



## "Lowering Hurdles for Trade: Trade Costs, Regulatory Convergence and Regional Integration"

July 19, Tuesday, 11:30-13:00

TSAVO 2, Kenyatta International Conference Centre, Nairobi

### THE EVENT

Domestic regulations and international standards are principally used to achieve legitimate non-trade objectives. However, compliance with these measures is likely to affect production and eventually trade costs significantly.

This roundtable explores how to lessen these effects and discusses possible actions and their coherence at the national, regional and multilateral level. Simplifying and enhancing the transparency of procedural and regulatory requirements, coordinating the design process to achieve regulatory coherence and convergence, promoting international standards, and helping firms to comply with the requirements are among those policies. Speakers from governments, private sector and relevant organizations will focus in particular on the potential of regional integration to reduce trade costs associated with standards and regulations. Lowering these hurdles for international trade can help firms from developing countries be winners from trade and catalysts for sustainable development.

### BACKGROUND

#### *Trade costs matter*

A large number of empirical studies and surveys document the importance of trade costs as a factor determining the competitiveness of developing country-based enterprises and national trade performance. This includes not only export values but also participation in international production networks and diversification into new products and new markets. Strikingly, most trade cost components have fallen for all groups of countries but more slowly in low-income countries. Transaction costs remain higher for countries with lower levels of per capita income. As a consequence, these countries may not have been able to take up crucial trade, production and development opportunities.

Trade transaction costs consist of two broad categories. The first category encompasses exogenous factors such as geographic distance. The second category includes endogenous trade costs that are a direct consequence of policy choices. Standard trade policy instruments such as tariffs have been for a long time at the core of policy actions at both the multilateral and regional level. Though overall results are mixed, the scope for further significant tariff liberalization has shrunk in most countries and most sectors.

The Trade Facilitation Agreement recently concluded by WTO members contains provisions on expediting customs procedures and cooperation between customs and other relevant authorities and is expected to reduce transaction trade costs. This is important and good news. However, it does not address another, probably even more important trade cost component.

### *NTMs, the new frontier*

The new frontier for trade policy has therefore shifted towards Non-Tariff Measures (NTMs, see Box) and in particular technical regulations (sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBTs)). While these policy instruments are not new, work of UNCTAD has been pioneering in mapping them systematically and quantifying their incidence globally. Technical regulations have become core determinants of market access opportunities especially for firms in developing countries. UNCTAD research has shown that low-income countries exports of agricultural goods to EU markets are disproportionately negatively affected by SPS measures. The result is consistent with the hypothesis that since market access is increasingly determined by capability to comply with the regulatory framework countries at a lower level of development find themselves outcompeted by exporters who operate in countries where the costs of compliance with product standards are lower. Another recent UNCTAD research on Peruvian export firms has shown that technical regulations tend to push small firms away from world markets and leave the largest shares of exports to large multinational firms, further strengthening their global influence.

Technical regulations and standards have primarily non-trade objectives, such as public health and safety, and protecting the environment. While NTMs may impede trade, they are important instruments to achieve sustainable development. Thus, they cannot, like tariffs, be reduced or eliminated in negotiations. However, a coordinated and coherent implementation of technical regulations at the regional and international level is desirable. Transparency and international cooperation are necessary to reduce the hurdles NTMs represent for small, developing-country exporters.

## KEY MESSAGES

1. Technical regulations are the new permanent frontier for trade policy as, by serving non-trade related primary purposes they cannot be readily abolished like tariffs.
2. More assistance should be devoted to help small developing-country exporters to cope with technical regulations, which may be costly to comply with but can offer new market access opportunities.
3. Intensified multilateral efforts and cooperation, particularly by simplifying and enhancing the transparency of procedural and regulatory requirements, will help reduce the trade hurdles associated with NTMs.

## REFERENCES

### *Research and Analysis*

Several research studies and policy reports dealing with NTMs related issues have been published by UNCTAD and can be downloaded at <http://unctad.org/en/Pages/DITC/Trade-Analysis.aspx>.

### *Data*

UNCTAD, the African Development Bank (AfDB), the International Trade Centre (ITC) and the World Bank form the Transparency in Trade (TNT) Initiative, which aims to facilitate collection of tariffs and non-tariff measures (NTM) and other trade data, and to provide free and open access the data collected. Key elements include open access to the following NTM-related resources:

- The Integrated Trade Intelligence Portal for NTMs based on official data [<http://www.i-tip.org>]
- The World Integrated Trade Solution (WITS) [<http://wits.worldbank.org>]
- Multi-Agency Support Team (MAST, comprising UNCTAD and 7 other international organizations) taxonomy of Non-tariff measures (NTMs) available at [<http://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-Classification.aspx>]

### FOR MORE INFORMATION

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