



KEY STATISTICS AND TRENDS

in Trade Policy 2014



NOTE

Key Statistics and Trends in Trade Policy 2014 is a second annual edition of the study initiated in 2013. It is a product of the Trade Analysis Branch (TAB), Division on International Trade in Goods and Services, and Commodities (DITC), UNCTAD Secretariat. This study is part of a larger effort by UNCTAD to analyze trade-related issues of particular importance to developing countries, as requested by the Doha Mandate of UNCTAD XIII. This study was prepared by Alessandro Nicita and Alain McLaren.

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GLOSSARY

- Anti-dumping:** A trade policy instrument within the WTO framework to rectify the situation arising out of the dumping of goods and its trade distortive effect
- Applied Tariff:** The actual tariff rate in effect at a country's border
- Binding Overhang:** The extent to which a country's WTO bound tariff rate exceeds its applied rate
- Bound Tariff Line:** See tariff binding
- Countervailing Duty:** A tariff designed to counteract the effect of export subsidies
- Coverage Ratio:** The percentage of trade affected by a measure or set of measures
- Currency Appreciation:** An increase in the value of a country's currency on the exchange market
- Currency Depreciation:** A fall in the value of a country's currency on the exchange market
- Currency Misalignment:** An index measuring the divergence of the exchange rate from its long term equilibrium
- Currency Overvaluation:** See currency misalignment
- Currency Undervaluation:** See currency misalignment
- Deep Trade Agreements:** Agreements that include provisions that go beyond reciprocal reductions of tariffs
- Duty-Free:** Not subject to import tariffs
- Effective Exchange Rate:** An index of a currency's value relative to a group of other currencies
- Exchange Rate Volatility:** The tendency for currencies to appreciate or depreciate in value within a period
- Export Restrictiveness:** The average level of tariff restrictions imposed on a country's exports as measured by the MA-TTRI
- Frequency Index:** The percentage of tariff lines covered by a measures or set of measures
- GDP:** Gross domestic product
- Harmonized System:** An international system for classifying goods in international trade
- HS:** See harmonized system
- Import Restrictiveness:** The average level of tariff restrictions on imports as measured by the TTRI
- LDC:** Least developed country
- MA-TTRI:** An index measuring the average level of tariff restrictions imposed on exports
- MFN Tariff:** The tariff level that a member of the GATT/WTO charges on a good to other members
- Nominal Exchange Rate:** The actual rate at which currencies are exchanged on the exchange market
- Non-Tariff Measure:** Any policy that alters the conditions of international trade, but tariffs
- Non-Technical NTM:** Non-tariff measures other than SPS or TBT
- NTM:** See non-tariff measure
- Preferential Schemes:** An arrangement under which countries levy lower (or zero) tariffs against imports from members than outsiders
- PTA:** Preferential trade agreement
- Real Effective Exchange Rate:** The effective exchange rate adjusted for the rate of inflation
- REER:** See real effective exchange rate
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Relative Preferential Margin: A measure of the preferential margin for a given country relative to foreign competitors

RPM: See relative preferential margin

Safeguard: A WTO compliant import protection policy that permits restricting imports if they cause injury to domestic industry

SPS: Sanitary and phytosanitary measures

Tariff Binding: A commitment, under the GATT, by a country not to raise the tariff on an item above the specified bound

Tariff Escalation: Higher tariffs on processed goods than raw materials from which they are produced

Tariff Line: A single item in a country's tariff schedule

Tariff Overhang: See binding overhang

Tariff Peak: A single tariff or a small group of tariffs that are particularly high

Tariff Trade Restrictiveness Index: An index measuring the average level of tariff restrictions imposed on imports

Tariff Water: The extent to which a country's WTO bound tariff rate exceeds its applied rate

TBT: Technical barriers to trade

Technical NTM: Non-tariff measure related to SPS and TBT

Trade Defense Measure: Policies within the WTO framework that permit preventing or correcting injury to domestic industry due to imports

True Tariff Water: Tariff water that takes into account implicit bindings imposed by PTA obligations

TTRI: See tariff trade restrictiveness index

Unbounded Tariff Line: See tariff binding

Weighted Average Tariff: Average tariffs, weighted by value of imports

WTO: World Trade Organization

OVERVIEW

During the last decade international trade has been characterized by a progressive shift in the use of trade policy instruments. While tariff protection remains an important instrument only in certain sectors and/or for a limited number of countries, the use of other, non-tariff trade restrictive, measures has become more widespread. The years after the latest global economic and financial crisis have also been characterized by volatile exchange rates and episodes of competitive devaluation, which have had important repercussions on international trade flows.

