

# GLOBALTRADE

APRIL  
2008

> A REVIEW OF WORLD TRADE COMPILED BY ATRADIUS  
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## FREEING WORLD COMMERCE WHAT REALLY HAMPERS TRADE?



DESPITE PROGRESSIVE GLOBALISATION AND SOARING BENEFITS FROM INTERNATIONAL TRADE, SOVEREIGN STATES CONTINUE TO MAXIMISE THEIR OWN ADVANTAGES THROUGH CUMBERSOME PROCEDURES AND REGULATIONS WHICH HAMPER FREE TRADE. THIS IS CURRENTLY THE BIGGEST IMPEDIMENT TO INTERNATIONAL COMMERCE.



**ISIDORO UNDA**  
Chief Executive Officer  
Atradius

> As an organisation whose entire raison d'être is to enable trade, Atradius has long monitored world commercial trends, focusing on the challenges and the opportunities for international traders. From our vantage point as a leading global credit insurer, we can see both the day-to-day problems of cross-border commerce and the medium-term issues affecting such trade.

We want to share that insight with you, and it is with that in mind that we have launched a new publication series—Global Trade—to consider these issues impartially. In this first edition, we present a series of articles on the work of the World Trade Organisation in tackling a range of problems, including the proliferation of preferential trading agreements, the growth of non-tariff barriers, the persistent blockages in trading services, and the ever-present complexity of customs clearance.

The picture that emerges from these reports is a curious one. While the world's attention is focused on progress in multilateral negotiations, the real problem lies elsewhere: despite progress towards a global marketplace unfettered by national barriers, there is still widespread evidence of individual states imposing a multiplicity of cumbersome, bureaucratic and time-consuming procedures and regulations which hamper trade.

The Doha Round of world trade talks, while important, is therefore no panacea for what really ails international commerce. The following pages examine some of the underlying issues and trends for the future. We hope that you enjoy the journey.

A handwritten signature in black ink that reads "Isidoro Unda". The signature is written in a cursive style and is underlined with a single horizontal line.

**Isidoro Unda**  
Chief Executive Officer  
Atradius

**GLOBALTRADE**  
**APRIL 2008**  
FREEING WORLD COMMERCE



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# ROUND AND ROUND

LAUNCHED WITH HIGH HOPES IN 2001, THE DOHA ROUND OF WORLD TRADE TALKS IS FAR FROM A DONE DEAL. BUT WORLD TRADE CONTINUES TO SURGE, NONETHELESS.





**DOHA INTERNATIONAL HOTEL**  
A bird's-eye view of Doha

> It all started out with great promise, during a warm November week in Doha, Qatar in 2001. Ministers representing 150 nations agreed to launch a round of talks aimed at reducing trade barriers. They adopted an ambitious agenda, encompassing agricultural and industrial goods, services, Customs procedures and development, and resolved to reach agreement by the end of 2006.

That was then. Today, the discussions are stalled and no one can say when a deal might be reached, if at all. A critical element of the talks—a commitment by the US Congress to vote on a draft agreement in its entirety—expired in mid-2007 and is unlikely to be renewed for several years. The expiration of that commitment, known as “fast-track” authority, means that US

## FROM STRENGTH TO STRENGTH

### Growth in world export volumes 1990-2006

Exports, nominal in US\$ billions



Source: WTO International Trade Statistics 2007

of the global economy,” said US Trade Representative Susan Schwab. “A breakthrough this year would be a timely injection of confidence, as well as sending a political sign of commitment to the WTO,” agreed EU Trade Commissioner Peter Mandelson. Pascal Lamy, Director General of the WTO, added that a deal is “do-able in the next few months”, and would be especially helpful in view of current instability in financial markets.

#### What went wrong?

Trade negotiators, of course, are paid to be optimistic. But the fact remains that the Round faces impasses in all its major topics. (See box, “Sticking Points”, on page 6). The chief culprit in this Round, as in previous ones, is disagreement over agricul-

***“A BREAKTHROUGH THIS YEAR WOULD BE  
A TIMELY INJECTION OF CONFIDENCE, AS WELL AS SENDING  
A POLITICAL SIGN OF COMMITMENT TO THE WTO”***

Peter Mandelson, EU Trade Commissioner

negotiators, representing one of the world’s largest markets, cannot make binding commitments to other nations. That, in turn, means that other nations will not make binding commitments either. With no basis for swapping concessions, delegates to the World Trade Organisation (WTO) talks have suspended discussions.

Yet in the world of global trade talks, hope springs eternal. At the World Economic Forum in Davos in January 2008, industrialised countries called for a re-start of the Round, saying a breakthrough now would give an important boost to world trade.

A deal in 2008 would make “an important statement about the health and prospects

tural tariffs and subsidies paid to farmers, particularly in the developed world. The disagreement is among the industrialised nations themselves, as well as between them and developing countries. There have also been serious disagreements over lowering industrial tariffs in emerging markets. In services trade, the issues have been so complex that discussion so far has focused mainly on procedures for negotiation. In the long years since Doha, a divide has emerged at the WTO between the developed nations led by the European Union, the United States and Japan and the “Group of 20” developing countries led by India, Brazil, China and South Africa.

