

Acceptance of open markets is of great importance. But there is a growing public concern about some aspects of trade liberalization that need to be carefully studied. For those who believe that global integration is reducing costs, it would not be wise to ignore these issues. Perhaps, the answer lies in the balance between open markets and complementary policies alongside international initiatives that better manage the risks posed by globalization. However, it's the best to draw conclusions through research reviews and thus analyze the results.



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# Globalization, Trade Liberalization and Business Dynamism



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## **CONTENTS**

### **CHAPTER I**

#### **GLOBALIZATION AND INTERNATIONAL TRADE .....3**

1. Balance of globalization costs and benefits .....	4
2. Composition of globalization and international trade .....	6
3. Detecting trade barriers and trade blocs .....	7
4. Conclusion .....	9
5. References .....	10

### **CHAPTER II**

#### **TRADE LIBERALIZATION AND ITS IMPLICATIONS FOR BUSINESS .. 11**

1. Economic import of trade facilitation measures .....	12
2. The impact from trade facilitation negotiations .....	13
3. A development perspective and Logistics Performance Index .....	14
4. Conclusion .....	17
5. References .....	19

### **CHAPTER III**

#### **WHY DO WE NEED TRADE LIBERALIZATION REFORMS?..... 21**

1. The importance of trade transparency .....	22
2. Factors that affect logistics performance .....	24
3. The need for rules and agreements for liberalized trade imperative for businesses .....	25
4. The importance of trade facilitation reforms .....	27
5. Trading across borders .....	30
6. Conclusion .....	33
7. References .....	34

**CHAPTER IV**  
**PRIVATE SECTOR EXPERIENCES AND OUTCOMES: IDENTIFYING**  
**NEEDS AND PRIORITIES OF TRADE LIBERALIZATION ..... 35**

1.	What are the main concerns of the private sector?.....	35
2.	Detecting problems in private sector relating trade liberalization .....	41
3.	What free trade policies create?.....	43
4.	Free trade fosters economic freedom .....	44
5.	Conclusion .....	46
6.	References.....	48

**CHAPTER V**  
**TRADE FACILITATION - FACTOR FOR BUSINESS DYNAMISM..... 49**

1.	What is the importance of trade costs in facilitating trade to be seen as factor for business promotion and dynamism?.....	50
2.	Trading on time and institutional barriers .....	51
4.	Trade liberalization in Macedonia.....	55
5.	Conclusion .....	61
6.	References.....	64

## CHAPTER III

### WHY DO WE NEED TRADE LIBERALIZATION REFORMS?

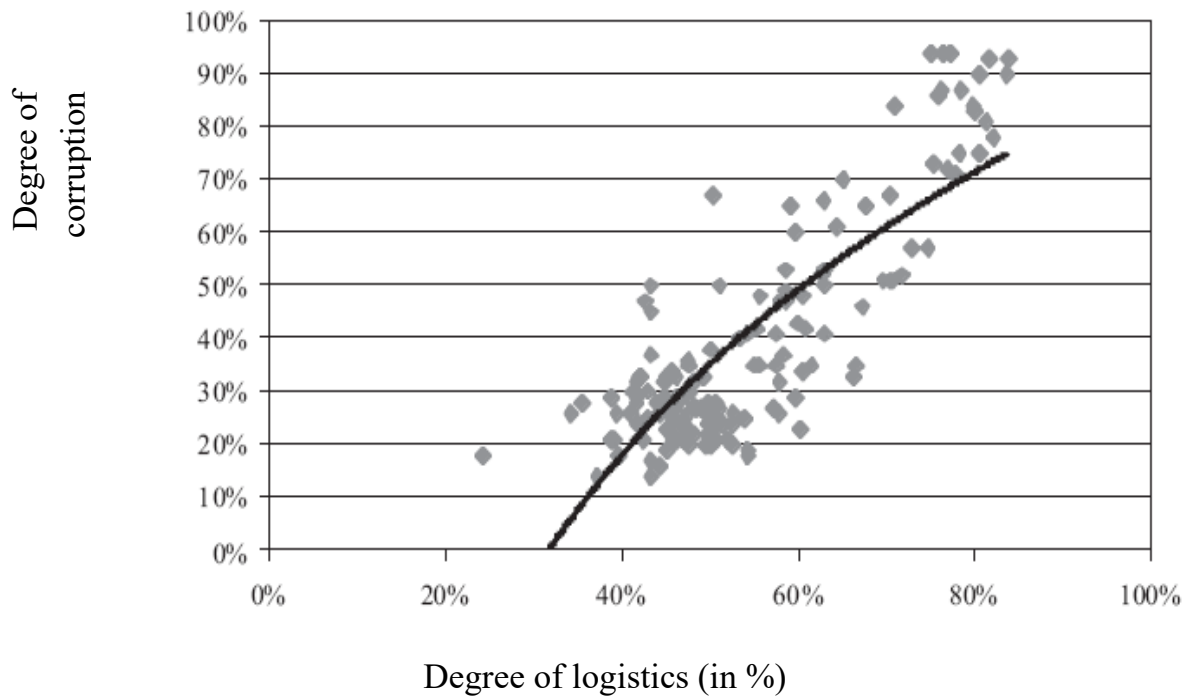
There is always interest for most effective measures in reducing transportation costs and time as well as increase the predictability of a growing supply chain. A lot of researches are needed to generate intuitive conclusions. Common problems for transport costs and reform entities are frequent reloading of goods, customs delays, complicated customs control procedures, complex and non-transparent administrative requirements, limited use of automation, and uncertainty about the application of legal documents such as a letter of credit.