As of 2013, around one-third of world trade was free under most-favoured-nation (MFN) regimes, with an additional third exempt from tariffs due to preferential access. Still, despite a significant portion of international trade being duty-free, the remaining share is often subject to substantial tariffs. Tariffs remain relatively high and tariff peaks continue to affect important sectors, including some of key interest to low income countries such as agriculture, apparel, textiles and leather products. Tariffs also remain quite restrictive for most South-South trade. Tariff escalation continues to be a common practice in many tariff regimes, with possible implications for developing countries' value-added activities and export diversification. Moreover, the process of tariff liberalization of the last decades has considerably slowed down in the years following the economic crisis, especially on an MFN basis.

In spite of the economic crisis, the process of deeper economic integration has remained strong at a regional and bilateral level, with an increasing number of preferential trade agreements (PTAs) being negotiated and implemented, especially on a regional and North-South basis. PTAs increasingly address not only goods but also services and often deal with rules beyond reciprocal tariff concessions to cover a wide range of behind the border issues. Still, South-South economic integration remains weak and often limited to a regional scale.

One effect of the proliferation of PTAs is that they distort international competitiveness by providing different trading partners with different market access conditions. This has repercussions for many lower income countries as their preferential margins erode and their competitiveness in international markets declines. PTA commitments also add to countries' legal WTO obligations in terms of trade policy, and specifically on the ability of member countries to raise tariffs. While this may be an issue for middle and high income countries, many low income countries have retained large policy space allowing an increase in import protection, both because of large WTO tariff overhang and their limited commitments to PTAs.

International trade is increasingly regulated and influenced by a wide array of policies and instruments reaching beyond tariffs. As of 2013, technical measures and requirements regulate about two-thirds of world trade, while various forms of sanitary and phytosanitary measures (SPS) are applied to almost the totality of agricultural trade. Non-technical measures such as quantity and price measures still affect almost 30 per cent of trade flows, often in economic sectors of importance for developing countries. The past few years have also seen an increase in the use of trade defence measures within the WTO framework.

The economic turbulence of recent years has been reflected in exchange rate markets, both for developing and developed countries' currencies. Exchange rate movements and volatility have played an important role in shaping international trade in the post crisis period, as they have influenced countries' external competitiveness.

Some Stylized Facts:

- Although tariff liberalization has continued during the last decade, it considerably slowed down in the years after the recent world economic crisis. As of 2013, tariff restrictiveness remained relatively high in developing countries, adding about 5 per cent to the cost of traded goods. On average, developed countries maintained a more liberal tariff regime.
- International trade occurs for the largest part duty-free; but tariffs applied to the remainder of international trade can be relatively high. Trade subject to duties still faces an average tariff of about 7 per cent in manufacturing and about 18 per cent in agriculture. In this regard, preferential access and bilateral agreements continue to provide substantial advantages, especially for agricultural market access.
- Amidst generally low tariffs, there are a significant number of product sectors where tariffs continue to be relatively high. Tariff peaks tend to be concentrated in sectors of interest to low income countries such as agriculture, but also apparel, textiles and tanning. Tariff escalation remains a feature of the tariff structure of both developed and developing countries.
- South-South trade remains subject to relatively higher tariffs, especially in the case of inter-regional trade. Owing to the fact that trade agreements are often regional, the system of preferences tends to favour intra rather than inter-regional South-South trade, sometimes quite substantially. This trend is also reflected in LDCs, with their exports often facing high tariff barriers when entering many developing country markets.
- As of 2013, there were more than 250 PTAs in force, about half of which also covered services. As a result almost half of world trade was taking place between countries that had signed a PTA and almost one-third was regulated under deep trade agreements. Still, the bulk of world trade remained between countries that were not part of a common PTA.
- The use of trade defence measures spiked in 2013 with more than 300 new investigations initiated at the WTO. Cumulatively there were about 1,500 cases for which trade defence measures were in effect in 2013.
- Trade defence measures have largely been aimed at protecting specific sectors (in particular, chemicals, basic metals and textiles, but also agriculture) against imports from selected countries, in particular China, the United States and European Union countries.
- Turbulence in currency markets increased substantially during the financial crisis of 2008 and was sustained until 2012. Only during 2013 did currency misalignments as well as short term volatility subside.