### STICKING POINTS WHAT IS HOLDING UP THE DOHA ROUND?

Trade representatives of 150 nations have set an ambitious agenda for the Doha Round. They have tackled the following major topics:

**Agriculture:** In rich countries, agricultural tariffs average 14.3%, and farmers further benefit from generous state subsidies. Poor countries contend this shuts out their exports.

**Non-agricultural market access:** Average industrial tariffs in rich countries are down to 3.8%, while those of developing countries average 12.5%. Poor countries could bear a greater tariff-cutting burden.

**Services:** Emerging countries such as India and China have efficient services industries and look for global opportunities. But many services sectors are tied to national licensing requirements, making free trade difficult.

**Trade facilitation:** These talks address Customs systems and procedures, and the huge number of regulations and document requirements facing traders.

**Development:** Trading nations agreed to put development at the heart of the Doha Round. This means providing foreign aid, as well as offering "Special and Differential Treatment" to developing countries, allowing them more trade protection.

In the Doha Round, nothing will be agreed until everything is agreed. This makes for a drawn-out discussion.

Source: UK Department of Trade & Industry



**DR HEINZ HAUSER**

"The Doha Round is in bad shape."

Emerging markets have acquired more clout in international trade, and they have been increasingly inclined to flex their muscles in the Doha Round.

In a series of ministerial meetings since 2001, delegates wrangled unsuccessfully over all parts of the Doha agenda. In June 2007 in Potsdam, a serious impasse developed among the US, the EU, India and Brazil. The talks have been in abeyance ever since. Traders, who had been hoping for a deal, were not amused. "We cannot accept that the lack of consensus on agri-

cultural issues is having such a hampering effect or even putting a brake on the negotiations," says Paul Fournier, Trade Advisor to Eurochambres, the umbrella group for European Chambers of Commerce.

The WTO, however, has seen it all before and is not losing hope. "These negotiations are based on texts, and we expect a revision of texts shortly," says WTO spokesman Keith Rockwell. "The hardest nuts to crack are still there, but there is an effort now to put those texts into shape before a ministerial meeting this spring."

## "PROGRESS IS INCREASINGLY DIFFICULT"

Atradius recently spoke with Dr Heinz Hauser, professor of economics and director of the Swiss Institute of Applied Economics at the University of St Gallen in Switzerland, about what is slowing down the Doha Round.

### GLOBALTRADE

*What is the current state of play in the Doha Round?*

### HAUSER

The Doha Round is in bad shape. The US is unable to negotiate for the next year during the election campaign, and probably for another one or two years beyond that, while the new administration and new congress settle in.

Domestic politics play a role elsewhere as well—for example in India, which is governed by a fragile coalition and faces elections next year. This makes it difficult for the government to make market-opening commitments.

### GLOBALTRADE

*Has there been any progress on the major issues?*

### HAUSER

There has been no real convergence on agricultural trade so far in the Doha Round. The discussion on industrial tariffs is politically sensitive in Brazil, Korea, and India, among others; these countries would have to cut their tariffs substantially to give EU and US exporters new market access. The services talks have made progress, but mainly on procedural issues.

### GLOBALTRADE

*Is the WTO the best forum for reaching a deal on complex issues?*

### HAUSER

There is a case to be made that the WTO has become too big and too heterogeneous, and that this gets in the way of meaningful deals.

There are 150 members, of whom 100 are emerging markets with a wide range of stages of development.

In general, the negotiating environment is very different from what it was 15 or 20 years ago. Back then, the US and the EU and maybe Japan made the decisions.

Now we have a lot more players, and emerging countries like China, Brazil, Korea and South Africa are taking an increasingly active role. So progress in a big multilateral round is increasingly difficult.

Indeed, despite the impasse, all is not gloom and doom. In the real world of commerce, exporters and importers are busier than ever. Trade in goods grew 8% year on year in real terms in 2006, following a 6.5% surge in 2005, WTO figures show. (See chart, "From Strength to Strength", page 5) Moreover, trade negotiators have not been sitting still. While the Doha Round has gone quiet, trade negotiators have been meeting in other forums, reaching a slew of bilateral and regional trade deals. (See article, "Between Friends", page 8).

### A surge in trade deals

These agreements, known collectively as preferential trading agreements (PTAs), essentially extend favourable trade terms to selected partners. This encourages the member nations of a PTA to trade with each other, in preference to everyone else. The surge in PTAs—hundreds of such deals were signed between 1950 and 2008—has sparked a debate. Multilateral purists decry their trade-diverting nature. Realists, however, say that in the absence of a general agreement, partial agreements will have to do, and that some trade liberalisation is better than none at all. "PTAs are not bad in themselves, but they are a second-best option," says Fournier.

The most-favoured nation (MFN) principle underlying the WTO talks—namely, that the advantages a country offers to one trading partner must be offered equally to all other WTO members—is certainly simpler and neater than the jumble of preferential-treatment deals.

Simplicity and neatness are much to be desired. But as the Doha Round has shown to date, the world of trade is anything but neat and simple. <

# BETWEEN FRIENDS

GOVERNMENTS ARE BUSILY SIGNING PREFERENTIAL TRADE AGREEMENTS WITH SELECTED PARTNERS. THIS IS INTENDED TO OPEN MARKETS FOR TRADERS, BUT IS ACTUALLY ADDING TO THEIR PAPERWORK BURDENS.



