Business Perceptions of Changing Trade Measures

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As a result of the global recession, concerns over a surge in protectionism have intensified. In the past quarter, trade has fallen significantly, and the World Bank now forecasts a 10 percent drop for 2009. With lags in labor markets implying that job losses will continue even after recovery has begun, the G20 has called for a close monitoring of trade policy measures. In the *Report on the Financial and Economic Crisis and Trade-Related Developments*, Pascal Lamy also warns about the dangers of protectionism.

Protectionism can use various channels, such as currency devaluation, subsidies, an increase in tariff rates, and a raise in the application of non-tariff measures. An analysis of the changes in the tariff rates between 2008 and 2009, recently undertaken by the International Trade Centre (ITC) for a number of countries, has revealed only minor differences, not leading to any significant effect on trade. Compared to tariffs, non-tariff measures is an area which is considerably more difficult to monitor and analyze, as they include a wide range of requirements which vary from country to country.

The impact of these measures on the business sector can be best captured through the polling of importing and exporting companies, as they have to comply with NTMs on a daily basis. Firms are also among the first to know about new measures as they are the first to be affected by changing rules. Furthermore, it's possible that some measures are applied de facto without being legally introduced. In such cases firms are also the best source of information.

[1] We thank Benjamin Prampart and Mathieu Loridan for their contribution to this article.

Benchmarking Business Perceptions

To understand the magnitude of any new measures reported by the companies, it is useful to establish a baseline and review how firms perceived the situation before the crisis. ITC and UNCTAD have conducted company level surveys in seven developing countries, namely Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda[2]. The surveys aimed to increase understanding on non-tariff obstacles to trade by capturing and classifying problems experienced by the business sector. More than 7'000 firms were contacted from which 1730 companies from various sectors participated in the survey through face-to-face interviews, executed by trained local partners. The surveys were finalized in the third quarter of 2008, before the full rise of the current financial and economic crisis. These surveys are referred hereafter as *initial surveys.*

The initial surveys differentiate between *non-tariff measures* (NTMs) and *non-tariff barriers* (NTBs), and have been designed to capture what companies perceive as barriers to trade. In general, NTMs refer to a wide range of measures, including technical regulations and product standards as well as customs procedures, which might be applied for legitimate reasons, for example protection of health or consumer safety (see Annex 1 for definitions). NTMs partly reflect the increasing sophistication of markets, with consumers demanding more information about the products they buy.

The term NTBs is used to denote a subset of NTMs which includes those measures that are used as instrument of protection, or those measures that companies perceive as very difficult to comply with. From a company's perspective, even legitimate measures can increase their trade related costs to a prohibitive level. Furthermore, the way NTMs are applied (rather than the measure itself) can also constitute an obstacle to trade, such as unjustified substantial delays in obtaining authorization or certificate. To shed light on this complex picture, the initial surveys aimed to identify those measures that companies *perceive* as NTBs, and to capture obstacles arising from the manner the measure is applied by partner countries, as well as bottlenecks at the national level.

The surveys were administered in the same manner in all participating countries; however specific differences were identified in each country owing to the nature of the topic itself, to different levels of local expertise and activities on the topic, local language requirements and cultural differences. For example, in one country, interviewed companies only reluctantly shared their experiences on non-tariff obstacles to trade, because they considered these experiences already as a comparative advantage against their local competitors. Consequently, the results can show only overall tendencies across countries.

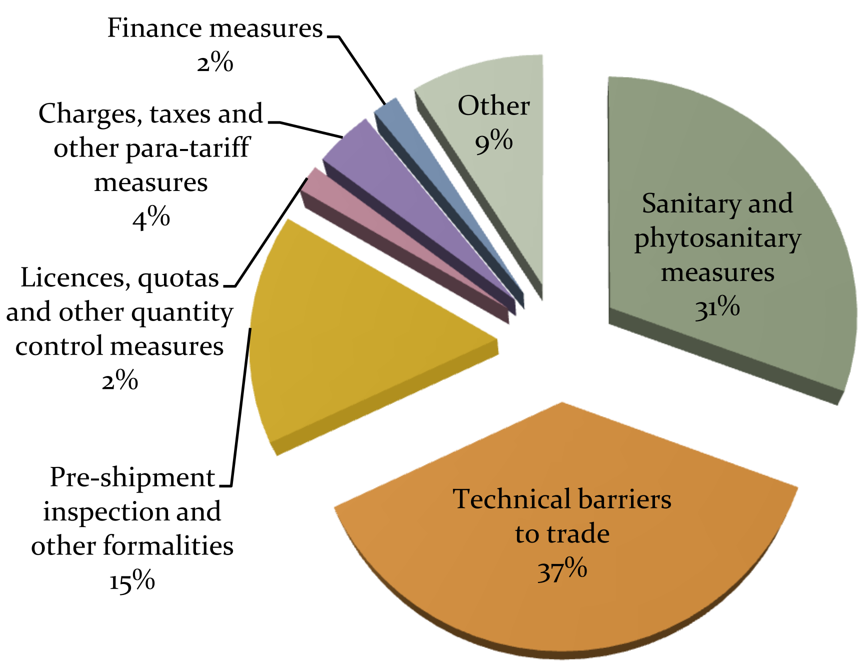
Despite these limitations, the surveys provide useful insights at the companies' experiences across different regions, including the patterns of the measures by product sectors and partner countries.