A World Bank study of four broad areas of trade facilitation reform - the efficiency of borders, the customs environment, the legal framework, the use of e-business - considers that each of these reforms should be defined first. They took the APEC region as an example. The researchers designed an “entry (border) efficiency” criterion for measuring the quality of maritime and air infrastructure. They also designed a “customs environment” to measure direct customs costs and administrative transparency of customs and border crossings. This is followed by a “regulatory framework” as a measure of economic access to regulation and “e-business use” to measure the degree to which an economy needs in terms of domestic infrastructure, telecommunications, financial intermediaries, logistics companies and the use of network information for efficiency improvement and promoting economic activities.<sup>14</sup>

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<sup>14</sup> 2005. APEC model measures for trade facilitation in RTAs/FTAs , paper presented by Australia, APEC# 2005/CSOM/022. Busan, Republic of Korea.

**Figure 1. Correlation between LPI and corruption**



Source: World Bank

They assess the predictability of the use of factors such as: the percentage of tariff lines that are connected, the "stretch" of the applied tariff model, the absence of hidden trade barriers.

The simplicity of benchmarking is in the inclusion of policies, and factors such as reduction of documentary requirements, fewer border agencies, limitation of informal payments. An index of these factors is constructed. Using this index, APEC countries calculate and see how improved transparency increases their each below average and achieves an increase of 7.5% average or \$ 148 trillion. This percentage indicates increased intra trade, in this case, the trade of APEC countries.<sup>16</sup>

Quality management and corruption issues are equally important determinants of transaction costs, time and level of predictability, which in turn have implications for the business. In many countries, informal or "facilitative" customs clearance payments and other border guards remain superficial. Examples where such

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<sup>16</sup> <http://transparency.org/>.

payments are common practice and in countries where customs revenues account for a larger share of the state budget, hostility to trade facilitation reforms is a major obstacle.

Figure 1 shows a strong correlation between the level of corruption (measured by the transparent index of perceived corruption) and logistics performance (measured by the LPI). Countries where perceptions of corruption are lower are more likely to provide better logistics perceptions and a logistical environment. The main cost component related to the implementation of some trade facilitation measures may not be related to regulation, training, equipment costs, but with political costs.

Political costs are higher in low-income countries. High tariff barriers in low-income countries are reflected in the large share of import duties in their fiscal revenues. When the tariff account has a larger share of government revenue, there may be a systemic aversion to trade facilitation reforms.