> International trade negotiators are busy people these days. Not necessarily busy in Geneva—the action at the WTO level under the Doha Round has virtually ground to a halt. But there is a great deal of action in negotiating bilateral and regional agreements to fill the vacuum created by the absence of a global deal.

These agreements, known collectively as preferential trading agreements (PTAs), are being signed among a dizzying array of trading partners. According to the WTO, of

### TWO'S COMPANY

But are preferential trading agreements the answer?



the approximately 470 PTAs have been signed in the past 60 years, 197 are still in force. Nearly 400 such deals are expected to be in force by 2010, the WTO says.

The PTA-signing activity has accelerated sharply in the past decade. Indeed, a bandwagon effect has emerged: As one group of countries reaches a PTA, other groups of countries do the same, to avoid being shut out of the advantages that such deals confer on their members.

In particular, the GATT received only 124 notifications of Regional Trade Agreements (RTAs) in the 46 years between 1948 and 1994. The WTO, established in 1995, received 240 additional notifications between 1995 and 2007. (See chart, “Fifty Years of Togetherness”, page 13).

Trade theorists, led by Jagdish Bhagwati of Columbia University, liken this proliferation of PTAs, each with its own set of rules, to a “spaghetti bowl” of trade. The idea is that the mass of overlapping PTAs represents a chaotic tangle of different rules applying in different places, which traders must first sort out and then comply with. Bhagwati and others argue that life would be simpler—and trade flows much less distorted—if each country offered the same terms and conditions to all its trading partners, as required under the WTO’s “most favoured nation” (MFN) principle.

### “THE RULES OF ORIGIN IN PREFERENTIAL TRADING AGREEMENTS INTERFERE WITH OPTIMISING THE VALUE CHAIN.”

Dr Heinz Hauser, St Gallen University

That, at least, is the theory. Many trading companies, though, find that the spaghetti bowl has some appetising aspects. In the absence of a global deal, PTAs are better than nothing, they say. Moreover, PTAs can be reached within a year or two, while global negotiations can drag on for a decade or more.

Above all, a PTA can create a cosy world of protected trade for those lucky enough to be inside it. For example, a Mexican firm that exports to the US and sources its products in Mexico stands to benefit from the North American Free Trade Agreement (NAFTA), since that pact favours Mexican over other Latin American exporters. Many small and mid-sized enterprises (SMEs) mainly source components locally and tend to export within their own

### HELLO, NEIGHBOUR

#### The world’s biggest preferential trading agreements

- > The European Union
- > The European Free Trade Association (EFTA)
- > The North American Free Trade Agreement (NAFTA)
- > The Southern Common Market (MERCOSUR)
- > The Association of Southeast Asian Nations (ASEAN)
- > The Common Market of Eastern and Southern Africa (COMESA)

Source: World Trade Organisation

regions. For them, living within a PTA may not at first glance appear to be such a bad arrangement.

#### Mixed blessing

Yet on balance, PTAs are very much a mixed blessing. For one thing, they encourage firms to source components from nearby providers they might not otherwise use, only because those providers are inside the PTA. With increased international outsourcing, complying with rules of origin requirements interferes with opti-

mising the value chain, says Dr Heinz Hauser of St Gallen University.

For example, “If a Swiss firm buys some of its inputs in China and wants to export the final product to the EU, it has to be careful to ensure that the value of the Chinese components does not exceed the limit for low-tariff treatment of EFTA (European Free Trade Association) goods,” he says.

Moreover, the jumble of PTAs can boost a company’s production costs, particularly if it finds itself outside of a PTA while its competitors are inside it. Paul Fournier of the Eurochambres group cites the example of T-shirt manufacturers in the Andean countries. Until several years ago, they were required to use local cotton rather than using cheaper imported cotton, and had to pay 20% duties, on shirts exported

to the US. This discrepancy was due to burdensome rules for producers not covered by a trade deal with the US. For Andean manufacturers, the different sourcing rules meant setting up a separate production process for exports to the US. In general, the presence of PTAs puts exporters in a dilemma if they are outside the favoured zone. Either they ensure that their goods comply with the rules for favoured treatment—for example by using components from the favoured region—or they pay a higher external tariff.

**Paperwork mountain**

For traders located inside the zone, the procedure is not necessarily simpler. These traders still must prove that their products meet all the qualifications for favourable tariff treatment under the PTA, and this can involve onerous documentation efforts. If an exporter uses components that partially come from inside a PTA and partially come from outside of it, “this can make life at the border rather complicated,” said a WTO official who asked not to be named.

**TROUBLE IN STORE**

Proving compliance with a PTA can cause problems at the border.



Documentation costs are perhaps the biggest problem associated with the proliferation of PTAs. “The determination and certification of origin carries administrative costs,” Hauser says. “A study showed that some Swiss exporters preferred to pay the EU’s higher external tariff rather than go to the expense of proving that the goods were produced within EFTA.”

