

Chapter VI

Trade policy developments

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US\$

339.5

billion

The trade covered by import-restrictive measures recorded in the latest trade monitoring report (mid-October 2018 to mid-May 2019) is estimated at US\$ 339.5 billion. This is the second-highest figure on record after the US\$ 588.3 billion reported in the previous report (mid-October 2017 to mid-October 2018).



145

The number of WTO members who have completed the ratification process for the WTO's Trade Facilitation Agreement.



9%

The average tariff applied by WTO members in 2018, one percentage point lower than the level in 2008.



US\$

370.8

billion

Value of Aid for Trade disbursements over the past 10 years. Commitments totalled US\$ 499.6 billion over the same period.

Trade monitoring

A decade of WTO trade monitoring reports

The WTO trade monitoring exercise was initiated at the end of 2008 in the wake of the financial crisis. First and foremost a transparency exercise, it is intended to provide WTO members with regular updates on the latest trends in trade measures and important developments in trade-policy making. The reports provide increased transparency and predictability of the international trading environment to the benefit of policy-makers, traders and consumers. Accountability is assured through twice-yearly review of the reports by WTO members in meetings of the WTO's Trade Policy Review Body. The reports are purely factual and have no legal effect on the rights and obligations of WTO members.

A decade after the first trade monitoring report by the WTO was circulated, the international trading environment is characterized by increasing trade tensions. The WTO's latest Trade Monitoring Report, circulated on 8 July 2019,¹ provides evidence of continuing trade tensions, which are contributing to uncertainty in the international trade environment and the world economy. The report shows that the turbulence described in the previous report² has not subsided, with trade flows being hit by new trade restrictions at a historically high level.

Steep increase in trade coverage of import-restrictive measures

WTO members implemented 38 new trade-restrictive measures during the latest review period. While fewer measures were introduced than in previous periods, the scale of those measures is much increased in terms of their trade coverage and the level of tariffs imposed. Trade measures implemented by G20 economies accounted for the vast bulk of the trade covered by import-restrictive measures.

Out of the 38 new trade-restrictive measures recorded, more than 80 per cent were applied to imports. Tariff increases accounted for more than half of all import-restrictive measures, followed by a range of import bans, special safeguards and import taxes. With respect to exports, most of the measures taken were duties followed by bans and stricter customs procedures.

The trade coverage of the import-restrictive measures implemented during the latest review period was estimated at US\$ 339.5 billion. As shown in Chart 6.1, this is the second-highest figure on record, after the US\$ 588.3 billion reported in the previous period. Together, these two periods represent a dramatic spike in the trade coverage of import-restrictive measures.

The downward trend identified between mid-October 2014 and mid-October 2017 has been replaced with a steep increase in the trade coverage of import-restrictive measures. The trade coverage of new import-restrictive measures introduced by WTO members during this period was 44 per cent above the average since October 2012 when the reports started including trade coverage figures.

The main sectors targeted by import-restrictive measures were machinery and mechanical appliances (19.1 per cent), electrical machinery and parts thereof (15.6 per cent), precious metals (10.7 per cent) and prefabricated buildings and certain furniture (8.1 per cent).

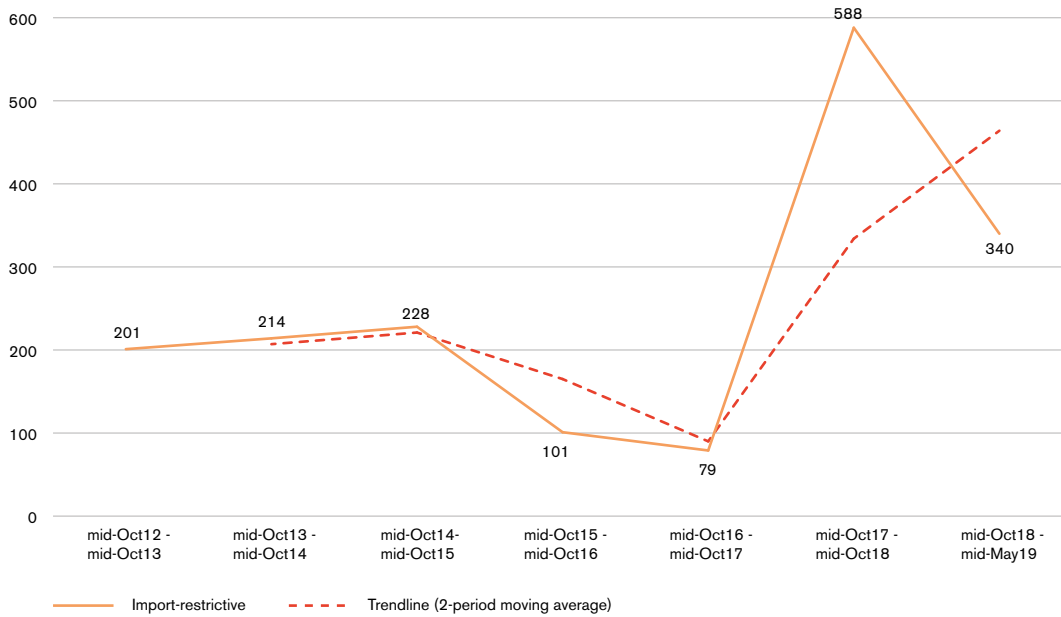
The report also notes that several significant trade-restrictive measures either will be implemented shortly or remain under review for potential later implementation, suggesting that the precarious situation in global trade will persist. Announced measures that have yet to be implemented will be covered by the annual overview to be circulated by the end of 2019.

