

Don't wait for a WTO agreement to implement trade facilitation

- Countries should not wait to implement trade facilitation and abolish complicated procedures so that transaction costs can be lowered for international trade.
- The economic crisis must not serve as a justification for countries to take a step backwards and curtail opportunities for companies on the international market.
- The WTO negotiations regarding trade facilitation provide an opportunity to reduce the effects of the economic crisis. A new WTO agreement on trade procedures, combined with liberalized trade in services, would have the same effect as a stimulus package of 150 billion dollars.

There is a positive correlation between simplified trade procedures and increased trade. World trade is facing the largest economic downturn in decades, and a number of countries have introduced measures intended to reduce the effects of the crisis. Some are concerned that these measures will lead to protectionism and to less openness in trade. Given the current state of affairs, it is important to preserve and monitor the steps towards facilitation that have already been achieved in the international regulatory framework. The economic crisis may not serve as a justification for stepping backwards and curtailing opportunities for countries active on the international market.

It may be a long time before a conclusion is reached in the WTO Doha Round. This is regrettable, as the Doha Round could give world trade a much-needed injection and contribute towards increased stability through greater predictability. Trade facilitation is one of the areas that would produce the largest gains. Therefore countries should not wait until the close of negotiations in the WTO.

Instead, they should go ahead and implement reforms and facilitative measures now. The international instruments and standards are already available. Simple, transparent, and predictable trade regulations provide a competitive advantage.

Effective trade procedures – even more important during an economic crisis

The prognosis is worrisome for developments in world trade. A report from the WTO (World Trade Organization) predicts a 9 percent decline in the volume of world trade during 2009. OECD is even more pessimistic in its *Economic Outlook*, predicting a 13.2 percent decline in international trade in 2009¹. Regardless of which organization has the more accurate prediction, if either is correct, we will be seeing the largest decline in world trade since the Second World War.

The downturn in international trade has meant that the crisis has spread to Asia as well. It was initially thought that this region would not be affected very much, as the crisis was at first seen as primarily affecting North America and Europe. The global downturn in trade is an example of how closely connection the world's markets have become as a result of globalization.

An overall reduction in demand combines with the difficulties faced by companies (particularly those small and medium in size) in obtaining credit to give a partial explanation for the downturn.

Some are concerned that countries may respond to the economic crisis by introducing protectionist measures to safeguard domestic industry and reduce trade. It is our contention that countries should do the contrary: facilitate

trade, abolish complicated procedures to reduce costs for international trade, and thus hopefully mitigate the effects of the crisis on trade. India, China and Malaysia are examples of countries that have accomplished this by simplifying or eliminating licensing requirements for import and export.

Don't wait for the WTO negotiations to implement trade facilitations

The World Bank has identified the WTO negotiations on trade facilitations as an opportunity to reduce the effects of the economic crisis².

The negotiations on trade facilitation are part of the broad array of issues under negotiation within the scope of the Doha Round in the WTO. A WTO agreement on trade procedures would facilitate international trade for companies. The agreement would create binding rules for the WTO's member countries and contribute towards greater predictability and simplified procedures for importing and exporting goods. However, a breakthrough on the central issues of agriculture and industrial goods is required for there to be an end in sight to the negotiations.

The WTO secretariat notes that the proposal put forward in the Doha Round concerning market access for agricultural and industrial goods would have same effect as a stimulus package of more than 150 billion dollars directed at consumers. Furthermore, a new agreement on trade facilitation, combined with liberalization in trade of services, would more than double this amount³. A number of studies have been published which identify trade facilitation as the negotiation subject that would provide the greatest gains, particularly for developing countries that still have complicated and burdensome administrative procedures for import, export and transit⁴.

A WTO agreement is not, however, the only opportunity for countries to partake in these gains. Whatever the outcome of the Doha negotiations, the WTO member countries should continue to implement trade facilitation and not wait for the conclusion of negotiations towards a WTO agreement.

All countries have the option of choosing to simplify and modernize their regulatory framework for trade. It is important, however, that countries base their decisions

on international standards and on recommendations that have been made. A study by the Swedish National Board of Trade examining the gains from the Doha Round shows that these measures mainly benefit the implementing country itself, but that they also help the country's trade partners. Thus, rather than being a zero-sum game, the negotiations can benefit all countries involved by reducing transaction costs for international trade.

Trade facilitation as a competitive advantage

Sweden is a small, trade-dependent country which is at a relative disadvantage geographically, situated as it is at the outer edge of Europe. Therefore it is important for the competitive advantage of Swedish import and export companies that trade with Sweden be uncomplicated.

Sweden has achieved a great deal when it comes to trade facilitation relating to trade with goods. The goal has been to create simple, transparent and predictable conditions for trade. Cooperation between the private and public sector towards the creation of common solutions has been an important driving force. A newly published report on world trade in 2008 ranks Sweden as the second best country in the world after Singapore when it comes to effective import, export and tariff procedures⁵.

It is yearly report entitled *Doing Business*, the World Bank examines indicators that demonstrate various aspects of trade procedures in a number of countries. These indicators show that export from Sweden takes an average of 8 days, including transport from a company's warehouse to the port of shipment and the time required for customs declaration. The corresponding figure for OECD countries is 11.6 days. Data from the World Bank shows that in Southeast Asia, Africa and Central Asia, export can take up to three to four times as long.

Most large manufacturing companies depend on the rapid and punctual delivery of raw and input materials. Therefore the efficiency and risk associated with a country's trade procedures are an important factor in a company's choice to invest in one country over others⁶. One study from the World Bank shows that for every day a shipment of goods is delayed due to export or import procedures, trade declines by one percent⁷. Therefore effective trade procedures provide a competitive advantage.

¹ OECD (2009) OECD Economic Outlook Interim Report

² McLindon (2009) "Keep the trade flowing by cutting red tape", in Baldwin and Everett "The collapse of global trade, murky protectionism and the crisis: Recommendations for the G20"

³ WTO (2009) Report to the TPRB from the Director-General the financial and economic crisis and trade-related developments, JOB(09)/30

⁴ One example is the study entitled "Economic Implications of the Doha Round" (2006) from the Swedish National Board of Trade which analyzes which effects the Doha Round would have on national revenue and trade. The study examines four subjects of negotiation: agricultural liberalization, market access for industrial goods, liberalization of services and trade facilitation. The studies shows that of these four subjects, trade facilitation is the one with the greatest potential to create gains for developing countries

⁵ World Economic Forum, The Global Trade Enabling Report 2008

⁶ OECD (2009) Overcoming Border Bottlenecks – The costs and benefits of trade facilitation

⁷ Djankov, Freund and Pahl (2006) "Trading on Time" World Bank Research Paper