CHAPTER I

NATURE AND SCOPE OF THE STUDY
1. **Introduction**

The main purpose of this thesis is to deal with the influence of non-tariff trade barriers (NTBs) on international trade in cotton textiles and clothing. After World War II, many developed countries which were major exporters of these product groups, emerged as net importers. The structure of international trade in cotton textiles and clothing has changed drastically in the post-war period. Many developing countries have since attained independence and adopted national economic policies.

Textiles and clothing being primary human needs received high priority in the national economic planning. Many of the developing economies have relatively abundant labour and consequently aimed at setting up labour-intensive industries. The cotton textiles and clothing industry, being relatively more labour intensive, received high priority within its establishment and expansion. With the advantage of low labour cost, these countries concentrated on manufacturing labour intensive products. As a result, many of the developing economies have not only attained self-sufficiency, but also became net exporters of these products in due course. Conditions
in the developed countries, on the other hand, were different. Labour cost had increased sharply because of the high standard of living, resulting in turn in the high unit cost of textiles and clothing. So they lost the relative advantage which superior technique and/or economies of scale would otherwise have given them.

Another important reason is that the development of capital-intensive industries in the developed economies attracted relatively scarce labour through high wages. Already there is a contraction in the textiles and clothing industries, limiting the scope for expansion. This contraction coupled with the growing demand for these products turned many developed economies into net importers. The trade flow reversed itself turning many developing economies into net exporters. Many reasons can be cited for this trade reversal. They include, mainly, comparative cost advantages, relative factor endowments, relatively simple technology and the availability of raw-materials.

2. **Importance of Non-Tariff Trade Barriers (NTBs)**

Non-tariff trade barriers (NTBs) are becoming increasingly important because of their absolute growth in the recent past. According to Bidwell, their growth
has been stimulated by: (a) the increasing protectionism as a principle of international commercial policy, and (b) absolute increase of governmental control and regulation of industry and international trade. The protectionist foreign trade policies, culminating in the Hawley-Smoot Tariff Act of 1930, led to increased tariffs and gave birth to the development of complex customs laws and related procedures. Generally speaking, Government restrictions on imports to safeguard the health and security of its nationals resulted in the proliferation of other customs regulations and some of them had a "hidden effects of economic protectionism". The NTBs also increased in number and they effectively replaced tariffs. The NTBs, by their very nature, do not lend themselves to bargaining. This reduced the possibility of formal trade negotiations after 1933.

Besides their absolute increase in importance, the NTBs have also become relatively more significant than the tariff barriers. Kelly argues that while the

2. Ibid., p. 3.
lowering of the tariff barriers has only a marginal effect, their existence even at a lower level, coupled with the NTBs will prove a great obstacle to international trade.  

The Kennedy Round of Trade negotiations and the Generalised System of Preferences (GSP) to the developing countries have resulted in lowering of the tariff walls in many countries, but it did not pay serious attention to the NTBs. So, the protectionist forces took shelter under non-tariff trade restrictive measures. The international monetary crisis of 1968, the subsequent oil crisis and the later worldwide economic depression, added to the increase in the number of NTBs to international trade. So, the NTBs have come in very handy in implementing the protectionist policies. From this point of view, the study of NTBs gains added importance.

3. The Need for Quantitative Analysis of NTBs

Economic analysis of non-tariff trade restraints has not kept pace with its increased importance in international trade restraints concentrate on tariff barriers.

Earlier studies on this subject exclusively dealt with the quota system, which was widely prevalent as a weapon of commercial policy in the 1930s. The quota system was analysed by Heuser, who demonstrated the monopoly effect of the quota system.\(^5\) France was the first country to develop an elaborate quota system in this century and its experiences were reviewed by Haight.\(^6\) Bidwell threw light on the "invisible tariffs" such as complex customs procedures and laws to prevent unfair competition, countervailing duties, export subsidies, voluntary quotas, health and safety restrictions and host of domestic purchase laws.\(^7\) Grünzel has described the impact of government procurements, which discriminate against importers.\(^8\) J de Hass dealt with the arbitrary administration of marking requirements of some countries.\(^9\) Whittlesey highlighted the effects of border taxes as non-tariff barriers.\(^10\)