¹ Document WT/TPR/OV/W/13, 8 July 2019.

² Document WT/TPR/OV/21, 27 November 2018.

Chart 6.1

Trade coverage of new import-restrictive measures in each reporting period (not cumulative)
(US\$ billion)



US\$ 339.5 billion

The trade coverage of import-restrictive measures implemented from mid-October 2018 to mid-May 2019, the second-highest figure on record.

Note: These figures are estimates and represent the trade coverage of the measures (i.e. annual imports of the products concerned from economies affected by the measures) introduced during each reporting period and not the impact of the trade measures. The chart provides a snapshot of the new measures introduced in each period, not the cumulative impact of the measures introduced over time.
Source: WTO Secretariat.

WTO members implemented 47 new measures aimed at facilitating trade during the latest review period. The reduction or elimination of import tariffs continued to make up most of the trade-facilitating measures followed by the reduction of import taxes and the simplification of customs procedures. On the export side, the elimination or simplification of customs procedures and the reduction of export duties are the most frequent measures recorded. The trade coverage of the import-facilitating measures implemented during this period was estimated at US\$ 398.2 billion. This is almost 3 per cent above the average since October 2012.

The sectors covered by most of the import-facilitating measures were machinery and mechanical appliances (15.6 per cent), electrical machinery and parts thereof (13.9 per cent), copper and articles thereof (8.9 per cent) and plastic and articles thereof (7.5 per cent).

For the first time since 2012, the number of terminations of trade remedy investigations by WTO members outpaced the number of initiations of trade remedy actions. The report recorded 16 trade remedy terminations per month and 14 trade remedy initiations, with the latter being the lowest

monthly average registered since 2012. Initiations of anti-dumping investigations continue to be the most frequent trade remedy action, accounting for three-quarters of all initiations. The trade coverage of trade remedy initiations recorded in the report was estimated at US\$ 20.2 billion while the total for trade remedy terminations was US\$ 16.4 billion.

Trade remedy actions covered a wide range of products, including initiations of investigations into prefabricated buildings and certain furniture (29.2 per cent), products of iron and steel (21.4 per cent), iron and steel (11.3 per cent), machinery and mechanical appliances (9.7 per cent) and cereals (6.4 per cent).

Information on trade measures included in the trade monitoring reports is either submitted by WTO members and observers or collected from other official and public sources. The information assembled is verified by the members concerned. In the latest report, information was submitted by 69 members (counting the European Union and its member states separately), which represents 42 per cent of the WTO's membership and 90.5 per cent of world imports. One observer also replied to the request for information.

Trade Facilitation Agreement

Implementation of the WTO's Trade Facilitation Agreement continues to make progress

Over the past year, the WTO has received several additional acceptance instruments relating to the Trade Facilitation Agreement (TFA), which aims to expedite the movement of goods across borders. The Agreement entered into force in February 2017 after two-thirds of WTO members had completed their domestic ratification process.

As of end-June 2019, 145 WTO members had submitted their instruments of acceptance, constituting 88.4 per cent of all WTO members (see Chart 6.2).

Chart 6.2

Status of ratification of the WTO Trade Facilitation Agreement, December 2014 to July 2019

(number of ratifications)



88%

Over 88% of WTO members have completed their ratification process relating to the Trade Facilitation Agreement.

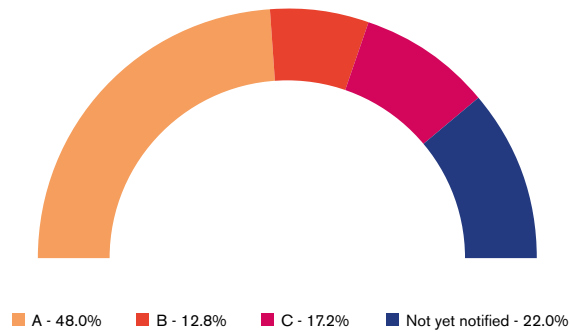
Source: Trade Facilitation Agreement Database www.tfadatabase.org.