The study is organized in several sections. The first part presents statistics related to tariffs. The second section illustrates selected statistics linked to preferential trade agreements. The third segment presents data on non-tariff measures, and it is followed by a section on trade defence measures. The final section presents statistics on exchange rates.

1. TARIFFS

The tariff liberalization process of the last decade has partly stalled since the economic crisis of 2008. As of 2013, tariffs restrictiveness remained relatively high in developing countries, adding about 5 per cent to the cost of traded goods.

Figure 1
Average Import and Export Restrictiveness, by Region

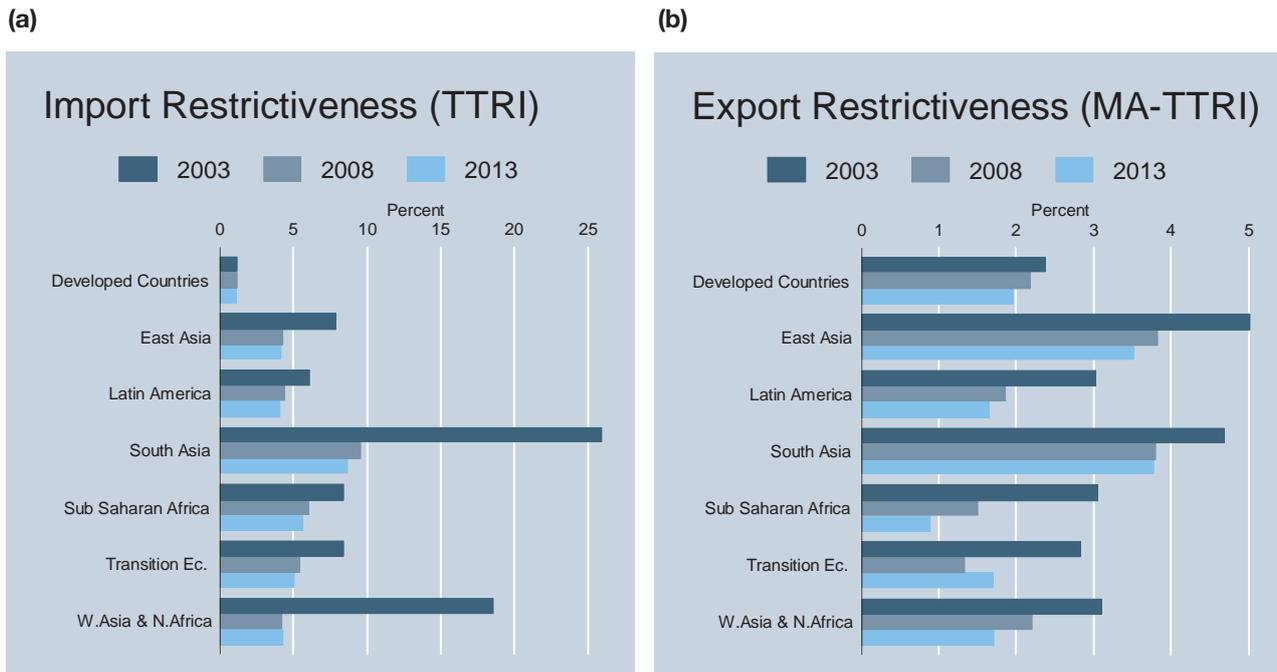


Figure 1a portrays the tariff trade restrictiveness index (TTRI) which measures the average level of tariff restrictions imposed on imports. The market access counterpart (MA-TTRI) summarizes the tariff restrictiveness faced by exports (Figure 1b). Both indices are calculated on the basis of applied tariffs (ad-valorem and specific), including tariff preferences. Multilateral and unilateral liberalization contributed to the decline of tariff restrictions during the last decade. Nevertheless, despite a continuing declining trend, the tariff liberalization process has stalled since 2008. As of 2013, tariff restrictiveness was still substantially higher in developing countries relative to developed countries. Among developing countries, tariff restrictiveness was relatively higher in South Asian countries.