## **2. Factors that affect logistics performance**

The most commonly identified factors influencing logistics performance are the quality of infrastructure, the competencies of logistics service providers, procedures at customs and other border agencies, the level of corruption and transparency, the security of the trading system and supply chains. The quality of logistics infrastructure especially for telecommunications and information technology infrastructure is important to consider. This is done when the company has to decide when and where to allocate, whether to hire suppliers from the country, or to enter a certain market. For countries with low LPI averages, the quality of transport infrastructure has been identified as a concern for logistics operators.<sup>17</sup>

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<sup>17</sup> Hausmann, W., H. Lee and U. Subramanian, 2005. Global logistics indicators, supply chain metrics and bilateral trade patterns , World Bank policy research working paper No. 3773. World Bank, Washington, D.C

Trade liberalization rules, including provisions aimed at ensuring transparency and setting minimum procedural standards, have been part of the multilateral trading system for many years. Articles V, VIII and X of the GATT deal with matters relating to freedom of carriage, duties and formalities relating to imports and exports, publication and administration of trade regulations. At a ministerial conference in Singapore in 1996, trade ministers agreed to add trade facilitation to the WTO agenda as a separate topic and the Commodity Council was instructed to "undertake research and analytical work ... to simplify trade procedures in order to change in this area through WTO rules ". Trade liberalization negotiations became part of the agenda of the Doha Round of negotiations in 2004, where the Commodity Council decided by consensus to start negotiations on the basis of the Trade Facilitation Negotiation Modalities (Annex D or the so-called "July Package"). The first and third sentences of the first paragraph of the 10-point annex set out the essential parameters for conversions:<sup>18</sup>

Negotiations will seek to clarify and improve the relevant aspects of Articles V, VIII and X of the GATT 1994 in order to speed up the movement, release and customs clearance of goods, including goods in transit. The negotiations aim to provide technical assistance and support for capacity building in this area. Furthermore, the aim is effective cooperation between customs or any other appropriate trade and customs facilitation body in accordance with the issues and concerns. The second sentence of the first paragraph and seven other paragraphs are concerned with capacity building issues and the "special and differential" treatment of developing countries. There is no doubt that some trade facilitation reforms are costly to undertake, but most — including what is provided in Annex D — are fairly modest. According to the focus of WTO trade, the goal is to improve border activities and non-adjustment. adjusting the plans for large infrastructure projects, the impact of which will certainly be seen by the business. A review of the first 50 proposals contained in the WTO Trade Facilitation Negotiating Group finds that

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<sup>18</sup> [http://www.wto.org/english/news\\_e/rta\\_july06\\_e.htm](http://www.wto.org/english/news_e/rta_july06_e.htm)

most trade facilitation measures do not incur start-up costs for government agencies in the short term. Once the measures are in place, the further financial burdens that will be used to maintain these measures are minimal. The introduction and implementation of trade facilitation will reduce government spending by improving transaction efficiency and transparency, eliminating bureaucratic functions, better economic allocation, and the reasonable and efficient use of administrative resources.<sup>19</sup>

Another example is the 2006 report by APEC. The cost and benefits of trade facilitation measures and their business implications have been assessed based on the Doha Round negotiations. He argues that there are not (or only a few) countries that would lose out on facilitating global trade. Developing countries will benefit most from the implementation of Trade Facilitation Measures (TFMs). It is important to emphasize that variations can be expected across countries, sectors and with different types of traders.<sup>20</sup>

#### **4. The importance of trade facilitation reforms**

Careful choices need to be made due to costly implications. This indicates the need of adjusting reforms. Therefore it is acceptable for the countries to adopt reforms tailored to their particular situation. Reforms that impose orders and are homogeneous are not accepted. With trade facilitation negotiations on the Doha agenda, countries are less likely to treat reform as a priority in their own interest. The stalemate in capacity building or trade assistance in the Doha negotiations requires rich countries to pay developing countries effectively for their reforms. This reinforces the perception of dependence and the prospect of endangerment by