WTO members' notifications outline implementation plans

Positive developments were also recorded with respect to the notifications in which developing and least-developed countries inform the WTO of their implementation plans for the Trade Facilitation Agreement. These help to form a roadmap of when the Agreement will be fully applied. Developed countries were required to implement all provisions immediately. The Agreement is expected to reduce trade costs by 14 per cent once it is fully implemented.

By end-June 2019, a total of 114 members had submitted "category A" designations indicating the provisions of the Agreement they commit to implement immediately. A total of 77 members had submitted "category B" designations, identifying the provisions that will require additional implementation time. Sixty-five members had submitted "category C" designations, indicating where they will need additional time and capacity-building support to implement certain provisions (see Chart 6.3).

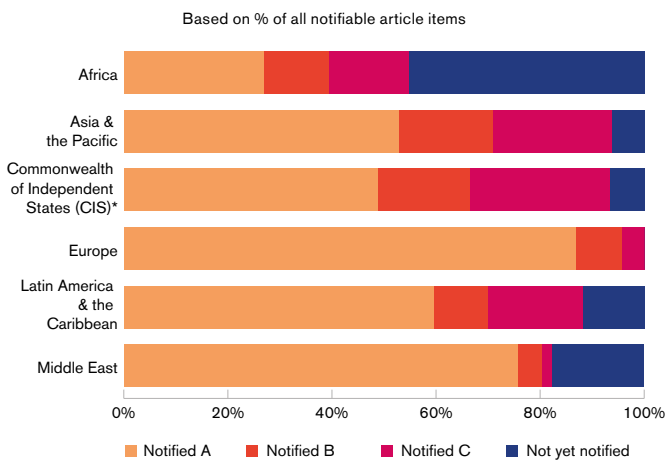
Chart 6.3
Global share of categories A, B and C notifications, May 2014 to July 2019
(Percentage share)



Almost half of all category designations submitted by WTO members have indicated immediate implementation of TFA provisions.

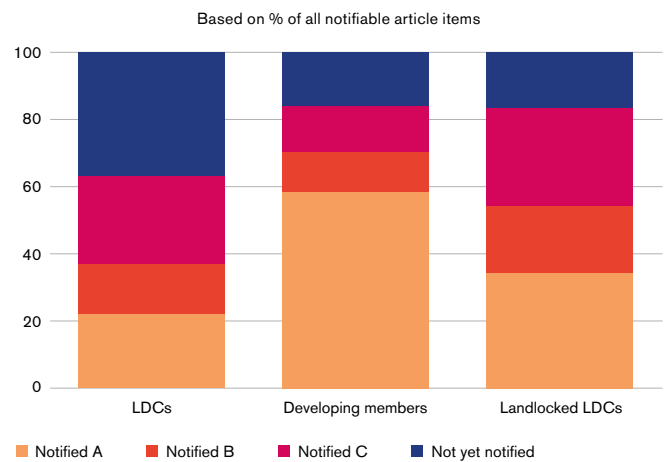
Note: For the purpose of the analysis, the Agreement's 12 notifiable articles were broken down into 36 measures and their corresponding 238 notifiable article items.
Source: Trade Facilitation Agreement Database www.tfadatabase.org.

Chart 6.4
Share of categories A, B, C notifications by region, May 2014 to July 2019
(Percentage share)



*Including associate and former member states
Source: Trade Facilitation Agreement Database www.tfadatabase.org.
Note: For the purpose of the analysis, the Agreement's 12 notifiable articles were broken down into 36 measures and their corresponding 238 notifiable article items.

Chart 6.5
Share of categories A, B, C notifications by groups, May 2014 to July 2019
(Percentage share)



Source: Trade Facilitation Agreement Database www.tfadatabase.org.
Note: For the purpose of the analysis, the Agreement's 12 notifiable articles were broken down into 36 measures and their corresponding 238 notifiable article items. Developing members exclude LDCs.

