related to NTMs should put them into the spotlight of the post-2015 development agenda and the implementation of the SDGs.

Technical product and production requirements with the objective to protect human, animal or plant health as well as the environment will be needed to ensure the sustainability of development. From the trade perspective we call such regulations NTMs, and specifically SPS measures or TBT, if they also apply to traded products. NTMs are therefore powerful policy tools that can directly influence aspects of sustainable development. It is even conceivable that we will observe a further proliferation of NTMs as a reaction to the direct linkages between NTMs and SDGs.

Crucially however, NTMs' direct impacts on sustainability must not be looked at in isolation. Measures with non-commercial objectives may still have significant commercial impacts. We need to keep in mind the indirect linkages, which may restrict trade and cause a slowdown of economic development. These two sides of the same coin create trade-offs as well as synergies.

Coordination across fields of expertise is indispensable

Linkages between NTMs and SDGs put another emphasis on the "integrated" nature and ambition of the post-2015 development agenda. Despite certain trade-offs that should be acknowledged and addressed, the interaction between economic, social and environmental development is not a null-sum game. Coordination is the key.

National policy makers need to look beyond the area of their particular expertise and ministerial mandate. In fact, ministries of agriculture and health tend to regulate more NTMs than ministries of trade. Collaboration and integrated policy making is needed.

Equally, United Nations funds, programmes and specialized agencies shall not only focus on the implementation of a Goal that relates to their core competency. Strong inter-agency

cooperation is required to achieve sustainable development. The United Nations must indeed "Deliver as One".⁶

Nations also need to find together in the multilateral system and the United Nations. Most challenges of sustainable development cannot be achieved alone. In the case of NTMs, a fragmentation of country-specific requirements can severely handicap countries' trade-driven development prospects. Streamlining and harmonization of NTMs can strongly mitigate trade-restrictive effects, while still directly and positively influencing sustainability of development.

⁶ See <http://www.un.org/en/ga/deliveringasone/>