\(^6\) A. Haight, *French Import Quotas* (London: King, 1955)
\(^7\) W. Bidwell, op.cit.
Since the publication of these works, economic literature on NTBs has continually dwelt on the institutional and descriptive aspects of many restraints on foreign trade without analysing their actual effectiveness. The contribution of Massel followed the earlier pattern. A comprehensive writing by Kelly adds two more analytical problems to Massel's approach. He shows how the degree of discrimination due to NTBs against import is compounded by their invisible nature. Harry Johnson's study of 1967 shows that many of the non-tariff restrictions are still in the "area of darkness". According to him, "while a great deal has been said about the importance of NTBs... the effects of these barriers remain to be quantified." Baldwin describes the economic effects of each of the principal kinds of non-tariff trade distortion, surveys the effects of important NTBs on major industrialized countries. Gerard and Victoria Curzon illustrate the nature of many NTBs in the international trade today and they


analyse their effects in the light of the European Free Trade Area (EFTA) experiences.  

Ingo Walter investigates the relationship between the free trade area option and NTBs in international trade among the industrial countries. Further, he discusses the operation and the application of NTBs in the commercial policy measures. He calculates the index of NTBs resorted to by the industrially advanced countries in the case of several commodity groups. Walter and Chung find an increasing positive correlation between the tariff rates and the application of non-tariff obstacles in the developed market economies. The study is confined to 15 industrially developed countries. Brain Hindley explains how non-tariff interventions in international trade create distortions in the national resource allocation. He selects six categories of non-tariff distortions to examine what is objectionable in them from an economic standpoint in


relation to British practices and in terms of future international trading arrangements. 18

The UNCTAD Secretariat has done several useful studies on NTBs in the developed market economy countries. These studies deal with the NTBs and their effects on the exports of manufactures and semi-manufactures from the developing countries. The specific NTBs dealt with are: (a) quantitative import restrictions, 19 (b) direct and indirect subsidization by the governments of competing import and export industries, 20 and (c) NTBs arising from restrictive business practices, adopted by private business enterprises in developed market economy countries. The UNCTAD Secretariat has further classified the various NTBs in the developed market economy countries on products of export interest to the developing countries. It also deals with the methodological problems such as, the effects of NTB measures, the frequency of different types of NTBs application and the incidence of NTBs on different product groups, in which the developing countries are


interested. Economic analysis of NTBs on products like meat, certain kinds of starch products and confectionary has also been done by the UNCTAD Secretariat. It has prepared the list of NTBs of serious concern to the developing countries and suggested the ways and means of overcoming such barriers.

Ingo Walter illustrates the impact of NTB measures on the exports of manufactures and semi-manufactures by the developing countries. He has also evaluated the export performance and the prospects and calculated the impact and incidence of NTBs in developing countries. Walter and Chung explore the pattern of NTB distortions among the developed market economy countries in farm products and estimate the frequency of the application of NTBs and their distribution. These two variables are related to the corresponding profiles of national and regional preference offers. F.D. Holtzman compares

24. UNCTAD, Programme for the Liberalization of Quantitative Restrictions and other NTBs in Developed Countries on Products of Export Interest to Developing Countries, TD/120, 14 January, 1972.
the various forms of trade barriers and analyses their impact on international trade.27

While the problem have only been listed by Hassel, Kelly and Holtzman, Harry Johnson has quantified the restrictive effects of some barriers.28 These attempts have been carried further by Glsman and Neu. They have devised a method of quantification of certain non-tariff barriers with regard to homogenous and heterogeneous products and formulated a method of converting NTBs into tariff equivalents.29

4. **Definition of Non-Tariff Trade Barriers**

The very nomenclature 'non-tariff trade barriers' suggests that they are broadly defined in a negative sense as any restraint on imports besides tariff. Hassel defines NTBs in a more loose sense, because of the unlimited variety of the forms of these obstacles to imports. He describes only a few NTBs such as quotas,

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customs regulations, anti-dumping laws, patent and trade mark laws, health and security rules, labelling requirements, government procurement of domestic goods, subsidies to domestic import competitors, internal taxes, import licensing, export restraints and restrictive business practices. 30

Kalley, however, gives a more positive meaning to the term NTBs. His definition of NTBs is confined to government restrictions on imports and excludes restrictive private practices and other obstacles erected by language, culture and geography. He has included only those restrictive government practices which have the definite purpose and/or effect of protecting domestic industries from foreign competition. This excludes fiscal and monetary policies and legislation governing public health, morals and national security. He points out that these excluded restraints could be regarded as non-tariff barriers, if they are purposefully abused. 31 Baldwin's definition is closer to that of Kelly's. His emphasis is on the trade distorting nature of policy measures, whether public or private.