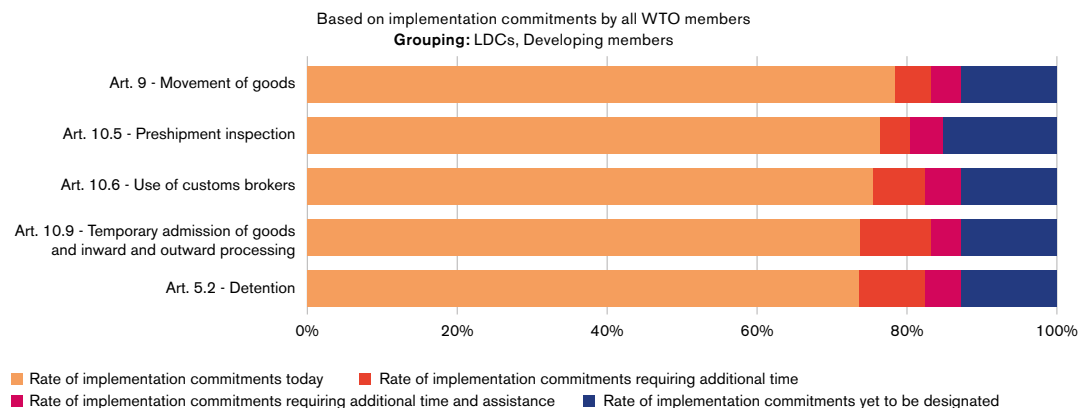
Implementation commitments received from over 62 per cent of members

As of end-June 2019, the WTO had received implementation commitments from 62.5 per cent of WTO members. This comprises a 100 per cent commitment from developed

members, 62.4% for developing countries and 24.9% for least-developed countries (LDCs).

Chart 6.6

TFA provisions with the highest implementation rate, May 2014 to July 2019



9
TFA Article 9 (the movement of goods intended for import under customs control) is the provision with the highest level of commitments for immediate implementation by WTO members.

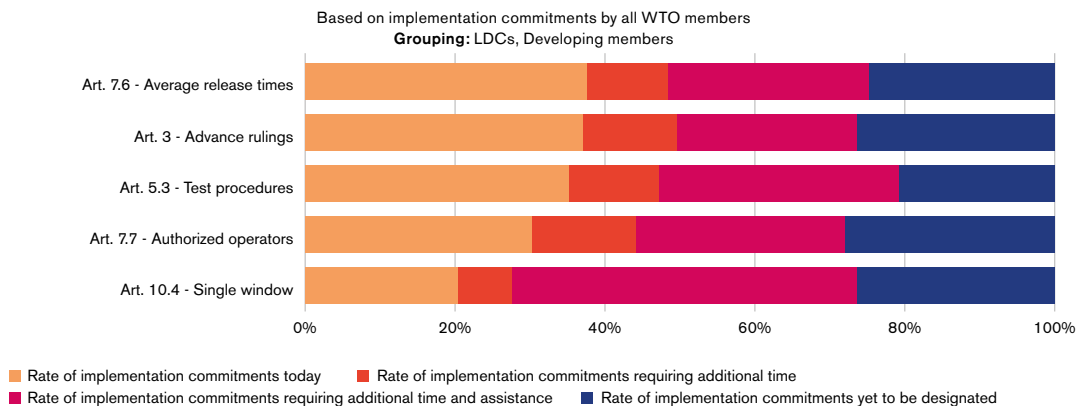
Source: Trade Facilitation Agreement Database www.tfadatabase.org.
Note: The "rate of implementation commitments today" comprises category A commitments as well as category B and C commitments with implementation dates that have already passed.

In terms of implementation commitments by developing countries and LDCs, the five TFA provisions with the highest implementation rate are: Article 9 (movement of goods under

customs control), Article 10.5 (pre-shipment inspection), Article 10.6 (customs brokers), Article 5.2 (detention) and Article 10.9 (temporary admission of goods – see Chart 6.6).

Chart 6.7

TFA provisions with the lowest implementation rates,³ May 2014 to July 2019



10.4
Article 10.4 of the TFA, calling for the establishment of a "single window" for submitting information, has the lowest commitment rate for implementation.

Source: Trade Facilitation Agreement Database www.tfadatabase.org.

The five TFA provisions with the lowest levels of commitment are Article 7.6 (average release times), Article 3 (advance rulings),

Article 5.3 (test procedures), Article 7.7 (authorised operators) and Article 10.4 (single window – see Chart 6.7).

Notifications on transparency and technical assistance are on the rise

The past year has seen an increase in transparency notifications mandated under the TFA. By end-June 2019, 76 members had provided notifications under Article 1.4 (publication), 62 under Article 10.4.3 (operation of single window), 75 under Article 10.6.2 (use of customs brokers) and 68 under Article 12.2.2 (customs cooperation) – a noticeable increase compared with the previous year.

Notifications on technical assistance and capacity-building support have also increased. By the end of June 2019, 15 members had informed the WTO of their aid-giving activities (Article 22.1) and eight had provided information on the process for obtaining their assistance (Article 22.2). Ten developing and least-developed countries had provided information on contact points for coordinating the receipt of support (Article 22.3).