[2] The survey is one component of the NTM project, the other one being official NTM data. During the pilot phase of the project, ITC and UNCTAD have executed surveys in seven countries to test a new methodology for the systematic collection, classification and dissemination of NTM data, based on the new NTM classification. UNCTAD NTM Classification was prepared in a multi-agency framework with technical inputs from several international organizations and institutions, including ITC and the World Bank.

The results from four out of seven countries (Chile, the Philippines, Tunisia, and Uganda) are presented below as these countries have also participated in the follow-up surveys on the effect of the current crisis. This article primarily focuses on the experiences of the exporting companies, although importing companies have also taken part in the surveys. Companies reported their experiences with obstacles to trade by '*cases*'. Each case has several parameters, including the exported product, the relevant NTM, and the partner country applying the NTM, as well as the description of the challenges the exporter faces when complying with the measure.

Overall results, aggregated across four countries, show that technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) stand out as the most prevalent non-tariff barriers (Figure 1).

Figure 1. Business sector reports greater difficulties with SPS and TBT measures



Data source: Initial surveys, 2008.
Note: Percentages denote cross-country averages of the shares of each type of measures per country.

The individual results from each of the surveyed countries still show the prevalence of TBT and SPS measures, but also a considerable degree of cross-country variations in the incidence of other types of measures. In Tunisia and Uganda, customs formalities and pre-shipment inspection are of much more concern to the private sector than they are in the other surveyed countries. The share of licenses, quotas, and other quantity control measures reported by Chilean companies are three times higher than in other three countries. The surveyed Philippine companies reported the highest share of SPS and TBT measures, among which certification requirements have the highest incidence (almost 29 percent of all reported cases).

The analysis of the results suggest that the prevailing types of barriers are linked to the partner countries (Mimouni M. et al. (2009) *Obstacles to Trade from the Perspective of the Business Sector: A Cross-Country Comparison)*. For Chilean business sector exporting to Latin America is the most challenging, with labeling, marking and packaging requirements reported most often among the measures that are difficult to comply with. Ugandan companies also encounter most of the obstacles while trading regionally, and reported inspection and clearance formalities, as well as special customs formalities not related to SPS and TBT among most prevalent measures. The interviews with Tunisian companies show that the most affected export is those destined for the European Union, a very close market for them geographically and historically. Tunisian companies exporting to the EU mostly reported measures related to traceability requirements, as well labeling, marking and packaging requirements. The highest share of cases captured by the survey in the Philippines (above 28 percent) is related to export to the United States, with interviewed companies being most often concerned about certification requirements and traceability requirements. It's worth noticing that in four surveyed countries, companies report very few obstacles to trade when exporting to the Asia-Pacific region.

Results related to partner countries should be taken with a degree of caution. The causes that lead an exporting company to qualify an applied measure as problematic are not necessarily associated with the country that applies the measure. The obstacles may be caused by factors linked to the home country of exporters, for example, a lack of infrastructure or a lack of efficient procedures. Moreover, constraints are clearly particular to each country, either because companies in a country are more able to deal with certain requirements rather than other or because the structures of product and partner destination countries influence the type of barriers exporters face.