He takes into account their effect on the reduction of the potential world income due to the shrinkage of trade. These policies will also change the commodity composition in international trade. As he points out, this broad approach to NTBs though doing full justice to the theoretical implications, is not amenable to operational measurement and quantification. So, he takes into account only those measures that significantly distort international trade. They include quota systems and restrictive state trading policies, export subsidies and taxes, discriminatory government and private procurement policies, selective subsidies, anti-dumping regulations, restrictive administrative and technical regulations.


33. Here state trading refers to government monopoly of foreign trade in certain commodities, for example, the French Government controls of all imports, of coal and Swedish Government all imports of alcoholic beverages.

34. It includes a number of rules and regulations which effectively discriminate against the importer and the devices such as "Buy American" or "Buy British" campaigns.

35. It includes devices such as safety regulations for machinery and vehicles, health regulations covering food, plants and chemicals and trade mark, and patent rules.
restrictive business practices, control over foreign investment, restrictive immigration policies, selective monetary controls and discriminatory exchange rate policies.

Walter rejects this definition, because this covers all private and governmental policies that serve to distort the volume, commodity composition or direction.

36. They refer to international collusion among producers for the purpose of sharing markets and raising prices. In recent years new problems have been raised by the international corporations that engage in trade distorting business practices, which are outside the observable market channels. These methods are: allocating costs among their various international subsidiaries in arbitrary ways, under-pricing sales within the corporation and having informal market sharing agreements among their subsidiaries. Huge multi-national corporations may indulge in monopolistic practices that the public authorities cannot trace. See Raymond Vernon, "Multinational Enterprises and National Sovereignty", Harvard Business Review, vol. 45, no. 2, March-April 1967, pp. 107-39.


38. Selective monetary control refers to prior import deposit regulations. According to these regulations, the importer must deposit with the customs authorities for six months or a prescribed period, the equivalent of some prescribed percentage of the value of their imported goods. This was introduced in U.K. in 1968. Japan and some of the less-developed countries also practice this method. For details see, E.A. Birnbaum and M.A. Qureshi, "Advance Deposit Requirements for Imports", IMF Staff Papers, vol. VIII, 1960-61, pp. 115-25; also see Bela Balassa and Associates, Structure of Protection in the Developing Countries (Baltimore, 1971), pp. 10, 148 and 154.
of trade in goods and services, which are very weak at the operational level. His approach to the definition of NTBs is predominantly governed by the purpose of the non-tariff restrictions towards international trade. In a functional manner, he simplifies the NTB policies and practices which affect the international trade. So, he grouped NTBs in the following manner: (1) quantitative controls on imports and exports, including state trading; (2) government procurement policies; (3) customs procedures; (4) anti-dumping legislations and practices; (5) border tax adjustments; and (6) miscellaneous internal policies that affect international trade. The UNCTAD Secretariat after a careful examination, accepted the above mentioned definition. In the light of these considerations the existing NTBs have been classified as shown below:

**Type I:** Commercial policy measures designed primarily to protect import-competing suppliers from foreign competition (import-directed), or to assist exporting suppliers in expanding their foreign markets (export-directed);

41. Ibid., pp. 4-6.
Type II: Measures which are designed to deal with problems not directly related to commercial policy questions, but which are, from time to time, intentionally applied to restrict imports (import-directed), or to stimulate exports (export-directed);

Type III: Measures which are consistently applied with little or no intent to protect domestic industries, which, however, unavoidably have some spillover effects on the trade sector. These also may be divided into import-directed or export-directed groups, depending on the specific incidence of their effects. From the point of view of textile trade in international market this study considers those NTBs which are few in number but in terms of intensity which are meaningful. These include import licensing, quotas, export restraints, government procurement, export subsidies and state trading.