³ The "rate of implementation commitments today" comprises category A notifications as well as any category B and C notifications with implementation dates that have already passed.

Applied tariffs

World tariffs continue to decline steadily

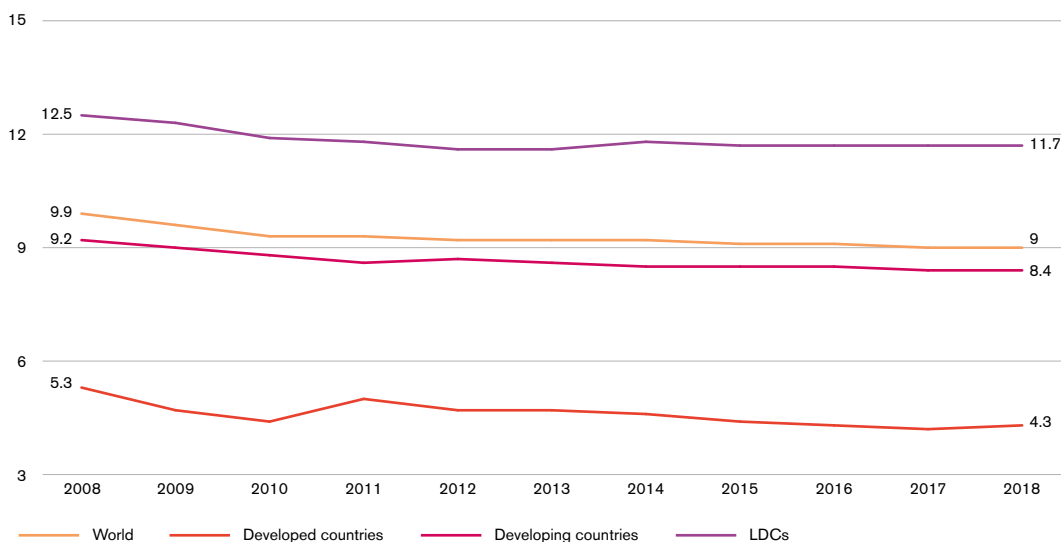
World most-favoured-nation (MFN) tariffs have declined over the past ten years but at a very moderate rate (see Chart 6.8). Most-favoured-nation treatment is the principle of not discriminating between one's trading partners and applying a common tariff to imports from other WTO members. Most of the recently announced tariff increases have been on a bilateral basis between specific trading partners and not at the global level.

The world average applied tariff in 2018 was approximately 9 per cent, a one percentage point reduction from the level in 2008. This gradual decline is evident for developed, developing and least-developed countries.

The magnitude of market access protection in terms of MFN tariffs is inversely correlated to development status, as shown in Chart 6.8. In other words, developed countries have lower tariffs compared with least-developed countries (LDCs), which have the highest applied MFN rates. The dip in average tariffs applied by developed countries in 2009-2010 was mainly due to changes in commodity prices, which were reflected in ad valorem equivalents (a tariff measured as a percentage of the price of the product) in the tariff schedules of developed countries.

Chart 6.8

Applied MFN tariffs, 2008-2018



Source: WTO Integrated Database (IDB).

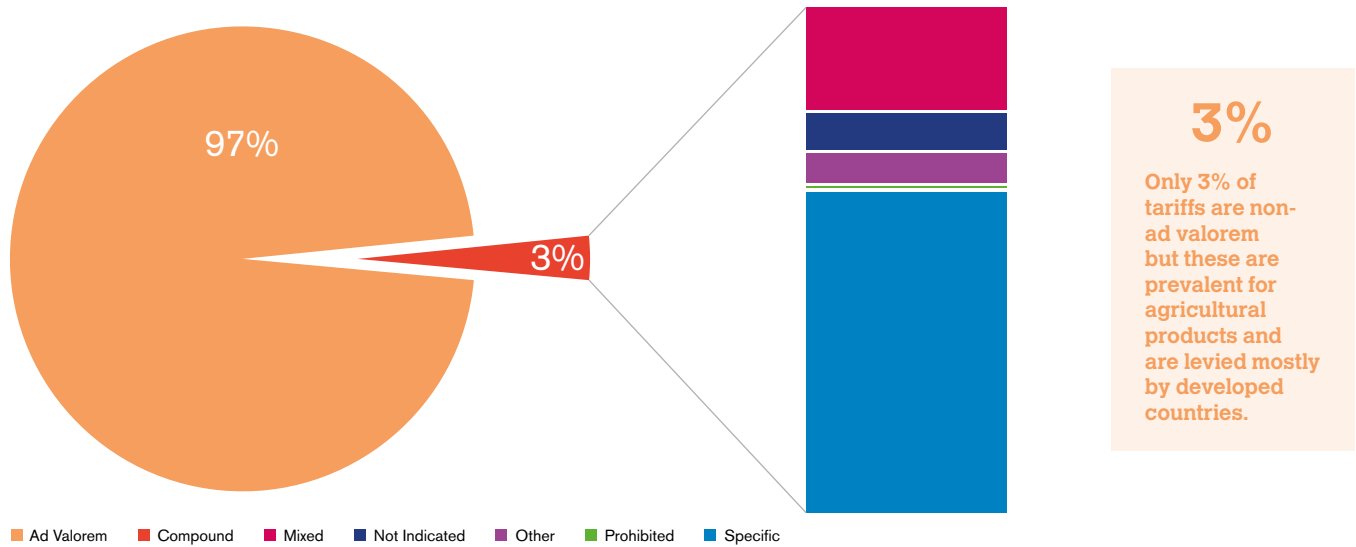
1
Average world MFN tariffs have declined by one percentage point since 2008.

