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TRADE BARRIERS

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ABSTRACT
There are many factors which directly or indirectly affect international trade. Usually, such barriers are first analysis points when starting a business internationally. Trade barriers are categorized as tariff and non-tariff barriers. Under the categorization of non-tariff barriers, there are some other types of hindrances such as non-trade barriers. Countries encourage the export for their wealth and at the same time import of products demanded by population. In this context, some incentives are applied which are basically trade barriers. Even though those incentives benefit the government in terms of trade and wealth, they can cause problems on international level such as price discrimination. Before imposing a barrier on a trade activity or a product, it should be analysed and results should be driven not on a country, but on international level.
KEY WORDS**:** *international trade; NTB; non-trade barrier*

Introduction

The ultimate goal of international trade activities is to increase the welfare level. Standards of living increase and social needs gets along with better conditions by the income generated through outwards transfers of service and products. Generally, the aim of foreign trade from the economy perspective can be explained as provision of goods and services which are lacking in the domestic market which will lead to importation of those goods or the same or similar products are more expensive in foreign markets which encourages the outwards transfers. All in all, through the foreign trade activities, interests of business entities are validated. In this paper, we will see the incentives that governments approach in order to gain benefit. This research paper mainly focus on trade barriers and finds out their categorization and the components which are implemented by governments.

General Overview

Generally, international trade preformance is tried to be improved by governments. However, in order to make such activities in favor of the country, import and export level should be controlled which leads to governments interventions to international trade activities. Usually, the purpose of those intervetions is to achieve interests and gains continuously. Therefore, even though a government intervention brings gains for a country, on the other side, it might affect the entire world trade.
Countries implement different policies on foreign trade activities. Some of those preventive policies might have a single-sided benefit which is called negative policies. Foreign trade can be restricted directly and indirectly by countries. Direct restrictions are visible and the results can be assesed easily. However, indirect restriction paths have bigger drawbacks since the results cannot be determined beforehand and the ways and stages of their affection can not be foreseen.
International trade is intervened by governments for the purpose of: market failures that do not meet the conditions of full competition; ensuring trade balance; improving national security and income distribution; increasing employment. Referring to mercantilist doctrine, it is mentioned that the trade surplus is considered nationally beneficial. Thus, many countries try to eliminate trade balance deficit through protectionist trade policies. However, there has been sufficient number of criticisms which determined foreign trade deficit and surplus. One of those criticisms is related to economic growth.

For instance, foreign trade deficit might be absolutely acceptable if a country's economic growth is high. In this case, it cannot be said that the foreign trade deficit is not attributed to a healthy economy. Moreover, there can be exporting industries which are in need of import raw materials in order to finalize their final goods. So, import restrictions for the purpose of trade deficit elimination can adversely affect export level of a country.

In addition, government interventions, particularly protectionist policies affect consumers directly and might result in small individual costs. For instance, a protective policy applied on textile industry will not explain exact price change for each shirt bought. In fact, such a policy will definitely result in price change on textile products and the costs will be absorbed by consumers, in other words, while the loss for each consumer is small, the total impact will be large.

Tariff Barriers

Tariffs are most widely used tool for protecting an industry of a country and they are the tax practices imposed on entry of import goods from another country. Tariffs have been the most referenced policy by governments, because taxes are paid by foreign producers who want to sell their goods in the domestic market.

Generally, tariffs are applied to protect domestic industries temporarily. However, elimination of tariffs imposed can be more difficult than it is thought. Sudden elimination of a tariff has a direct impact on related industry, as well as the country from which imported if it is the main partner internationally (Gnangnon, 2019). So, they might have significant consequences on world economy, both domestically and internationally even though they are most commonly used national measure in world trade.

Tariffs application is one of the ways to protect infant industries. However, there are more efficient ways to support infant industries. Subsidizing and supporting production is one of those ways which indeed has less consequences than tariffs. Subsidies have a direct impact on well-being of consumers through providing indirect support on production expansion and reducing tariff retention.

There are many forms of trade protection policies with the objective of domestic production improvement against foreign producer competitors. The most approached ways are restricting the foreign products sales in domestic market or raising the prices of foreign goods in the local market. In order to increase the foreign goods prices, the tariff implementation is the most approached method. Generally, conservative policy tools are classified as tariffs and non-tariff barriers, however, there are some other indirect trade interventions such us currency control and export promotion which are also applied.