It’s easy to see how the administrative costs can pile up. In a study on the varying rules of origin in PTAs, trade expert Olivier Cadot cites an example from the

## REGULATIONS GALORE

Complying with national rules—even if they are imposed equally on all trading partners worldwide— involves major cost burdens. For example, the British Chambers of Commerce has compiled a “Burdens Barometer” listing all the rules and regulations (including non-trade related) applying to companies doing business in Britain. This includes everything from labour and environmental to consumer protection and data protection rules. As of July 1, 2007, the figure amounted to £55.66 billion (€74.26 billion).

## WHEN IS A TRADE BARRIER NOT A TRADE BARRIER?

**Governments impose many health, safety and other rules that can keep imports out. Are these legitimate protections, or trade barriers in disguise?**

If you ever want a lesson on the workings of non-tariff barriers, have a conversation with Nancy Abeiderrahmane. The British-born Mrs Abeiderrahmane runs a camel-milk dairy called Tiviski in Nouakchott, Mauritania. Among other things she produces camel cheese, a product designed and intended for export. She set her sights on the EU, “where a rare cheese is likely to find an appreciative gourmet audience,” she says. So far, this rare cheese has yet to find its appreciative audience. The EU, she says on her Web site, “has a set of non-tariff barriers that only allow dairy imports from a limited number of countries, on the basis of stringent requirements such as the presence in the exporting country of an EU-approved certification laboratory.”

### Fruitless visits to Brussels

Mauritania has no such laboratory, and so exports to the EU are blocked. “I went to Brussels two or three times, and even engaged a Spanish lobbyist,” she says. It seems we were the first firm from the South to have ever asked for authorisation for a new product. The fact remains that we actually make the cheese, and it is jolly good. We have European, mainly German, customers who want to buy it.”

Mrs Abeiderrahmane’s story is not unique. The newspapers—not to mention the dispute-settlement dockets at the WTO—are full of examples of exports blocked due to importing country concerns about health, safety, environmental protection, consumer protection, national security, or other considerations.



### NANCY ABEIDERRAHMANE

Frustrated by EU rules

In most cases there is a fine line between legitimate protection and measures that actually aim to block imports. Each country has its own technical standards, for example for electrical equipment or kitchen appliances. If these happen to lock up the market for domestic producers, because the cost of manufacturing to those specifications is too high for others, does that make it a trade barrier?

“These are rarely black-and-white issues,” says economist Dr Heinz Hauser of St Gallen University. “Many regulations which have a legitimate health objective also happen to have a market closing effect.”

>>

Cotonou Agreement, a PTA signed in 2000 by the EU and 79 African, Caribbean and Pacific (ACP) states. It states that fish imported into the EU from an ACP country qualifies for low-tariff treatment only if it meets stringent requirements.

Specifically, traders must prove not only that the fish were caught in the territorial waters of an ACP state (a reasonable requirement), but that the fish were transported to the EU on a ship whose captain, officers, and at least 50% of its crew are nationals of an EU or ACP state, was reg-

istered in an EU or ACP state, sailed under the flag of an EU or ACP state, is at least 50% owned by nationals of an EU or ACP state, and is owned by a shipping company run by EU or ACP nationals.

In general, rules of origin can be staggeringly bureaucratic, and in some cases appear to be written to favour particular suppliers of components. Cadot cites a NAFTA rule saying that imported fabric used in clothing qualifying for low tariffs must be "of subheading 511111 or 511119, if hand-woven, with a loom-width of less

DOCUMENTING THE ORIGIN OF GOODS CAN BE SO ONEROUS AND COSTLY THAT SOME TRADERS PREFER TO PAY THE HIGHER EXTERNAL TARIFF, AND SAVE THEMSELVES THE TROUBLE OF PROVING THAT COMPONENTS CAME FROM INSIDE A PREFERENTIAL TRADING AREA.

## WHEN IS A TRADE BARRIER NOT A TRADE BARRIER?

>> So far, most of the disputes that have come to the WTO for adjudication have been so-called SPS (Sanitary and Phytosanitary) cases. Some of the more prominent examples include:

- > The EU's refusal to import beef from US cattle that had been treated with growth hormones (The US won);
- > France's ban on imports of products containing asbestos, which angered Canadian manufacturers (France won);
- > The EU's delay in approving the use of genetically modified seeds for wheat and corn production, which sparked a complaint from the US (The US won on a technical point, and the broader issue is still pending);
- > The EU's case against Brazil for barring imports of re-treaded tyres, on health grounds related to the manufacturing process (The EU won);
- > The US refusal to allow imports of reformulated petrol from Venezuela, on environmental grounds (Venezuela won).

There are also many disputes over technical standards. China, for example, announced in 2003 that all WLAN (wireless local area network) equipment sold in China must conform to a proprietary standard called WAPI, rather than to the internationally accepted Wi-Fi, because of security concerns about Wi-Fi's encryption capabilities.