5. Non-Tariff Barriers and Export Interests of the Developing Countries

The commercial policies adopted by developed countries to restrain imports have direct and indirect effects on the developing countries because of the substantial trade with them. Most of the NTBs adopted
in the developed countries are tied to domestic, social, economic and legal objectives. Many of them are derived from varying national standards, taxation, labelling requirements, customs and administrative procedures and so on. It has been argued by the developed countries that these measures are not intended to hinder the growth of the developing countries. Nevertheless, these policies do lead to discrimination against imports from the developing countries. The most pernicious restrictions are the import quotas (the so-called "voluntary export restraint" type). They usually discriminate against the developing countries for two reasons: (1) the developed nations avoid putting quotas on each other's trade, since each has the power to retaliate, and (2) the politically sensitive import problems usually arise only in the case of labour products from low-wage countries.

The developed countries also justify the protectionist policies as an instrument to maintain their existing industrial activities intact and also prevent

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43. Japan is the only developed country which encounters such restraints even in the developed countries market. This seems to be the only exception.
excessive labour displacement by imports from the developing countries. The motivation for protectionism arises from rising wages in the developed countries, which results in the competitive strength of their industries and prevents the transfer of resources out of low-income-yielding industries to other competitive lines of production. The developed countries instead of resorting to the transfer of resources out of low-income-yielding industries try to off-set the relative decline in incomes by protectionist measures. This takes the form of price-supporting policies, import restrictions, maintenance of relatively high tariffs and non-tariff barriers against a wide range of commodities imported from various sources. These policies are intended to protect the farmers and manufactures from low-wage competition.

In general, heavier discrimination has stemmed from four sources:

(a) Protective Agricultural Policy;
(b) Discriminatory Trading Policies;
(c) Quantitative Restrictions, and
(d) Escalation in effective rate of Protection.

(a) **Protective Agricultural Policy:**

Using a wide range of measures, such as tariffs, quotas, price supports, subsidies and income deficiency payments, the developed countries seek to give adequate protection to their farm products. The GATT Waiver provision allows such protection to domestic agriculture. This goes against the interest of the developing countries. The extent of protection has been illustrated and calculated by D. Gale Johnson. He has sought to estimate the percentage of the excess value of the output of the agricultural sectors of developed countries, measured by the prices received by the farmers over the value of that output measured at import prices. For the year 1961-62 this excess value was, for Norway 43 per cent, Sweden 41 per cent, West Germany 39 per cent, the U.K. 29 per cent, Italy 25 per cent, France 17 per cent, and the U.S. 16 per cent.

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45. The GATT agreement under the special situation provides for quantitative restriction on agricultural products (Article XIV); export subsidies (Article XVI, interpretive note, Ad. Art. XVI B.2); and permits import restrictions on any agricultural or fisheries product (Article XI: 2(6)).


47. Ibid., p. 33.
The protection provided to the agricultural sector restricts the exports from the developing countries in two ways: (a) increased prices reduce total consumption, and (b) domestic consumption will be substituted by the import-competing products.

It is difficult to assess the actual benefit that might accrue to the developing countries by the removal of such barriers in the developed countries. Some attempts have hence been made in this direction. Were the developed countries to abolish all the protection given to their agricultural sector, D. Gale Johnson estimates exports from the developing countries will increase by an equivalent of 2,000 million dollars, which accounts for a 15 per cent increase. The removal of all types of restrictions on the sugar trade alone would, in the estimate of Harry Johnson result in a minimum increase of 897 million dollars in the value of sugar imports to the developed countries, and in addition release about 482 million dollar worth of resources. The commodities, which are affected by these protective measures include cereals, meat,

48. Ibid., p. 34.
vegetable oil-seeds, textile fibres and sugar. 50

(b) Discriminatory Trading Policies:

Many trade blocs were created during the post-war period. The EEC was the first one to be formed; it was soon followed by the EFTA and other small groups. These trade blocs practice inward-looking trade policies. 51 Such policies adversely affect the developing countries in the following manner:

The members of the trade bloc reduce the trade barriers on a mutual basis, which creates large preferential trading areas. This in turn discourages imports from the cheap labour countries. 52 For instance, over the period 1961 to 1967, the volume of trade among the EEC members increased by about 106 per cent, while imports from the developing countries increased only by 50 per cent. Comparable figures for EFTA are 84 per cent for intra-trade, 22 per cent for the imports from the developing countries.

