

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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## **CHAPTER IV**

### **PRIVATE SECTOR EXPERIENCES AND OUTCOMES: IDENTIFYING NEEDS AND PRIORITIES OF TRADE LIBERALIZATION**

Acceptance of open markets is of great importance. But there is 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.

One example is taken from research conducted by World Bank. It showed data on the main constraints that private sector is facing in terms of customs valuation. The customs restriction is firstly taken due to its highest percentage of concern. The presented results, the attitude expressed by the production companies and the agents from the customs are aggregated. Some private sector respondents are at the forefront of their industry organization and therefore are taken as a benchmark in drawing conclusions. That is the reason why most of them are talking about their individual capacity.

#### **1. What are the main concerns of the private sector?**

Researchers present several key concerns. Most of the private sector confirms that customs valuation remains a gray field in terms of all activities covered here. Importers are not punished only because they have decided to file an appeal against the determination of customs values by the Customs Department.<sup>25</sup> Also, after

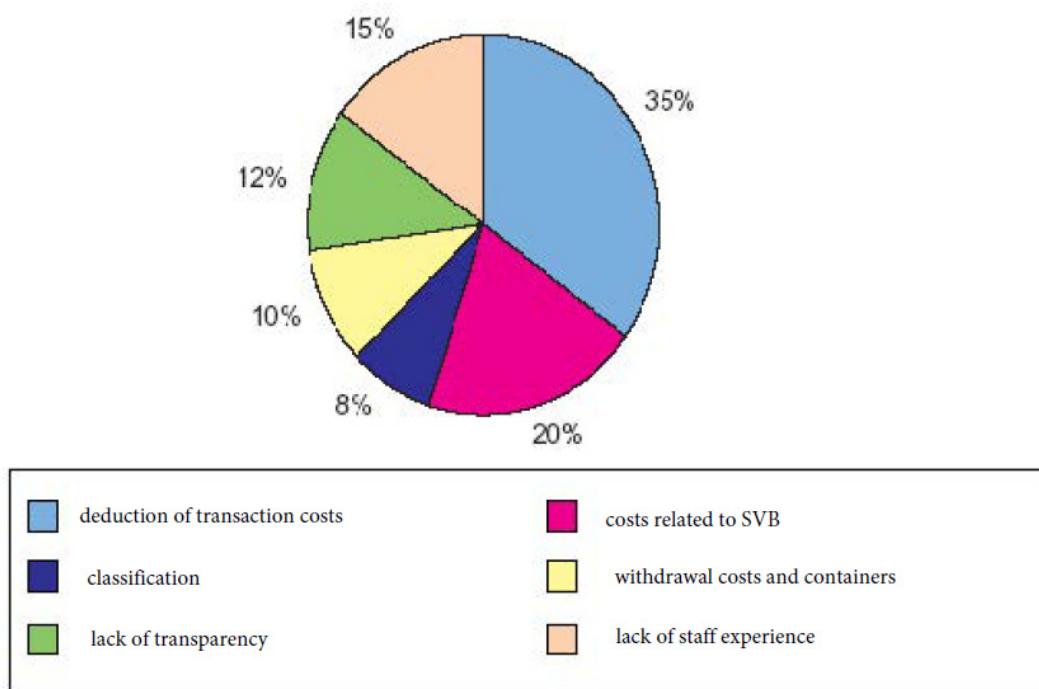
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<sup>25</sup> World Trade Organization, 2015. WTO negotiations on trade facilitation - TN/TF/W/43/Rev. 7. Geneva.

deducting the transaction value until the moment it is determined what will be the obligations for the agreed customs, the importing companies end up with huge duties due to exceeding the deadline by the custodians.

As it is shown in Figure 1, most respondents found that the rejection of the transaction value is the main limitation (35%), frequent cases of cases (20%), lack of field experience, lack of transparency (12%), imposition of taxes for overdraft of given deadlines (10%) and classification (8%).

***Figure 1. Main concerns about customs valuation***



***Frequent deductions of the transaction value are with the highest percentage.***

According to the interviews, the customs departments did not follow the hierarchy of valuation options in accordance with the Customs Valuation Rulebook. It was not possible to obtain data from the Customs Department to confirm such claims, but today with the growing number of such cases, with CESTAT they can be

***Import of low quality and used goods.*** Most of the surveyed private companies show imports of low quality and used goods which is the main limitation. It is considered a limitation due to the perceived extreme difficulty in convincing the Customs Department to choose a transaction value method. Usually, it is difficult to find identical or similar goods in a category when the rest and other goods are already imported. In such a case, customs officials reportedly prefer to use the withdrawal method. The recently amended Foreign Trade Procedure and Policy (2006-2007) allows the import of second-hand capital goods, but restricts the import of re-produced goods.

The definition of re-production is left to the Customs Department. As a wave of demand for overhauled goods comes, the lack of specification and clear definition can create more confusion. It is common for old machines to be dismantled and reassembled with some new components. They are then used as a replacement for old parts. This is left to the discretion of customs officials - to determine when the machine is redesigned.