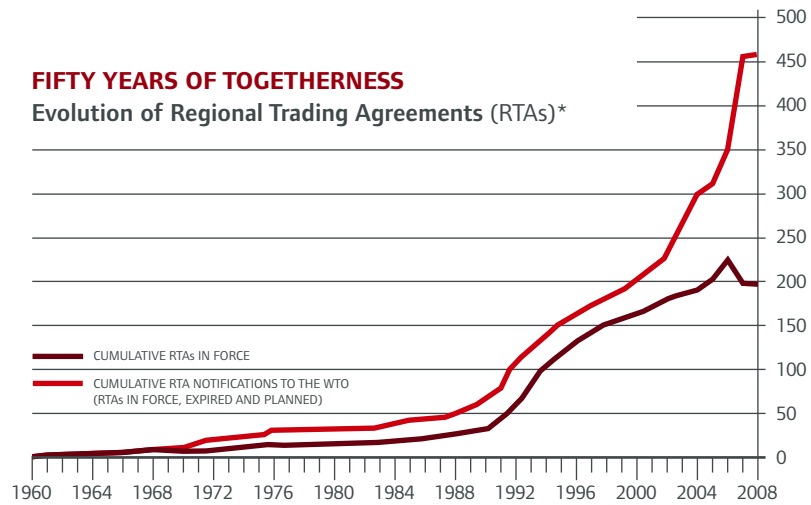
Foreign firms wishing access to WAPI technology would have to partner with one of two-dozen Chinese firms designated by the government, China said. US manufacturers were among the first to complain. "Whatever national security argument there may be for encryption, the real motivator is to promote the interests of certain Chinese companies over other companies," said Anne Stevenson-Yang, managing director of the US Information Technology Office in Beijing.

Over time, governments have proven endlessly creative in finding new standards to apply, so the stream of cases is likely to continue. Indeed, when trade negotiations are over and tariff-cutting commitments have been made, governments often find other means of protecting markets.

It is not surprising, then, that non-tariff barriers are becoming more prominent as the more obvious forms of trade protection decline. "Tariffs are now 4% on average in developed countries," observes WTO spokesman Keith Rockwell. "As tariffs come down, you will see more and more of this."



## FIFTY YEARS OF TOGETHERNESS Evolution of Regional Trading Agreements (RTAs)\*



\*The WTO terminology "Regional Trading Agreements" is roughly equivalent to "preferential trading agreements".  
Source: World Trade Organisation

### TIVISKI PRODUCTS Waiting for their appreciative audience



than 76 cm, woven in the United Kingdom in accordance with the rules and regulations of the Harris Tweed Association, and so certified by the Association".

#### Equal treatment

Such requirements can be particularly onerous for small and mid-sized enterprises. "If a small firm has a total of five or six workers, and has to add an employee just to look at every export market, to ensure that products are made in a way that complies with the PTA applying to each market, then this can be burdensome," says Paul Fournier of Eurochambres.

"Getting import acceptance can require a mountain of paperwork" even without the added issues presented by PTAs, says Waltraud Kaiser, export director of Erdinger Weißbräu, a German brewery with worldwide export activities. "For example, the labels on bottles have different requirements in different countries, even within the EU. It is a very big and costly procedure, and trade negotiations are not necessarily aimed at making this easier." Many traders deal with complex certification-of-origin problems by outsourcing the job to a certification specialist. "The best-known company in this field is Swiss-

**"IF A SMALL FIRM HAS TO ADD AN EMPLOYEE JUST TO COMPLY WITH PTA REQUIREMENTS, THIS CAN BE BURDENSOME."**

Paul Fournier, Eurochambres

However, traders also say that eliminating PTAs would not get at the larger problem, which is the proliferation of regulations and documentation requirements imposed by each government, whether the rules are related to a PTA or not. Even if PTAs were magically swept away and the Most Favoured Nation principle were to reign, each country would still impose a complicated array of rules and regulations.

So, for example, although in an ideal world all traders globally would face the same rules for trading with Country A, they would all still have to learn and comply with a completely different set of rules for trading with Country B, and another set for Country C, and so on. At most, then, the proliferation of PTAs merely adds another layer of complexity to what is already a complex compliance environment. (See box, "Regulations Galore", page 11)

based SGS," says Bernard Dennis, a British export consultant and former export sales director of Conren International, a coatings manufacturer. "It has expertise in product classification and in import requirements. It issues detailed certificates, which then are used to meet tariff requirements."

In the longer term, traders might benefit from proposals to simplify enforcement of rules of origin. One proposal circulating in policy circles is that countries belonging to PTAs agree to impose a uniform tariff on all products coming from outside the favoured region. Importers would not have to prove exactly where each product came from, since the tariff would be the same regardless of origin.

Eventually, this might help. But in the meantime, traders continue to face a "spaghetti bowl" of rules, without much prospect of untangling the strands. <

# AT YOUR SERVICE

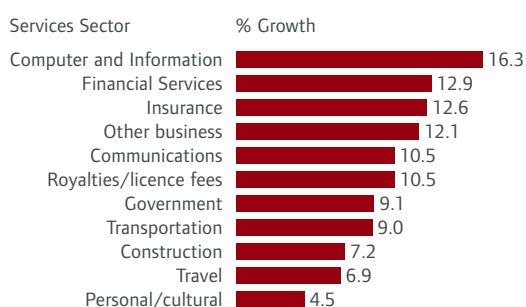
THE GLOBAL ECONOMY IS INCREASINGLY COMPOSED OF SERVICES. BUT BARRIERS TO TRADING THEM ACROSS BORDERS REMAIN FORMIDABLE.