In terms of export restrictiveness, Sub-Saharan African countries faced the most liberal market access conditions with a MA-TTRI of about 1 per cent in 2013. This was largely due to unilateral preferences with developed countries and an export composition tilted towards natural resources that typically face low tariffs. In contrast, exports from East and South Asia faced a higher average level of restrictiveness than other regions. For many countries in these regions, further negotiations with major trading partners aimed at lowering tariffs can still produce substantial export gains.

During the last decade tariffs have been reduced mostly owing to reductions in MFN rates. The proliferation of preferential regimes also contributed to a decline in applied tariffs, but to a lesser extent. MFN tariff liberalization largely stalled for low income countries after 2008, while tariff liberalization on a preferential basis replaced it to some extent.

Figure 2
Multilateral and Preferential Tariff Liberalization

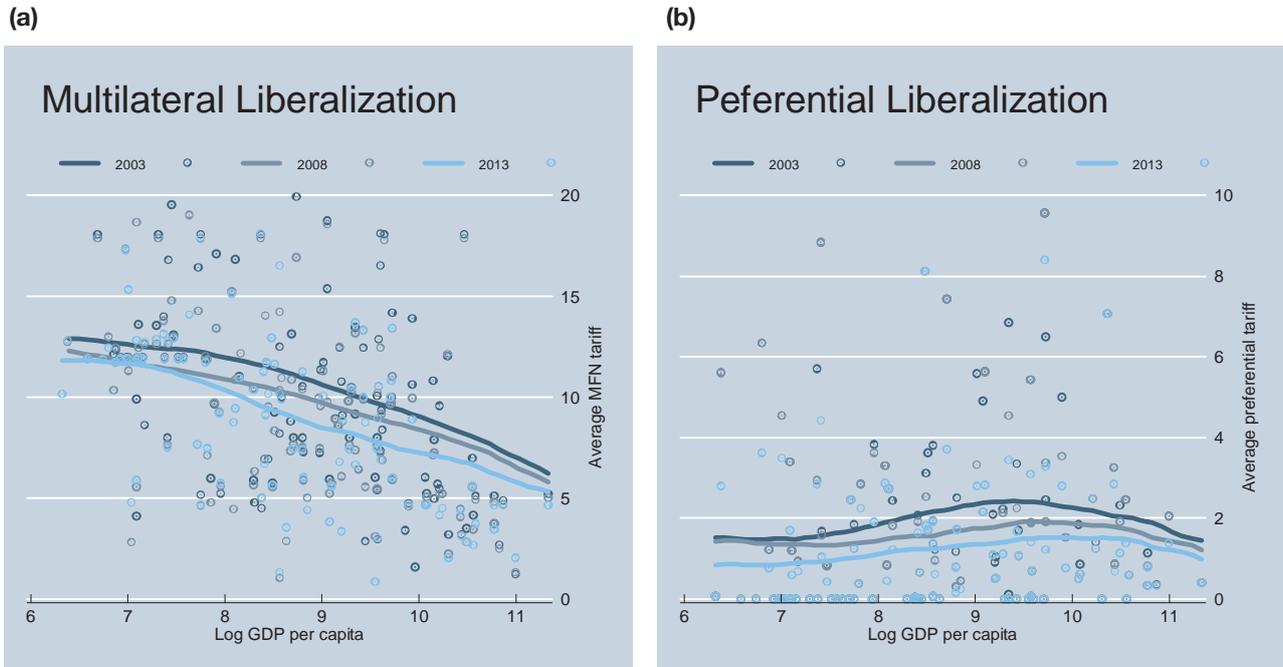
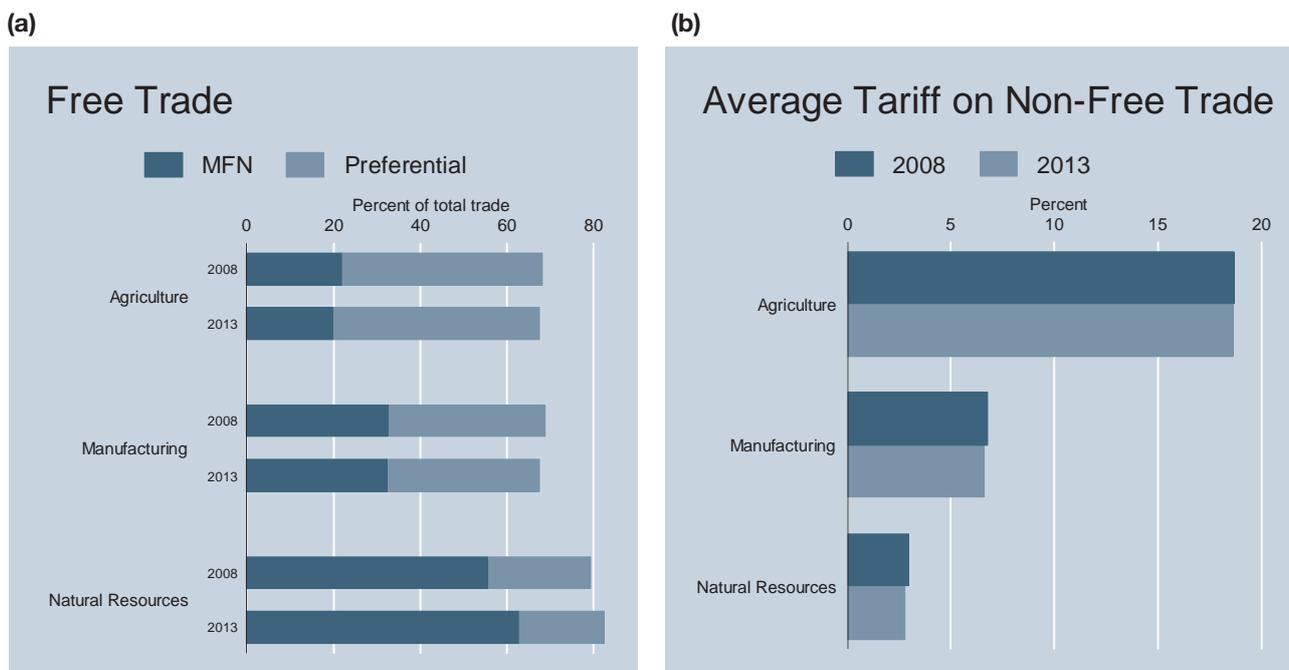