50 For details on farm products, which are affected by the barriers, see Trapman, "The EEC Common Agricultural Policy and Imports from Third Countries", in Lord Campbell of Eskan, ed., Britain, The EEC and the Third World (New York, 1972), pp. 70-79.


Quantitative Restrictions:

Resort to the unilateral quantitative restriction on imports by an importing country to protect the domestic industry from foreign competition has an ancient lineage. Since then, quantitative restrictions are imposed for various resources to achieve certain fixed objectives. For instance, quantitative restrictions are imposed on imports of wide range of products for the following reasons:

(a) Protection of existing domestic industries and employment;
(b) Balance of payment difficulties;
(g) Protection of import competing industries; and
(g) Military and political reasons.

Most of the quantitative restrictions imposed on imports from the developing countries into the developed countries fall in the categories of (a) and (g).

As stated earlier, the quantitative restrictions have been widely imposed on the relatively low-cost labour intensive products. Imposition of "Voluntary

53 It made its appearance in 1463, when the British Parliament enacted a Statute prohibiting imports - imposed a "zero" quota - for many manufactured articles, because the Parliament believed that the craftsmen could not live by their skill due to foreign competition. See Clapham, A Concise Economic History of Britain - From the Earliest Times to 1750 (1963), p. 178.
export restraint", which will be dealt with in detail in the following Chapters, is one such example. The "voluntary restraints" on exports of cotton textiles to the U.S. were first introduced in the 1930s. With certain modifications, they were reintroduced in 1956. The U.S. imports of cotton textiles declined from 68 million dollars in 1956 to 47 million dollars in 1957, i.e. a decline of 30 per cent. This is only a rough measure of restrictiveness of these restraints. In 1964, the U.S. cotton textiles imports would have been about 110 million dollars more than they actually were. The quantitative restriction covers a large number of products in which the developing countries are interested, exception being a few non-ferrous minerals.


55. Mordechai Kreinin, Alternative Commercial Policies - Their Effects on the American Economy (Michigan State University, Institute for International Business and Economic Development Studies, 1967), pp. 49-50. Since the relative cost advantage of foreign countries has most probably increased, this figure underestimates their market losses. Kreinin estimates the annual (1964) market loss of Japan in the U.S. cotton textile market due to voluntary export restraints at 102 million dollars.
(d) **Effective Rate of Protection:**

This concept is important because the tariff structures of the developed countries are escalated by the various stages of the production process. The tariff rates increase from raw-materials to semi-manufacture and from semi-manufacture to manufacture. At the increased rates of tariffs, the escalation gives higher and more effective rates of protection than the nominal tariffs. In other words, the effective protection furnished by a tariff is not determined by the nominal value, but by the ratio of the tariff to value-added in processing.\(^{56}\)

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56. For instance, consider the product clothing, whose c.i.f. import price is 1 dollar and the cost of material inputs (textile fabrics) on world market is 0.60 dollar, so the value added in cloth manufacturing is 0.40 dollar. When this is converted at a going exchange rate of 8.7.50 per dollar, the price of the product will be 8.7.50 of which the cost of the material inputs is 8.4.50. The world market (foreign value-added in clothing manufacturing is 8.3.00). Assume 20 per cent tariff on clothing, it will raise the domestic price of the product to 8.9.00 while 10 per cent tariff on textile fabrics increases material cost to the domestic producer to 8.4.95. The protection will enable the domestic producer to operate with a value-added of 8.4.05. So the difference between the domestic price of clothing of 8.9.00 and the material cost 8.4.95, compared to the value added of 8.3.00 abroad, the margin of 8.1.05, it will be the effective rate of protection of the domestic processing activity. The percentage excess of domestic over world market value added will be 35 per cent. For the relevant formulas and the discussions of the assumptions made in the analysis, see Bela Balassa and Associates, u.41, pp.315-39 (Append A).
The effective rate of protection of a commodity increases as the tariff rates on the imports of inputs are reduced or withdrawn. Any lowering of the tariff rates on imports of raw-materials will retard the development of the processing industries in the developing economies.\(^57\)

In general, low tariff rates are imposed on capital goods than on consumer goods. Thus, the practice of effective protection in the developed countries raises heavy barriers against commodities which the developing countries are able to produce for export, particularly consumer goods that are relatively labour-intensive and employ a relatively unsophisticated technology.\(^58\)