Non-tariff barriers

There are different forms of protectionist policies implemented in international trade apart from tariffs and they are becoming important in terms of their impact. NTBs are applied as a result of specific market requirements, conditions, and prohibitions and they are literally restrictions on foreign goods imports and exports. NTBs aim to protect domestic economy and applied by governments in the form of policies, regulations, or laws. NTBs are also defined as any governmental device or practice apart from tariffs and they discriminate importations into a country by making them more costly (Hillman, 1991). Those restrictions are not applied on domestic manufacturers' products which are similar to competitors' foreign imported goods, which indeed causes discrimination. Some types of NTBs are mentioned below:

Quota:

Quota implementations determine the maximum amount of a certain type of product of a foreign country can be sold in domestic market of another country. Quota is the most approached regulatory barrier in terms of quantitative restrictions. Prior to the Uruguay Round of WTO, quantity restrictions or quotas were widely applied by developed and developing countries to restrict the entry of steel, textile and apparel, footwear, machinery and automotive products to the domestic market by foreign producers (Coughlin, 1988). Quotas have some similar functions as tariffs as both lead to reduction of the consumption of consumers, increase domestic market prices and domestic producers' production. On the other hand, there are some differences between them. For instance, governments generate income as a result of tariff implementations, however, import license holder gets the advantage of quota application.As a result, quota applications results in discriminations as well, as some foreign producers generate more amounts of exports than their foreign competitors whose exporting country applies quota.

Voluntary export restrictions:

Voluntary export restrictions happen when a government requires another foreign government to reduce the amount of a certain type of product on their domestic market. In the scope of regulative market agreements, such requests are also considered a type of NTB since it affects export level of another country and results in less sales of an industry. In case the foreign government does not voluntarily accept that request, more restrictive measures are applied. (Nuesch, 2010). Voluntary export restrictions are applied voluntarily on a bilateral agreement basis to avoid implementation of other trade barriers, however, such a practice is already a type of NTBs.

Foreign exchange controls:

Foreign exchange controls is related to exchange rates and also called artificial currency fluctuations. This type of NTB is applied on the currency which is required for importation of foreign goods and the domestic currency. Governments are capable of keeping their exchange rates artificially high in order to protect their export level and domestic production. In addition, governments are capable of devaluating their currency artificially. By doing so, domestic products will be cheaper in foreign market which indeed bring more income in terms of local currency and can increase the export level. Moreover, the price of foreign goods will be more expensive in local market which will result in less import. Through this measure, domestic producers are protected and encouraged to export more. However, it is a difficult method in terms of sustainability and negative impacts on the economy. For instance, if a government decides on devaluation of local currency, inflation in the local market is very likely to happen. On the other hand, if a government tries to keep exchange rates high, Central Bank should buy foreign currency which indeed might have an impact on stock of local currency.

Technical barriers:

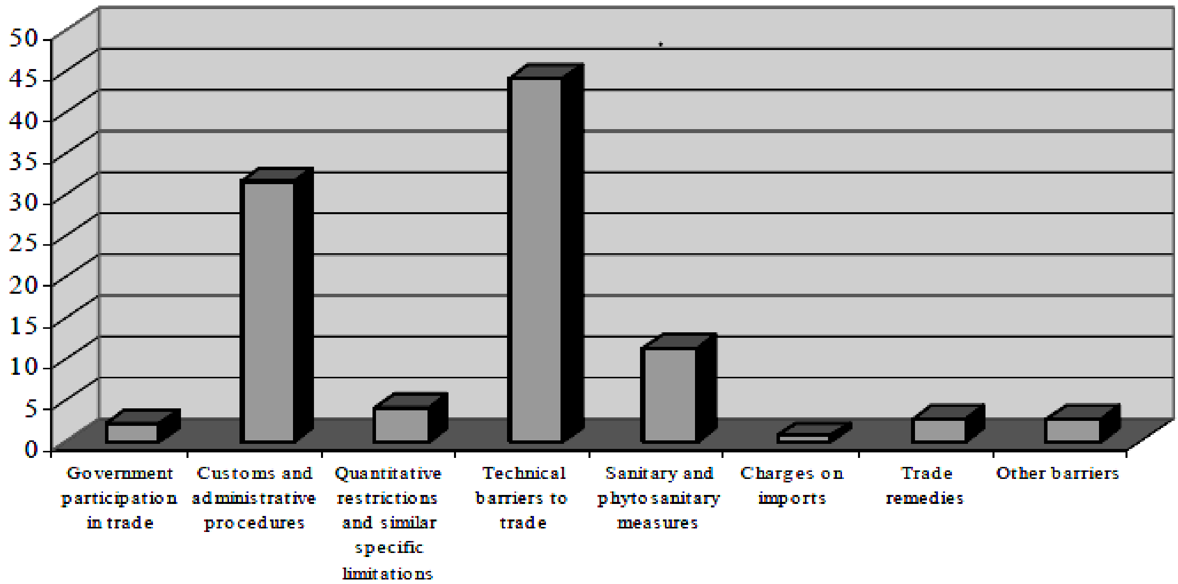
Technical barriers to trade are requirements that increase product compliance costs. Some types of technical trade barriers are stringent sanitary standards and labeling requirements. In international trade activities, another often approached technical regulatory method is products standards. These standards are applied for different purposes. For instance, product safety standards are included in the import of foodstuffs with the objective of protecting public health. On the other hand, this can be applied with other purposes such as protecting domestic producers, so the government can restrict the importation of similar products which are not in line with their required standards. NTBs have more impact and importance for developing countries since they are dependent on developed countries I export markets (Gnangnon, 2019). In trade activities, technical barriers are less problematic in terms of entering to developing countries' markets. However, for entering developed countries' markets, technical obstacles, administrative procedures, and customs issues are encountered. So, it can be considered that quality of the product and timing are more important for customers in developed countries rather than other issues. Between developed and developing countries, there have been big application differences. For instance, exporters might have to wait an average of seven weeks in order to have their products reached to a developed country's market. On the other hand, it takes significantly less time for a developed country to deliver its products for the same distance. Obviously, there are more technical procedure barriers for developing countries.