Transparency about the amount of duty to be paid at the border is improved when tariffs are expressed in ad valorem (percentage of the price) terms. Negotiations to convert non-ad valorem tariffs to AV tariffs are currently being pursued by WTO members.

Of currently applied tariffs, 97 per cent are AV while the remaining 3 per cent are non-AV (see Chart 6.9).

However, for developed countries, the proportion of non-AV tariffs – which are mostly for agricultural products – is far higher, at 12 per cent, compared with other country groups. AV tariffs are therefore affected by changes in the price of imports. Generally, for specific duties, the AV tariff increases when the price of the product falls and the AV decreases as the product becomes more expensive.

Chart 6.9
Types of tariffs, 2018



Source: WTO Integrated Database (IDB).

WTO members account for 98 per cent of world imports, excluding trade within the European Union. For these importers, the level of MFN tariff that they apply at the border reflects the schedule of commitments negotiated during the member's WTO accession. These tariffs are not allowed to breach the maximum or "bound" duty agreed for each import.

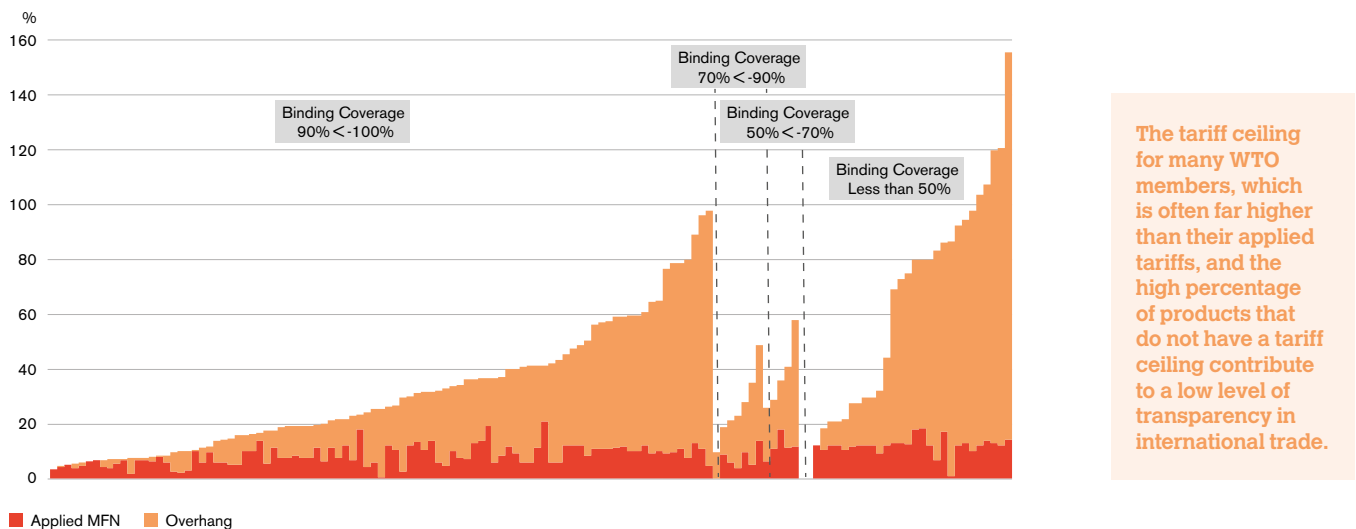
The difference between the applied MFN tariff and the bound duty is referred to in WTO jargon as binding overhang, policy space or "water" in tariffs. Since the bound levels are already fixed, the binding overhang varies depending upon the level of applied tariffs at any given year. Another important indicator is the "binding coverage", the percentage of products that have a tariff binding or a legal maximum.