**DOHA CAMPUS**  
“Education City” students  
are the lucky ones.

## LEAPS AND BOUNDS

Average annual growth in services exports  
by OECD countries, 2000-2005



Source: OECD

> On a sprawling campus outside Doha, Qatar, kaffiyeh-clad students are taking part in a global revolution in services trade. Their campus, called “Education City”, is host to five well-known US universities, and imports their curricula and expertise. Programmes leading to US degrees include engineering, medicine, diplomacy and much else, and aim to “train the region’s next generation of leaders and innovators,” says the host, the Qatar Foundation. The Doha students are lucky: Trade in educational services is fairly open, and there is an increasing flow of such services worldwide. But in many other service sectors, global trade is still hindered by myriad barriers, ranging from non-recognition of credentials to complex rules requiring a

difficulties. “The main stumbling block has been insufficient political will,” he said “We all know that process can never substitute for substance.”

### Economic mainstay

The one element that all trading nations agree on is that services are increasingly important parts of economies, and vital to national competitiveness.

According to the WTO, services account for 68% of world GDP, making this sector the dominant form of economic activity.

The cross-border flow of services is already impressive, despite existing trade barriers. Aided by advances in digital technology, millions of financial, banking, insurance, accountancy, retail, media and

## MUCH TO DISCUSS

### Services sectors subject to WTO talks

- > Business and professional (Accountancy, advertising, architectural, engineering, computer-related, legal)
- > Communication services (Audiovisual, postal/courier, express mail, telecoms)
- > Construction and related
- > Distribution
- > Educational
- > Energy/electricity
- > Environmental
- > Financial
- > Health/social services
- > Tourism
- > Transport

Source: World Trade Organisation

## “COUNTRIES’ OFFERS TO LIBERALISE SERVICES TRADE HAVE BEEN EVALUATED AS BEING TIMID.”

Dr Heinz Hauser, St Gallen University

commercial presence or a local licence. Since their launch under the Uruguay Round a decade ago, negotiations within the WTO to open services trade have proceeded slowly. So far, WTO members have agreed on what sectors to discuss (See box, “Much to Discuss”, above), and on categories of services based on how service is delivered (See box, “Modes of Delivery”, page 16). But substantive progress has been limited.

“Countries have handed in offer lists during the Doha Round, but these have been evaluated as being timid, offering very little,” says Dr Heinz Hauser of St Gallen University. In a speech to the European Services Forum last autumn, WTO director-general Pascal Lamy hinted at the

travel transactions are done daily across borders. “Even consulting a doctor can be done over the Internet,” Lamy noted. (See Chart, “Leaps and Bounds”, above) Global trade statistics highlight this trend. In 2006, exports of services worldwide grew 12% year-on-year, following 11.1% growth in 2005, according to the WTO.

Yet at the micro level barriers abound, even among countries with similar levels of development—suggesting that global services trade flows could be even larger.

Within the EU banking sector, for example, a variety of consumer protection regimes and mortgage collateral laws helps to keep banking services confined mainly to individual countries. Only about 2% of all retail payments in the euro-zone are

cross-border, in part because of the relatively cumbersome process for making such payments even within the single-currency area.

In countries with dissimilar levels of development, the barriers can be higher. Often they take the form of non-recognition of professional credentials. Paul Fournier of Eurochambres describes a typical example: “My sister is an architect in Peru. If she wants to work in the US, she has to study for another two to three years and obtain a US diploma, because the Peruvian diploma is not recognised in the US.”

### Request and offer

The WTO is tackling such problems, but through an arduous, case-by-case procedure. Since there are no tariffs on services, barriers are not easily quantifiable. Therefore, instead of using general

## MODES OF DELIVERY

WTO members have identified four modes, or ways, of delivering services, and have structured their market-opening offers according to these modes:

**Mode 1 > Cross-border trade:** delivering a service from one country into the territory of another.

Example: medical advice delivered online across borders.

**Mode 2 > Consumption abroad:** Supplying a service directly to a consumer from another country. Example: Tourism.

**Mode 3 > Commercial presence:** providing service in the territory of another country through a legal presence. Example: Branch of a foreign bank.

**Mode 4 > Presence of natural persons:** Delivering a service through the presence of natural persons in the territory another country.

Example: architect or engineer working abroad.

### CLINIC IN BANGALORE

Long-distance  
medical service



formulae aimed at across-the-board percentage reductions in tariffs, the WTO is using traditional request-and-offer negotiations. In this procedure, each member decides what it wants to ask of specific trading partners, what new market-opening commitments to offer, and how to respond to specific requests it has received.

#### All about regulations

“It is probably necessary to proceed this way, because of the nature of services,” says Keith Rockwell, chief spokesman for the WTO. “Services are all about regulations, such as rules on recognition of professional standards. You can’t use a cookie-cutter approach to market opening measures in such an environment.”