(6) **Impact of NTBs on Developing Countries**

The NTBs are nominally non-discriminatory by nature. They tend to impose an extraordinary burden on the developing countries, either individually or as a group.\(^59\) The burden is attributed to two basic sources:

(i) The NTBs impact on the exports of developing countries

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tends to be disproportionate as compared to the developed countries. This argument stems from (a) the limitations of the suppliers in the developing countries in coping with such obstacles as their restricted capability to adjust to the requirements of the market; (b) alternative production possibility being restricted or non-existent, and (c) some product groups being subjected to strict quality controls. The developing countries export products may not satisfy the criteria, particularly of health standards which may be applied as a part of the national policy or may involve the discretion of officials. (2) The evidence shows that the identifiable NTBs more often fall on export product groups in which the developing countries are interested, particularly, manufactures and semi-manufactures. These product groups are frequently subject to NTBs where they have a competitive advantage in the world market. 60

Both these arguments are empirically verified by Walter. He observes that of the 38 identifiable major NTBs, 17 appear to have exerted a heavier impact on the developing countries.

There are certain NTBs, whose impact on individual cases is asymmetrical. For instance, the variable impact

60. Ingo Walter, op.cit., no. 25, p. 198.
levies and surcharges imposed by the EEC on a number of processed agricultural products often involve abrupt shifts in magnitude and create considerable difficulties in calculating the precise amount of the levy. They create uncertainty among the exporters who are largely from the developing countries.

The UNCTAD study estimates that in the absence of NTBs bearing on the six product groups, imports by the developed market economy countries from the developing countries might have been worth 750 to 820 million dollars as against the actual 1968 trade base of 486.4 million dollars. The results have limited validity because of methodological pitfalls and assumptions of the developing countries supply capabilities. But this helps in assessing the magnitude of NTBs applied in the developed countries.

(7) Uneven Incidence

The incidence of NTBs can be measured on the following basis:

(a) The degree of intensity with which NTB measures are applied by individual importing countries (cross-country comparison of NTB use);

The degree of vulnerability of individual exporting countries to such barriers;

The susceptibility of individual products and product groups to the imposition of NTB measures; and

The intensity with which individual types of NTBs are applied as instruments of commercial policy, relative to other types of trade barriers, including tariffs.

On this basis, using the 1968 data, Walter estimates that of the imports into developed countries of manufactures and semi-manufactures worth 128 billion dollar of which 36 billion dollar (28 per cent) were subject to known NTBs. In the same year 33 per cent of the 21 billion dollar of manufactured and semi-manufactured imports from the developing countries entered under such obstacles. In other words, the developing countries share of manufactured and semi-manufactured imports of the developed countries in 1968 was 16.5 per cent, but their share in imports subject to NTBs was 20.9 per cent. He illustrates that the product groups in which the developing countries had a relatively large share of the developed countries' imports are subject to the intensive application of NTBs.

62. Ingo Walter, no. 25, p. 201.
Walter further examines the incidence of NTBs among the individual developed countries. According to him, the incidence of NTBs on imports from the developing countries is significantly high in the U.S., Japan and France, whereas it is low in West Germany. He establishes a link between the NTBs and the degree of competitive advantage the developing countries possess in the production of manufactures and semi-manufactures for the world market. He ranks the products by calculating LDC competitive position and indicates the severity of NTB application by developed countries. The results show that out of 60 product groups, 15 have evidenced susceptibility to NTBs. The rank in competitiveness and the rank in NTB factors showed correlation (Spearman) coefficient of 0.2317, which is statistically significant at 0.95 level. The empirical evidence proves that the incidence of NTBs is heavier on the developing countries compared to their counterparts elsewhere in the world market.

63. For various methods of measurement of the incidence of NTBs see UNCTAD Documents, op.cit., no. 65, 61, pp. 42-46. Walter takes 17 developed market economy countries and the method used is the measure of incidence on the proportion of individual items under given product - heading subject to NTBs, weighed by OECD imports. See ibid, pp. 200-02.

64. The incidence is higher in the US on account of the heavy concentration of NTBs on petroleum and textile garments, in Japan, the same groups plus chemicals and textile yarns and fabrics, and in France, processed food, beverages, tobacco and wood products.