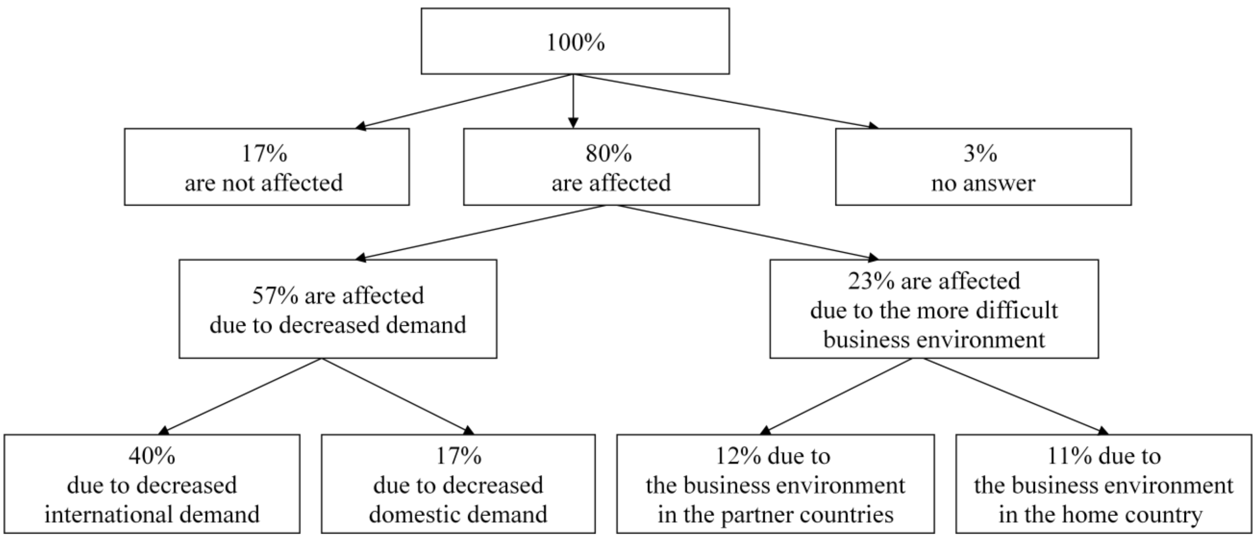
Trade Measures during the Crisis

In the light of the commitments made in April 2009 by G20 countries, which include promoting global trade and investment and rejecting protectionism, it's important to know whether the business sector has experience an increase in protectionist measures. If such measures have taken place, what is their effect on the companies across countries? If companies have not experienced any new trade restrictive measures, are they affected by the current crisis through other channels? Likewise, have the business sector already benefited from a promised increase in trade facilitation?

To address these questions, ITC and the World Bank executed, in May 2009, a second set of complementary surveys (referred hereafter as *follow-up surveys*). These surveys were based on phone interviews, mostly with the same companies that have already participated in the first survey. Nearly a thousand companies - from Chile, the Philippines, Tunisia and Uganda - responded to the questions on the most serious effects of the current crisis on their operations, as well as on new trade restrictive and trade facilitating measures implemented in the past six months, or existing measures applied more vigorously as a result of the crisis. The follow-up surveys encompassed questions on a wide range of trade measures, including both tariff and non-tariff measures.

The overall results of the follow-up surveys suggest that about 80 percent of the interviewed companies are affected by the current crisis (see Figure 2 below). More than a half of all surveyed companies report that the principal cause has been a drop in demand, and about a fourth pointed to a more restrictive business environment.

Figure 2. Companies state the most serious effects of the current crisis



Data source: Follow-up surveys, 2009.

The business sector is challenged by decreasing demand in both foreign and domestic markets (40 and 17 percent of responses respectively). Those companies which indicated that decreasing international demand has the most serious effect of the crisis on their operations have also provided information on partner countries (see Figure 3 below). Companies in Chile referred to countries in Southern America and Caribbean most of the time, even though altogether they import only 17 percent of Chilean goods. Companies in the Philippines reported declining demand in the United States and European Union in the majority of cases, while the companies surveyed in Uganda are mostly affected by the falling African demand.

Figure 3: The Business sector is affected by decreasing international demand

	Chile		Philippines		Uganda	
Partner countries	Share of reports on reduced demand	Share of export	Share of reports on reduced demand	Share of export	Share of reports on reduced demand	Share of export
Canada	3%	2%	4%	1%	0%	0%
China	5%	15%	4%	11%	0%	1%
Japan	3%	11%	4%	14%	0%	0%
European Union	28%	19%	21%	17%	6%	24%
USA	12%	13%	57%	17%	0%	1%
Africa	1%	0%	0%	0%	88%	44%
Asia other than China and Japan	9%	15%	6%	37%	0%	18%
Europe other than EU	3%	6%	0%	1%	6%	7%
Oceania	0%	0%	3%	2%	0%	0%
Southern America and Caribbean	38%	17%	0%	1%	0%	0%

Data sources: Follow-up surveys 2009; ITC Trade Map 2007.
Note: Tunisia is omitted as Tunisian respondents have not specified the partner countries with diminishing demand.