Subsidy:

Subsidy is benefit provided to an industry, production or business field by government or a public body in order to support them. In other words, Subsidies are supports and cash aids for the promotion and maintenance of the production of private and public undertakings by the state. With the coupon method, the state provides for the promotion and maintenance of the consumption of certain consumer segments to certain goods and services, while state support the production activities of certain producer groups in various ways. Subsidies are also called financial aid. Subsidy exists if there is a direct transfer of funds, withdrawal of government revenues that must be paid, a financial contribution such as the provision of goods or services outside the general infrastructure, or financial or other income or price support by government or a public body.

It is believed that NTBs reduction can contribute significantly to market expansion and economy. However, analyzing how much really a NTB reduction can contribute to an economy is very difficult. It is because of large scope of non-tariff barriers and data collection difficulties. However, relying on the calculation, it is estimated that a 1% decrease in the costs of trade transactions will increase the global welfare by 40 billion USD. Also, if these costs are spread to ports, customs, regulatory regulations and service industry, it is estimated that total global goods trade will increase by 10%, in other words 377 billion USD (Lattimore, 2009, p. 67).

There are some other types of NTBs which are not referred often but exists. They are: seasonal import regimes, complex regulatory environment, determination of eligibility of an exporting country by the importing country, import bans, additional trade documents like certificate of origin, certificate of authenticity, insurance and loan financing, loan programs and etc. The practices of non-tariff barriers are shown on below figure with category and percentage.



Source: UNCTAD report, 2006
Note: Numbers are in percentage

As illustrated on above figure, technical barriers to trade and customs and administrative procedures are the main issues and most frequently used methods in international trade activities. Although government participation in trade is less than 5%, it is significant in terms of their impacts.

Non-trade barriers

Non-trade barriers are barriers which are not linked to trade activities, however, affect international trade indirectly. Non-trade barriers are kinds of NTBs, however, they are implemented on processes before products are traded. The impacts of these kinds of barriers are very difficult to measure in comparison to tariff and NTBs and they restrain trade processes and activities. Similar to tariff and non-tariff barriers, non-trade barriers are also implemented with the objective of trade-expanding. Moreover, the impacts are wider and more complex. One of the main trade expanding measures of non-trade barriers is subsidies. (Deardorf and Stern, 1997) So, generally main purpose of subsidy implementation by governments is expanding trade activities and providing support for their own industry, a field of production, or an individual. However, considering international trade as a whole, subsidies affect the processes negatively, as subsidization will result in lower prices of products of subsidizing country in the international market, which is ultimately price discrimination.
According to UNCTAD report published in 2005, based on relations of non-tariff barriers with trade activities, they are categorized into three major groups:

- Directly trade-related NTBs such as import quotas, antidumping measures, etc.
- NTBs that have a link with trade since their implementation is monitored at the border. For instance, packaging and labeling.
- NTBs appeared from general public policy such as investment restrictions and procurement activities of government.

According to above mentioned data by UNCTAD report which was published in 2005, NTBs is related to third group which arise from general public policies such as investment restrictions and government procurement. Since non-trade barriers are a part of NTBs, they are also included in this category. Some types of non-trade barriers are shown below:

- pre-shipment inspection,
- technology and R&D,
- political engagements,
- competitors and violence of competition,
- advanced element and language problem,
- quality standards,
- country and company image,
- packaging and labelling,
- storage and distribution,
- brand and consumer behaviour

In general, in any world organization's rules or reports related to trade, There has never been a list of non-trade barriers separately. The reason is that non-trade barriers have always been analyzed within the scope of NTBs. Different from other NTBs, non-trade barriers are more hidden and are the most difficult barriers to identify and measure the impacts.

Conclusion

In the history, there have always been different kinds of barriers to trade. Trade barriers are started to be implemented wider politically and economically mainly after the spread of trade liberalization. The main objective of implementation of trade barriers are regional development, industrialization, international competitiveness, changing the income distribution and reducing unemployment. Even though barriers are imposed on trade with benefiting purposes, they can cause problems in international trade such as price discrimination and decrease in sales volumes. In this research, we could see the categorization of trade barriers and their components in details. Each of those components can affect international trade significantly if no action is taken. Moreover, the research defines non-trade barriers and finds out that not only barriers can be related to trade activities, but also they can be implemented before the products are traded. In order to take this research further, some of mentioned trade barriers can be analysed and their impacts and results can be driven through secondary data and case studies.

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