Figure 2a illustrates scatterplots of countries' average MFN tariff rates against respective GDP per capita for 2003, 2008 and 2013. To illustrate preferential liberalization, Figure 2b plots the average tariffs applied on trade entering under preferential regimes in 2003, 2008 and 2013. The figures include fitted lines for each year. Beyond levels of tariffs, what it is of greater interest is changes in tariffs. The decline in tariffs that occurred during the last decade was primarily due to reductions in MFN tariffs. The proliferation of preferential regimes also contributed to a decline in applied tariffs, but to a lesser extent. On average, middle income countries were the most active in reducing their tariffs, both on an MFN basis and by using preferential schemes. Low income countries' tariffs also declined, but by a lesser degree. One can note that for lower income countries, tariff liberalization before 2008 was mostly due to a reduction in MFN rates, while the post-2008 liberalization was largely a result of preferential concessions. One can also observe that while MFN tariffs tend to decrease with GDP per capita, preferential tariffs are characterized by an inverted-U relationship, but which has been flattening over time. This flattening trend suggests that middle income countries are slowly becoming more engaged in preferential schemes. Overall, the figures suggest that preferential agreements tend to be more important for accessing low income countries' markets, as the preferential margin (MFN-preferential tariff) is relatively higher.

International trade is largely free from tariffs both as a result of zero MFN duties and because of duty-free preferential access. However, tariffs applied to the remainder of international trade can be relatively high. In 2013 trade subject to duties faced an average tariff of about 7 per cent in manufacturing and about 18 per cent in agriculture. In this regard, preferential access continues to play a key role for agricultural market access.

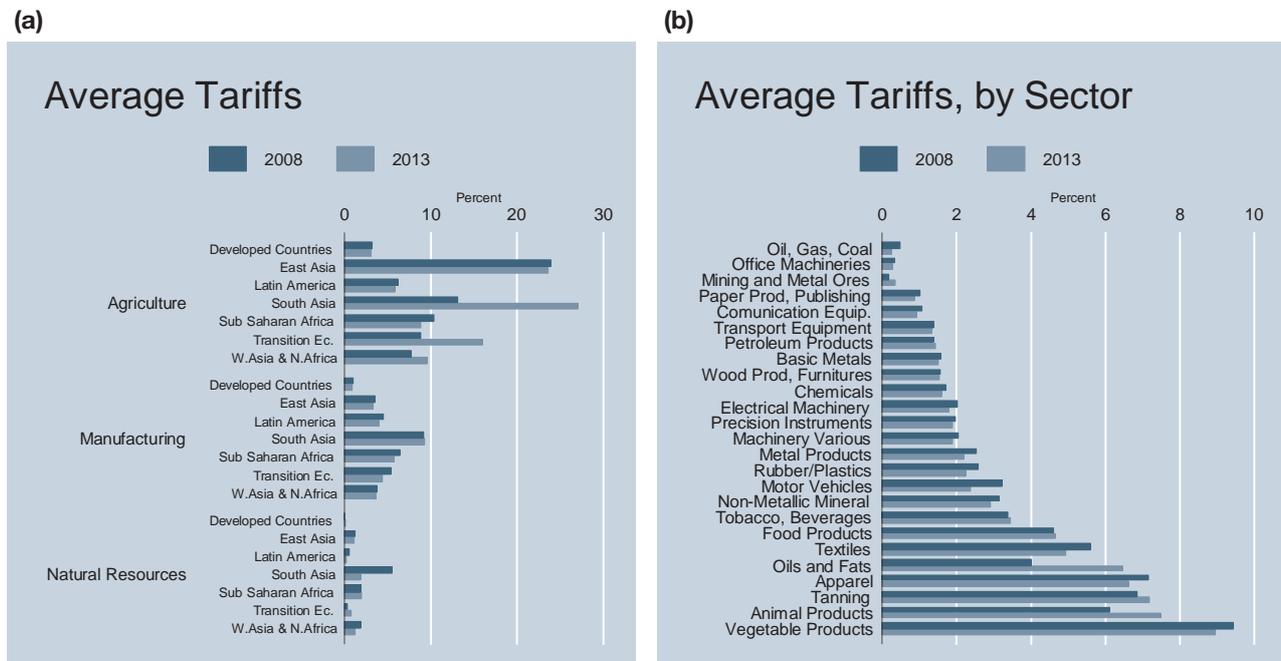
Figure 3
Free Trade and Remaining Tariffs, by Broad Category



International trade has been largely liberalized owing to both zero MFN tariffs as well as preferential duty-free access. In 2013 a substantial part of world trade was free as a result (Figure 3a). Still, tariffs applied to the remainder of international trade are often relatively high (Figure 3b). Importantly, there are differences between agriculture, manufacturing and natural resources. Agricultural trade is freer largely due to preferential access (as opposed to zero MFN tariffs). In this regard, preferential access and reciprocal concessions continue to play a key role for agricultural market access, as the remaining tariffs are fairly high (averaging almost 20 per cent). However, preferential access is of limited importance in the case of natural resources, as trade in this category is largely free under MFN rates, while remaining tariffs are generally very low (on average about 3 per cent).

Low average tariffs mask large differences across economic categories and product sectors. In general, international trade in agriculture is taxed at a much higher rate than trade in manufacturing and natural resources. Tariffs also remain relatively high for manufacturing products of importance for developing countries such as textiles and apparel.