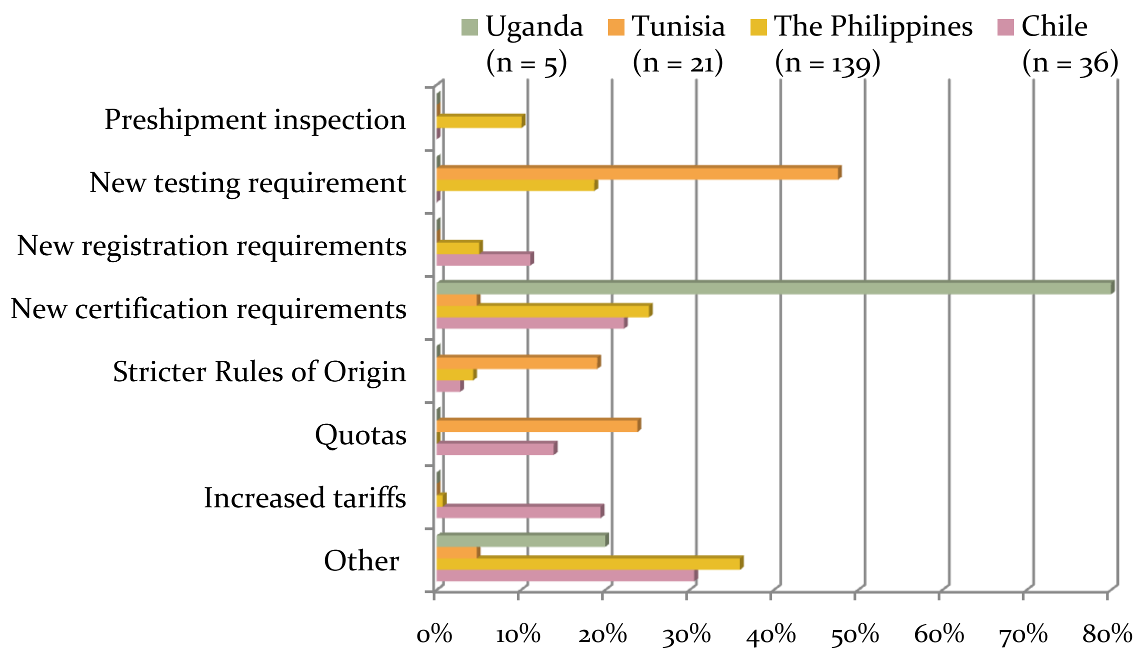
As expected, the figures on shrinking international demand reflect the export structure of the surveyed countries. Although a large share of world trade is occurring within global supply chains, some products are likely to be more affected by the changing demand than others. In general, consumers can reduce their purchases of cars and automotive components, electronics and textiles easier than that of foodstuff and other agricultural products, while producers keep importing fuels, minerals and other natural resources. Consequently, the business sector in countries like the Philippines, mainly exporting electronic equipment and machinery, seem to be more affected by decreasing demand, than countries like Uganda which mainly produces agricultural products. Tunisian companies are likely to be affected because they mainly export to the crisis hit France and other European countries.

With regard to a more difficult business environment, responses mention international and domestic business environment in almost equal proportion (12 and 11 percent respectively). When speaking about domestic business environment, the most prevalent concern for the companies is trade finance. The reports of the interviewed companies on a more restrictive international business environment can be linked to the new trade restrictive measures and existing measures implemented more vigorously by the partner countries as a result of the crisis.

The highest share of affected companies, according to the 2009 follow-up survey, is in the Philippines. Almost half of the firms interviewed in this country have experienced new trade restrictive measures that trading partners have introduced during the past sixth months. The partners, that introduced new measures, are most often countries in Asia, Northern America and Europe. The new measures reported in the follow-up survey in the Philippines are mostly related to certification requirements, testing requirements and pre-shipment inspection. However, the companies do not directly attribute these new restrictions to the crisis, yet comment that their impact has heightened. Furthermore, the distribution of the types of NTMs and partner countries does mirror the situation before the crisis which was captured during the initial survey in 2008.