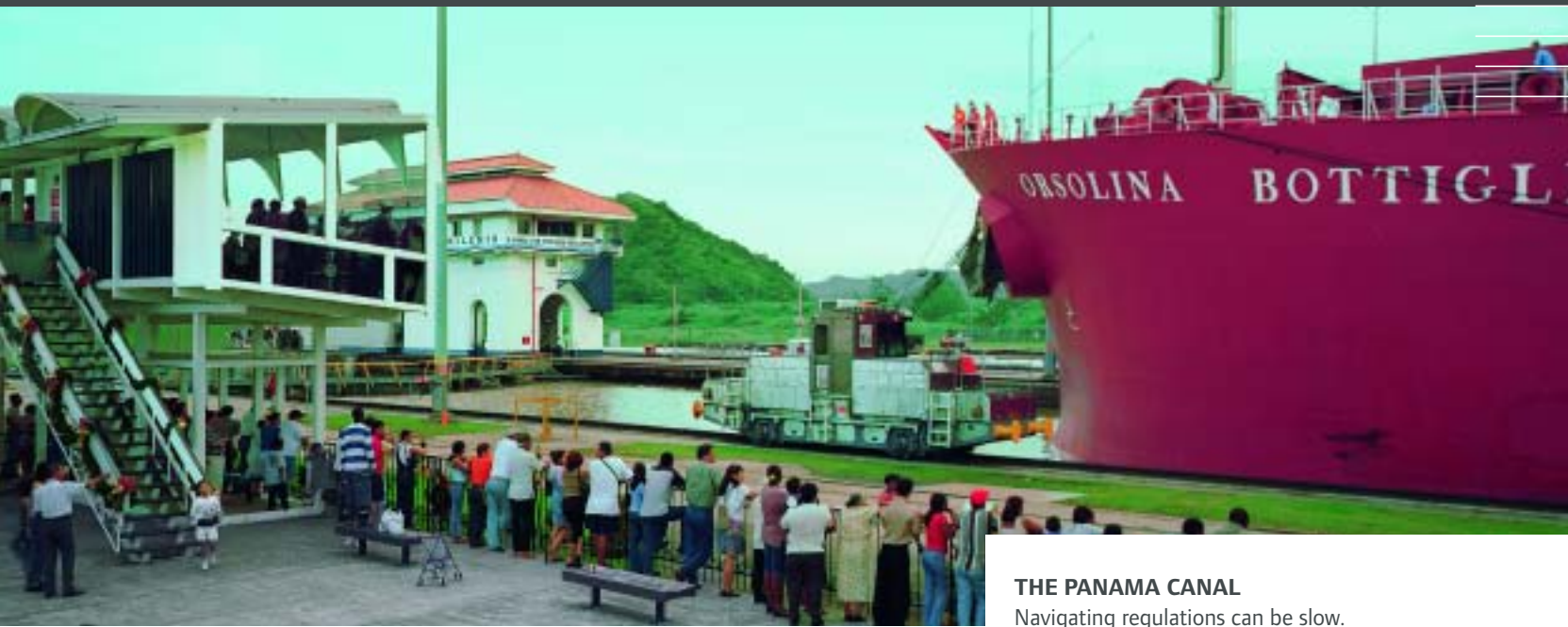
Necessary or not, this is a politically sensitive process. “A negotiator might say, for example, ‘We offer market access in a particular services sector,’” says Hauser. “But when negotiators do that, they tend to run into very focused resistance from the affected groups in their countries, particularly if there is nothing in the services agreement that offers those groups something specific in exchange.”

The matter is further complicated by worries about admitting service professionals from countries that pose national-security problems. “Let us remind ourselves that Mode 4 (service delivery by natural persons) is about the temporary entry of professionals to supply a service, and not about immigration,” Lamy said in a speech last autumn.

That may well be. But trading nations are still a long way from opening their borders to service professionals from abroad, and accepting other countries’ service standards and certifications. <

# BEWARE, FRONTIER AHEAD

BORDER FORMALITIES CAN BE COSTLY AND TIME CONSUMING, PARTICULARLY FOR SMALL COMPANIES. THE WTO IS WORKING TOWARD A TRADE FACILITATION AGREEMENT.



## THE PANAMA CANAL

Navigating regulations can be slow.

➤ For a cautionary tale of how trade can go wrong, consider the UK exporter who last year sent a large shipment of industrial goods to Russia. He received half the payment up front, had the goods inspected, and sent them on their way.

They never reached their destination. The four containers were seized at a remote border post and diverted to a Customs warehouse, on the basis that tariff codes had been incorrectly entered on import documents. That was last October. As of press time, the goods were still languishing in the warehouse.

“The likeliest scenario is that they will be confiscated and sold through a local auction,” says Bernard Dennis, who is an export consultant familiar with the case. “The original customer will be able to buy them

from Customs at a much reduced price.” Regrettably, this case is fairly common. Formalities for clearing goods into a country typically involve submitting a great deal of data, and some of the information, such as the product description, is open to interpretation.

