

# Non-Tariff Measures in the Context of Export Promotion Policies

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*This brief focuses on the role of non-tariff measures (NTMs) in international trade. While multilateral and bilateral trade negotiations have resulted in worldwide reductions in tariffs, we observe an increasing trend in the application of non-tariff measures. In this brief, we will discuss the evidence of the effect of such measures on exports. The brief also contributes to the discussion of export promotion policies: whether governments, especially in developing countries, should concentrate their efforts to remove only external barriers since there is empirical evidence that internal barriers are no less important for exports.*

Economists, policy makers and international organizations are increasingly recognizing the importance of non-tariff measures (NTMs) as substantial impediments to international trade. A survey conducted by UNCTAD among exporters in several developing countries ranks SPS and TBT measures the top trade barriers with on average 73 percent of the respondents viewing them as the primary trade barrier (UNCTAD 2010). The World Bank published a book on NTBs where different authors contributed chapters addressing many aspects of the NTMs (World Bank, 2012). The World Trade Organization (WTO) itself devoted its entire 2012 World Trade Report to such measures with a particular focus on technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures. Availability of the new datasets on NTBs allowed researchers to study the effect of these measures on intensive (changes for existing exports) and extensive margins (changes due to entry and exit into exporting) of trade.

Even though trade theory does not specifically address the question of non-tariff barriers that include (but are not limited to) technical regulations, sanitary and phytosanitary

measures, the logic of traditional models can easily be extended to these measures. In particular, they can be thought of as part of the fixed/additive costs for exporting firms as they impose compliance costs on exporters. These compliance costs are related to potential adjustments of production processes, and certification procedures needed to meet the requirements of countries imposing such regulations and standards (Schlueter et al., 2009). In a Melitz-type model, these costs are expected to have a negative impact on volumes of trade, number of exporters and number of goods exported. At the same time, average exports per firm may actually increase as the export market-shares are reallocated towards firms that are more efficient.

The existing empirical evidence of the impact of NTMs is mixed; researchers have found both positive and negative effects. The differences in results depend largely on the sector, country and type of NTM imposed. While the effect may overall be negative or null, for some sectors the effect is found to be positive (Moenius, 2004; Fontagné et al., 2005; Chen et al., 2006; Disdier et al., 2008; Medin and Melchior, 2015).

In a recent [working paper](#), Besedina (2015) investigates the effect of introducing an NTM (either SPS or TBT) on export dynamics (in particular, exports concentration and entry and exit into exporting) using the World Bank Exporters database, with a special focus on trade in foodstuff. In particular, we examine how TBT and SPS measures affect export concentration and diversification (both at product and destination level) as well as entry and exit of firms into exporting. If introduction of an NTM increases costs of exporting, the 'new' trade theory started by Melitz (2003) predicts that some exporters will stop to export and thus the number of exported product varieties will fall as well (change in extensive margin).

The most important result from our analysis is that the introduction of a TBT or an SPS measure does not seem to affect sectoral export dynamics. Given the above discussion, this result may appear surprising at first. What can possibly explain this zero effect?

First, one may argue that the sector dynamic variables we use in our analysis may not capture changes in the behavior of economic agents (firms) well: while marginal firms may be affected by technical barriers and SPS, averaging across firms may actually conceal this. However, in our analysis we investigate exports at a relatively disaggregated level (4-digit product lines). So while averaging might be a concern, we believe it is not likely to be driving the zero effect.

Second, the concern is that the effect of introducing an NTM measure may not be felt immediately (within one year). In order to verify this, we include lagged trade-barrier variables two periods, but the results were unchanged. Third, it may be the case that it is the number of NTMs rather than the introduction of them that matters. In order to address this point, we performed the same type of analysis using the change in the number of measures introduced. The results were again not affected, and we still do not find any statistically significant relationship between NTMs and exports dynamics.

Despite the absence of an effect of NTMs, this paper reveals an important and policy-relevant finding: the home country's business environment and institutional factors are important determinants of export performance. It is rather the monetary costs and more complicated exporting procedures imposed by the NTM measures that hamper product and market diversification of the country's exporters. Hence, policy makers, especially in developing countries, should not only be concerned with removing external barriers to exports (like NTMs) but should also aim to reduce internal barriers and costs imposed on exporting firms by corrupt practices and burdensome regulatory procedures.

Another important dimension for domestic policies towards exporters stems from the work by Melchior (2015, forthcoming) who studies Norwegian exports to BRICS countries overtime and shows that export growth largely depends on the intensive margin (it explains 93 percent of the export growth). Using firm-level data for seafood exports, he finds that only 54% of "trades" – measured as firm/importing country/product combinations – survive from one year to the next. Hence, there is massive "churning" (entry and exit at the same time), and churning is relatively more important in small and in growing export markets. In other words, exporting companies constantly enter and exit foreign markets, add new products, or discontinue exporting some products. A policy implication from this finding is that export-promotion offices should help firms stay in export markets rather than focus on entering these markets. Hence, while it is important to enable domestic firms to enter foreign markets, it seems equally important to ensure their survival in foreign markets, which can be facilitated by a removal of both external and internal barriers.

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