Contrary to the Philippines, only few Ugandan companies report new trade restrictive measures (see Figure 4 below). However, when asked to provide a general comment on the current situation, Ugandan companies have suggested that the current financial crisis is impairing their ability to exports and imports. About a third of all interviewed companies are concerned about the dollar appreciation limiting their ability to produce since imports of raw materials were becoming too expensive. Other prevailing concerns include increased cost of local intermediates, delays in worker remittances, leading to reduced local demand, as well as delays in payments. Regarding the latter point, Uganda companies suggested that while before the crisis payment arrived in a lapse of time of 3-4 days since the financial crisis payment were made after 2-3 weeks.

Figure 4. Types of new restrictions that the partner countries implemented

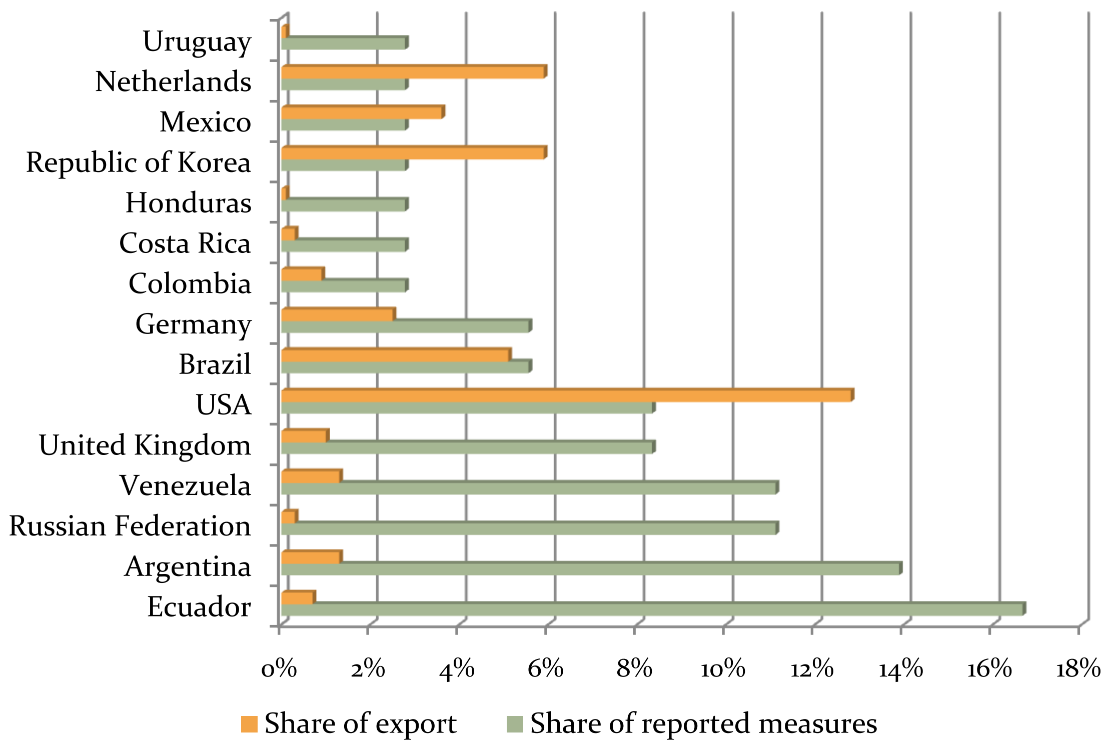


Data source: Follow-up surveys, 2009.

In Chile, companies reported 36 cases related to the new measures implemented by their partner countries. Albeit the number is limited, in a period of shrunken demand, single measures could have drastic effects on the ability of companies to survive during the crisis. Indeed, the companies indicate that demand on average has dropped by more than 30 percent. Most of the cases of new trade restrictive measures reported by Chilean companies during the follow-up survey involve NTMs, and in particular certification requirements. Some of these measures can be linked to the official information released by Chile's trading partners. For example, Annex 1 of the above mentioned report by Pascal Lamy contains a reference to non-automatic licensing requirements temporarily introduced by Argentina and covering textile, steel, metallurgical products and tyres. These requirements were also reported by one of the companies interviewed in Chile.

The analysis of trading partners shows that in the case of Chile almost two-thirds of all new measures have been implemented by importing countries in Latin America (see Figure 5 below). These findings are similar to the finding of the initial survey: intra-regional trade of Chile is more affected by non-tariff barriers than the trade with other regions. In the initial survey, companies also reported that they encountered most of the barriers when trading with United States, Japan and Russian Federation. United States and Russian Federation reappeared in the follow-up survey as countries that had initiated trade restrictive measures in the past six months. The magnitude of the cases reported by Chilean exporters on Russia, both in 2008 and 2009 surveys, is very high when juxtaposed to the share of Chilean total export value bound for Russia (0.3 percent).