### Adding up the costs

Developing countries tend to require the most documents and to impose the longest delays for Customs clearance. The World Bank reported in 2007 that poor countries typically require 13 documents from regulatory agencies, compared to ten in low middle income countries, nine in upper middle income and six in rich countries. The total per-container cost to import was \$1960 on average in poor countries, and

**CUSTOMS CLEARANCE FORMALITIES TEND TO BE MOST ONEROUS IN DEVELOPING COUNTRIES. THE TOTAL PER-CONTAINER COST TO IMPORT WAS \$1960 ON AVERAGE IN POOR COUNTRIES IN 2007, COMPARED TO \$842 IN RICH COUNTRIES, ACCORDING TO THE WORLD BANK.**

## THE PAPER CHASE

### Requirements to export/import a standardised cargo of goods

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container*)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)*
OECD	4.5	9.8	905.0	5.0	10.4	986.1
East Asia & Pacific	6.9	24.5	885.3	7.5	25.8	1,014.5
Eastern Europe & Central Asia	7.0	29.3	1,393.4	8.3	30.8	1,551.4
Latin America & Caribbean	6.7	22.6	1,095.6	7.7	24.0	1,208.3
Middle East & North Africa	7.1	24.8	992.2	8.0	28.7	1,128.9
South Asia	8.6	32.5	1,179.9	9.1	32.1	1,417.9
Sub-Saharan Africa	8.1	35.6	1,660.1	9.0	43.7	1,985.9

\* Cost associated with all the procedures required to export/import goods

Source: World Bank, Doing Business 2008

### HELPING HANDS

#### The WTO Trade-Facilitation Agenda

WTO members are discussing improving freedom of transit and simplifying border formalities. Negotiators have set the following goals for the trade facilitation talks:

- > Rules to ensure freedom of transit for goods crossing borders
- > Promoting electronic transmission of trade regulations
- > Reducing documentation requirements
- > Standardising procedures for levying certain import fees

So far, however, the talks have focused on technical aid to poor countries, to help them modernise their Customs services. Developing countries have won the right not to make upgrades until they receive the technical assistance to do so. Considering the extent of the upgrades required, the outlook for substantive improvement in Customs clearance procedures is long-term, at best.



### WALTRAUD KAISER

Export Director, Erdinger Weißbräu

paperwork burden is growing, as more importing countries sign various PTAs with varying product-origin requirements, all of which must be documented at the border. "There are a lot of documents required" for a variety of regulatory agencies, says Waltraud Kaiser, export director of Erdinger Weißbräu, a German brewery.

#### Arbitrariness at the border

"There can be a further problem of arbitrariness at the border," she adds. "Indonesia, Mexico, Brazil and Peru, for example, can cause problems. Sometimes Customs holds up a shipment and doesn't say why. The reason can turn out to be something very minor, but in the meantime the goods stay at the border and don't move."

"Customs makes a determination (about the nature of the goods), and there is often room for interpretation," says Bernard Dennis. "That interpretation can make the difference between a 5% and a 40% import

\$842 in rich countries. (See table, "The Paper Chase", above, for data by region)

All this clearly interferes with trade, costing up to 15% of the value of traded goods,

### "RAISING POOR COUNTRIES' EFFICIENCY IN PORTS, CUSTOMS AND REGULATION WOULD BOOST WORLD TRADE BY \$377 BILLION."

The World Bank

according to the OECD. According to the World Bank, raising poor countries' efficiency in ports, Customs and regulation up to the global average would boost world trade by \$377 billion.

Cumbersome border procedures hit small and mid-sized firms the hardest, since they tend to lack the resources and networks to deal with the complexities. Moreover, the

duty. A good local agent can make a big difference. A good agent is someone with good contacts, who can bend the rules or find ways around barriers and speed things up within Customs."

A good piece of advice—which unfortunately comes too late for the UK exporter whose containers are still sitting at a Customs outpost in Russia. <



## SOURCES, FURTHER INFORMATION

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### THE DOHA ROUND \_ PAGE 4

- > **www.wto.org**  
The Web site of the World Trade Organisation, with detailed information on all aspects of current and past world trade negotiations.
- > **www.dti.gov.uk**  
The Web site of the UK Department of Trade and Industry, which includes an overview of the Doha Round.

### PREFERENTIAL TRADING AGREEMENTS \_ PAGE 8

- > **www.cfr.org/publication/10890**  
A paper from the Council on Foreign Relations on the rise in bilateral free trade agreements.
- > **www.atdforum.org/spip.php?article15**  
A paper from the African Technology Development Forum explaining the workings of Rules of Origin.

### NON-TARIFF BARRIERS \_ PAGE 10

- > **www.law.duke.edu/journals/dltr/articles/2005dltr0018.html**  
A case study on an alleged non-tariff barrier involving China's telecoms regulations.
- > **www.transatlantikkonferenz.de**  
A paper on removing non-tariff trade and market entry barriers, from Germany's Dräger Foundation.

### SERVICES TRADE \_ PAGE 14

- > **www.wto.org/english/news\_e/sppl\_e/sppl77\_e.htm**  
An October 2007 speech by WTO Director-General Pascal Lamy on progress in the Doha Round services negotiations.
- > **www.oecd.org**  
Statistics on international trade in services from the OECD. Services statistics can be found in the OECD Web site's statistics portal, under "Industry and Services".

### CUSTOMS FACILITATION \_ PAGE 17

- > **www.gfppt.org**  
The Web site of the Global Facilitation Partnership for Transportation and Trade, a group, which promotes dismantling of border barriers to commerce.
- > **http://ec.europa.eu/trade/issues/sectoral/facilitation/index\_en.htm**  
The European Commission's summary of trade facilitation issues.

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