Chart 6.10 shows applied MFN tariffs and binding overhang for all WTO members, shown in four groups based on their

level of binding coverage. The most open commitments are made by those with full or 100 per cent binding coverage and a very low level of bound duty, with zero or minimum binding overhang (shown on the extreme left of the chart). These members have low tariffs, which cannot go any higher because of their WTO commitments. In contrast, those members shown on the extreme right of the chart have a tariff binding for only a few products and relatively high tariff rates, resulting in an extensive binding overhang. With the flexibility to increase their tariffs at any time without violating their WTO commitments, market access to these markets is more limited and very unpredictable.

Tariff negotiations at the WTO mostly focus on reducing members' binding overhang and increasing their binding coverage to increase transparency and to create better market access.

Chart 6.10
Applied duty and binding overhang of WTO members, by level of binding coverage



Source: WTO Integrated Database (IDB)

The tariff ceiling for many WTO members, which is often far higher than their applied tariffs, and the high percentage of products that do not have a tariff ceiling contribute to a low level of transparency in international trade.

Aid for Trade

Aid for Trade disbursements over the past ten years amount to US\$ 370.8 billion

In 2017, the latest year for which data is available, Aid for Trade disbursements reached US\$ 43.1 billion. This is a 102 per cent increase on the US\$ 21.3 billion disbursed in 2007. Total disbursements over the past ten years amount to US\$ 370.8 billion.

Fifty per cent of disbursements supported economic infrastructure projects and 42 per cent were devoted to building productive capacity. The remaining disbursements were directed primarily to supporting trade policy making and regulations. Asia and Africa remain the main recipients of funding (see Chart 6.11).

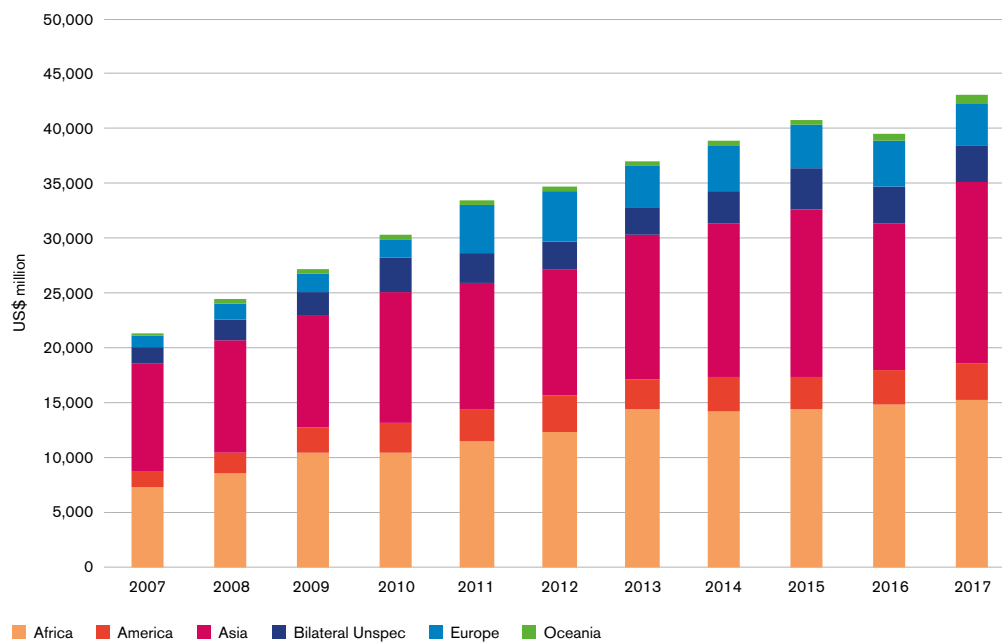
The Aid for Trade Initiative aims to help developing economies use trade as a means of achieving economic growth and alleviating poverty. The initiative supports the integration of

developing economies – and particularly least-developed countries – into the multilateral trading system by mobilizing international resources to address the constraints experienced by these countries. One of the key aims of the initiative is to enhance the capacity of developing economies to trade and to take advantage of market access opportunities.

The 2018-2019 Aid for Trade Work Programme on “Supporting Economic Diversification and Empowerment for Inclusive, Sustainable Development through Aid for Trade” seeks to further develop analysis of how Aid for Trade can contribute to economic diversification and empowerment with a focus on eliminating extreme poverty, particularly through the effective participation of women, young people, small businesses and rural populations.

Chart 6.11

Aid for Trade disbursements by region, 2007-2017
(US\$ million, constant 2017 prices)



Source: OECD database.

**US\$
43.1
billion**

Total disbursements in 2017, including US\$ 14.9 billion to Asia and US\$ 13.9 billion to Africa.