Figure 5. Partner countries that introduced new trade restrictive measures, as reported by Chilean companies (n=36)



Data sources: Follow-up surveys 2009; ITC Trade Map 2007.

The impact of the depressed demand can be offset by trade facilitation and liberalization measures. However, only 12 percent of the surveyed companies in the Philippines and 8 percent each in Chile and in Tunisia reported that they had experienced such measures introduced by their home governments in reaction to the crisis. Nearly half of these measures in Chile and 80 percent in Tunisia referred to trade finance. In the Philippines, 8 percent of the responses were related to trade finance, while the majority credited their national government for helping them to "keep abreast with the latest regulations ahead of actual shipment". Contrary to the business sector in other countries, Ugandan companies reported that they had not benefited from any measures introduced to liberalize or facilitate trade. A possible explanation could be that a least developed country may not have enough means to introduce such measures.

Conclusion

From the perspective of the interviewed business sector, governments have not reverted to protectionist measures. Although several new measures have been reported in the survey, the majority of them cannot be directly attributed to the current crisis. However, the negative impact of existing NTMs on companies is greater than before the crisis, because the cost of compliance is fixed, but the volumes of trade are decreasing due to the shrinking demand. At the national level, trade facilitation measures can bring a strong positive impact, especially those related to trade finance and access to information. At the international level, the commitment not to use NTMs for protectionist aims and transparency of macroeconomic policy and data remain a priority.

Currently, governments and international financial institutions are launching new initiatives to support trade. The World Bank Group, for example, helps to reinforce the capacities of the regional and national financial institutions through its Global Trade Liquidity Program. Trade facilitation measures start to pay dividend albeit the reports of these new set of measures are not equally spread across companies surveyed, and much more still needs to be done, especially in developing and least developed countries.

References

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Data sources: International Trade Centre, Market Analysis Tools (Market Access Map and Trade Map), www.intracen.org/marketanalysis

Annex: Definitions of Non-Tariff Measures

Several most prevalent types of NTMs are mentioned in the article. Their definitions provided below are based on a new NTM classification prepared by a multi-agency team within the framework of UNCTAD's initiative on NTMs.

Technical measures to trade refer to product characteristics or their related process and production methods. These measures include packaging, marking, and labeling requirements as well as conformity assessment procedures.

Within the multilateral context, these measures are categorized into *technical barriers to trade* (TBT) and *sanitary and phytosanitary measures* (SPS), depending on the purpose of the measures.

SPS are designed to protect human, animal, and plant life or health from risks caused by pests, diseases, and disease-carrying or disease-causing organisms; and risks arising from additives, contaminants, toxins, or disease-causing organisms in foods, beverages, or feedstuffs. TBT are applied for the purpose of national security, protection of human safety, protection of the environment, and prevention of deceptive practices.

This article covers the following most reported sub-categories of technical measures:

- *Traceability requirements* relate to the measures on the disclosure of information concerning different stages of production process and distribution of a certain product, such as origin of materials used, processing history, and so on.
- *Labeling, marking, and packaging requirements:* Labeling is a requirement to provide certain information on products, or their production process, while marking is providing information that the product should carry for transport and customs purposes. Packaging requirements relate to the way products can be packed and to the packaging materials.
- *Testing requirements are conformity assessment procedures*, required by the importing country, that envisage verifying the conformity of the products to certain SPS or TBT regulations by testing or sampling.
- *Certification requirements* concern certification that is required by the importing country and is issued by either the importing or the exporting country; its purpose is to verify the conformity of products with certain conditions.

Pre-shipment inspection and other customs formalities include all the measures related to inspection of the products in the country of export before shipment as well as special customs formalities not related to TBT or SPS, for example, the requirement that a particular shipment pass through a specified port of customs.

Licenses, quotas, and other quantity control measures include the requirements on different forms of licensing, quotas, and prohibitions.

Charges, taxes, and other para-tariff measures include all the measures related to charges; taxes on imports that are not tariffs, such as internal taxes on imports; general sales taxes; excise taxes and charges; and decreed customs valuations.

Finance measures regulate the access to and cost of foreign exchange for imports and define the terms of payment, for example, advance payment requirement, multiple exchange rates, restrictive official foreign exchange allocation, regulations related to terms of payment for imports, transfer delays, and surrender requirements.