***Limiting the problem*** is an identified need that supports trade facilitation. Many private sector companies are of the opinion that the added restrictive measures imposed by the Customs Department are mainly the result of wrongdoing by several traders who are responsible for 15 to 18% of the total trade transaction.

There is a clear view that these few traders should be distinguished from the rest. In this context, there may be room for some pre-customs and post-customs control. It has been suggested that production units may operate with post-audit control. In the case of traders, customs control should be stricter. The recent introduction of RMS is considered an important step in this direction.

***Customs assessment and transfer pricing.*** Several key industries consider it necessary to explore the possibility of convergence between customs valuation procedures and transfer pricing norms, a shortcoming most commonly found in India. With the rapid spread of intra-trading firms in there is a growing need to study

## 2. Detecting problems in private sector relating trade liberalization

It is important to understand how different sectors are affected by sub-factoring and what the implications of the consequences of such economic offenses are for customs revenue.

A survey conducted by the ARTNET Secretariat speaks about the perception of the public sector and key concerns.<sup>28</sup>

Private sector research shows views on the perception of the level of implementation of trade facilitation measures, and the ranking of their needs and priorities.

Firms as part of the private sector help identify key problems in the areas of trade facilitation through various surveys and research.

The main problems in these areas by the respondents are the following:

- a) customs valuation (19%)
- b) inspection and payment of goods (18%)
- c) tariff classification (16%)
- d) compliance with the approval documents (14%).

A study for ARTNeT related to trade liberalization in India shows that customs valuation is one of the areas that traders consider to be a highly challenging area.<sup>29</sup>

This research used a method based on a questionnaire prepared with the help of the ARTNET Secretariat. There are selected interviews with leading industrialists

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<sup>28</sup> Chaturvedi, S., 2006. An evaluation of the need and cost of selected trade facilitation measures : Implications for the WTO negotiations , ARTNeT Working Paper Series, No. 4, March.

<sup>29</sup> Rehman, S.K., 2006. *Implementation of WTO Customs Valuation Agreement in India*. Directorate of Valuation (mimeograph). Mumbai.

Other debates concerning private sector experiences and identifying the needs and priorities of trade liberalization rely on the Pew Global Attitudes Project. Namely, the anxiety that arises about the new challenges that come with globalization cannot be hidden. Since 2002, the Pew Global Attitudes Project has conducted millions of public opinion research series covering a wide range of trade-related debates. Its most recent survey was conducted in 2007 and is considered the most ambitious to date, covering more than 47 countries and 45,000 interviews. The countries surveyed are: mainly industrialized countries, such as the United States, Japan and Germany; emerging economies such as Brazil, China, India and Russia, and the least developed countries such as Ethiopia and Mali. In all 47 countries surveyed is found that the majority believed how international trade had benefited their countries. This view is accompanied by fears of destruction and the disadvantages of being part of the global economy.<sup>30</sup>

### **3. What free trade policies create?**

Today we are witnesses that free trade policies have created a level of competition in today's open market that engenders continual innovation and leads to better products, better-paying jobs, new markets, and increased savings and investment. Free trade enables more goods and services at lower prices, thereby substantially increasing their standard of living. Free trade helps to spread the value of freedom, reinforce the rule of law, and foster economic development in poor countries. The national debate over trade-related issues too often ignores these important benefits. In this way, one of the benefits is that free trade promotes innovation and competition. Access to a greater variety of goods and services is the purpose of trade. Free trade is the only type of truly fair trade because it offers consumers the most choices and the best opportunities to improve their standard of

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<sup>30</sup> Davis,D.,2007. The home market effect, trade and industrial structure, American Economic Review, vol. 88, No.5



productivity. Former centrally planned economies, which missed out on many of the benefits of global trade because of their politically imposed isolation from market economies, today aspire to tap into these benefits by reintegrating with the global trading system. But active participation in international trade also entails risks, particularly those associated with the strong competition in international markets. A country runs the risk that some of its industries, those that are less competitive and adaptable, will be forced out of business. Meanwhile, reliance on foreign suppliers may be considered unacceptable when it comes to industries with a significant role in national security. Many governments are determined to ensure the so-called food security of their countries, in case food imports are cut off during a war. In addition, governments of developing countries often argue that recently established industries require temporary protection until they become more competitive and less vulnerable to foreign competition. Thus governments often prohibit or reduce selected imports by introducing quotas, or make imports more expensive and less competitive by imposing tariffs. Such protectionist policies can be economically dangerous because they allow domestic producers to continue producing less efficiently and eventually lead to economic stagnation. Wherever possible, increasing the economic efficiency and international competitiveness of key industries should be considered as an alternative to protectionist policies. The costs and benefits of international trade also depend on factors such as the size of a country's domestic market, its natural resource endowment, and its location. Countries with large domestic markets generally trade less. At the same time, countries that are well endowed with a few natural resources, such as oil, tend to trade more.

## **5. Conclusion**

People are worried about inequality, threats to their culture, threats to the environment and threats posed by immigration. An interesting conclusion from the

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