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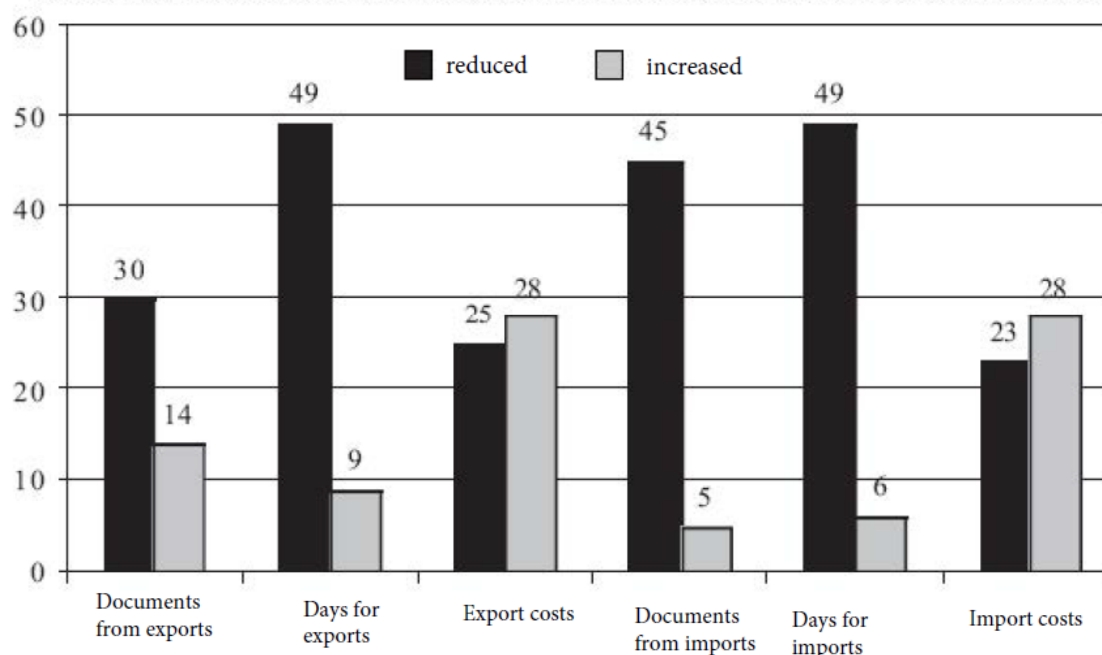
<sup>19</sup> Duval, Y., 2006. Cost and benefits of implementing trade facilitation measures under negotiations at the WTO: An exploratory survey , Asia-Pacific Research and Training Network on Trade Working Paper Series, No. 3. Bangkok, ESCAP.

<sup>20</sup> 2006. Assessing the potential benefit of trade facilitation: A global perspective , in Dee and Ferrantino (eds.), *Quantitative Methods for Assessing the Effects of Non-tariff Measures and Trade Facilitation*, pp. 121-160. Singapore, APEC Secretariat



In the spirit of the Doha Agreement, countries are already modernizing their customs procedures, investing in trade infrastructure, and adopting international best practices. Many developing countries have active programs to promote trade facilitation. They are usually financed from their own resources and from contributions from their own businesses. Businesses that have benefited from trade liberalization. A recent OECD report states that a number of developing countries, including the least developed countries, have become reform champions through the introduction of long-term single-window or single-window reform and audit after the customs clearance procedure.<sup>21</sup>

**Figure 2. Changes in indicators of trade liberalization, 2005 -2014**



Source: *Doing Business* database , [www.worldbank.org](http://www.worldbank.org)

<sup>21</sup> Chaturverdi,S. 2006. Selected trade facilitation measures: Implications for the WTO negotiations on trade facilitation, Working paper

in 2006. The revised Kyoto Convention reflects the obligations of its Contracting Parties to eliminate customs procedures that may complicate international trade, and to simplify and harmonize customs procedures without compromising the legitimacy of customs objectives.

## **6. Conclusion**

The principles promote the modernization, predictability, consistency and transparency of customs procedures and practices.

The revised Kyoto Convention is considered the modern facilitation of trade in the best way and serves as a schematic plan for reform in developing countries. Once trade is facilitated through this "schematic plan" it will mean benefits for the business.

Global trade continues to grow faster with world trade. It is imperative that governments embrace the experience of positioning their citizens to compete effectively in markets and with investment. Successful participation in the global economy will be increasingly determined by whether the country is highly skilled, has a secure trade infrastructure, whether competition is allowed to thrive in the logistics services industries, whether the legal environment is conducive to relative disputed commodity movements, and supply chain services. All countries can benefit from reforms and the continuous improvement of their trade processes and business climate. The types of reforms that move countries in the right direction do not require formal commitments and obligations to other countries. Trade facilitation is primary and important in the country's interest in improving welfare.

Trade facilitation is about overcoming all natural and human-made barriers in trade. Policymakers need to focus on their efforts to remove disputes and barriers outside the supply chain if they want successful addressing of economic and existential threats.

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