Trade finance

A large gap exists between supply and demand for trade finance

Trade finance plays an indispensable role in oiling the wheels of trade. It is vital because exporters wish to be paid when goods are shipped while importers do not want to pay before they receive the merchandise. This can be a major problem in view of the fact that cargos from Europe to Asia may take up to 80 days. Financial institutions can help to bridge the gap between importers and exporters by providing payment solutions while taking the credit risk. Very little international trade is actually paid as cash in advance. The trade finance market is therefore sizable as the vast majority of the US\$ 23 trillion worth of goods require a loan, payment guarantee or credit insurance to cross borders.

Exporters and importers from least-developed countries tend to pay very high fees, which increase their costs of trade while traders from developed countries benefit from low interest rates and fees provided by international banks. According to the Bank for International Settlements, trade finance markets have been relatively concentrated with around 30 to 40 international banks operating global networks of distribution that allow them to supply trade finance almost anywhere around the world.

Since the end of the financial crisis of 2008-2009, global banks have reduced their international networks of “correspondent banking relationships” which linked them with thousands of developing countries’ banks and allowed them to confirm letters of credit and receive trade payments from all over the world. According to the Financial Stability Board, about 200,000 of these relationships have disappeared out of a pre-crisis total of about 1 million. The number of relationships has declined for a number of reasons, ranging from the need to reduce costs to the challenge of complying with new international regulations that require a full upgrading of their due diligence over counterparty banks. This “de-risking” by global banks means that some parts of the world have become virtually isolated from the international financial system.

Small countries in the Pacific, the Caribbean and Africa now have only a handful of correspondent banking relationship and face severe challenges in obtaining confirmation of letters of credit. The large gap that now exists between supply and demand for trade finance is affecting poorer countries and smaller companies in particular, according to an annual survey of the Asian Development Bank (ADB).

In many developing countries and most of the poorest countries, alternatives to bank financing are scarce. When financing requests are rejected by banks, trade transactions are abandoned, the ADB study says, with 60 per cent of trade finance requests by small and medium-sized enterprises (SMEs) being rejected. This persistent trade finance gap represents a significant barrier to trade and for the global integration of developing countries through trade. According to the World Economic Forum, lack of trade finance represents one of the top three obstacles for exporters for half of the countries in the world.

In 2016, WTO Director-General Roberto Azevêdo launched a publication entitled “Trade Finance and SMEs – Bridging the Gap in Provision”. The publication highlighted potential steps to this end, including enhancing trade finance facilitation programmes by multilateral development banks, developing capacity-building to train professionals in local banking sectors on handling trade finance instruments and opening up a dialogue with trade finance regulators to take account of new financial regulations.

Since then, DG Azevêdo has worked with the heads of other international organizations to put these recommendations into practice. In June 2018, he announced to WTO members that multilateral development banks had stepped up their financing or guarantees for trade finance in the poorest parts in the world from US\$ 22 billion in 2016 to about US\$ 30 billion in 2018. The increased support has mainly benefitted SME traders. The Asian Development Bank alone supported trade transactions involving 3,500 SMEs in 2018.

To address knowledge gaps in local financial institutions, multilateral development banks and the WTO have been working with the International Chamber of Commerce to provide on-site training and e-learning opportunities. Over 1,000 have been trained annually, reaching 2,000 individuals in 2017 across 85 countries.

In addition, DG Azevêdo and the CEO of the International Financial Corporation (World Bank Group), Philippe Le Houérou, have opened a dialogue with international regulators aimed at addressing some regulatory issues.

In October 2018, DG Azevêdo and CEO Le Houérou co-hosted a session on financial inclusion in trade at the annual meeting of the International Monetary Fund and the World Bank in Bali, Indonesia. The meeting brought together the heads of partner institutions, such as multilateral development banks and regulators, to maintain momentum on addressing the trade finance gap. DG Azevêdo emphasized that the issue will require WTO members and international organizations to continue working together to achieve results.

In July 2019, the WTO and IFC launched a new report showcasing international cooperation in addressing the trade finance gap. "Trade Finance and the Compliance Challenge: A Showcase of International Cooperation" underscores the vast trade finance gap of US\$ 1.5 trillion that currently exists and looks into the reasons for the growing reluctance of the global financial sector to engage in trade financing. It highlights the challenge of regulatory compliance and the efforts made by international organizations, such as the WTO and the IFC, to address the issue. Case studies describe the capacity-building projects undertaken with multilateral development banks to help improve the availability of trade finance. The publication was launched by DG Azevêdo and CEO Le Houérou at the Aid for Trade Global Review at the WTO's headquarters.