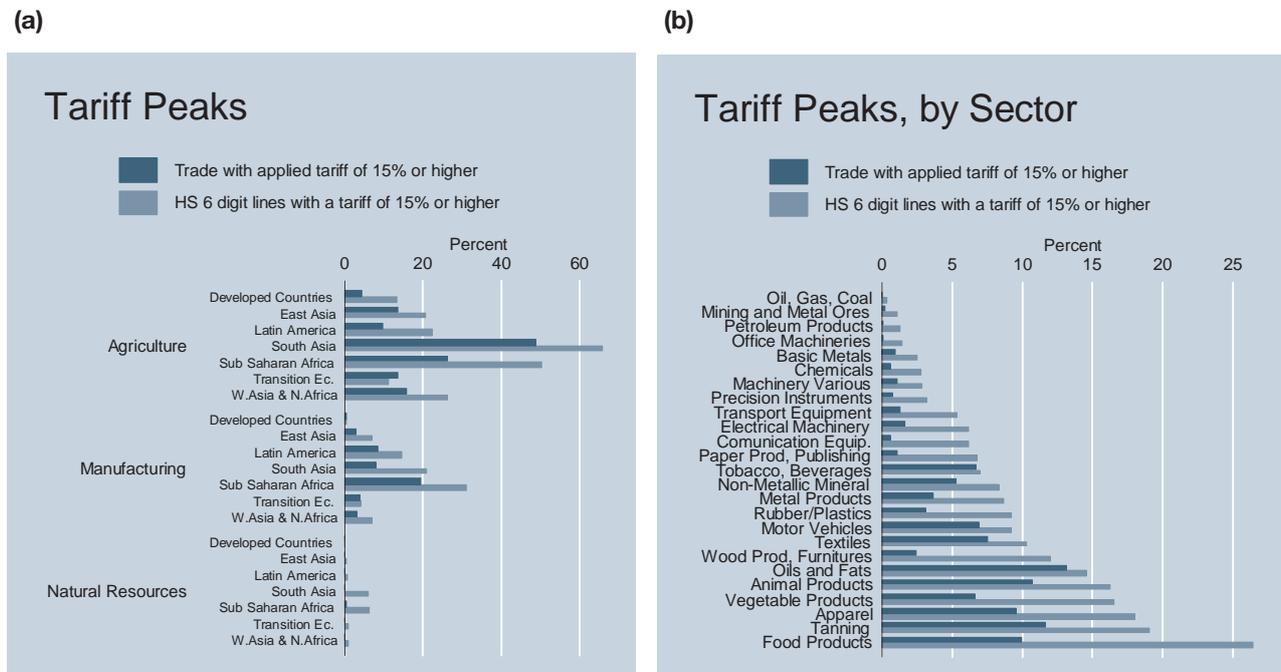
Figure 4
Trade Weighted Average Tariffs, by Region, Broad Category and Sector



Figures 4a and 4b depict the trade weighted average tariff for broad as well as specific categories of products. Tariff restrictions remain quite different across geographic regions and economic sectors. In general, international trade in agriculture is taxed at a much higher rate than trade in manufacturing and natural resources. Even within agriculture, tariffs vary greatly across geographic regions. South Asian and East Asian countries and transition economies tend to apply relatively high tariffs in agriculture, while such tariffs are on average much lower in Latin American and developed countries. Manufacturing tariffs remain high only in the South Asian region (almost 10 per cent on average). Average tariffs vary greatly across product sectors, ranging from about 9 per cent for vegetable products to almost zero for fuels, ores and office machineries. Even considering all concessions and preferential schemes, international trade is subject to high tariffs not only in relation to agricultural products but also in the case of manufacturing products of importance for developing countries such as textiles and apparel. Finally, although tariffs have been declining in most sectors, they have increased in others. Nonetheless, the trend of increasing tariffs has been limited to a number of cases (for example, rise in tariffs on vegetable oils in South Asia).

Amidst generally low tariffs, there are a significant number of products where tariffs are relatively high. Tariff peaks are part of the tariff structures of many developing and developed countries. Tariff peaks tend to be concentrated in products of interest to low income countries, such as agriculture as well as apparel, textiles and tanning.

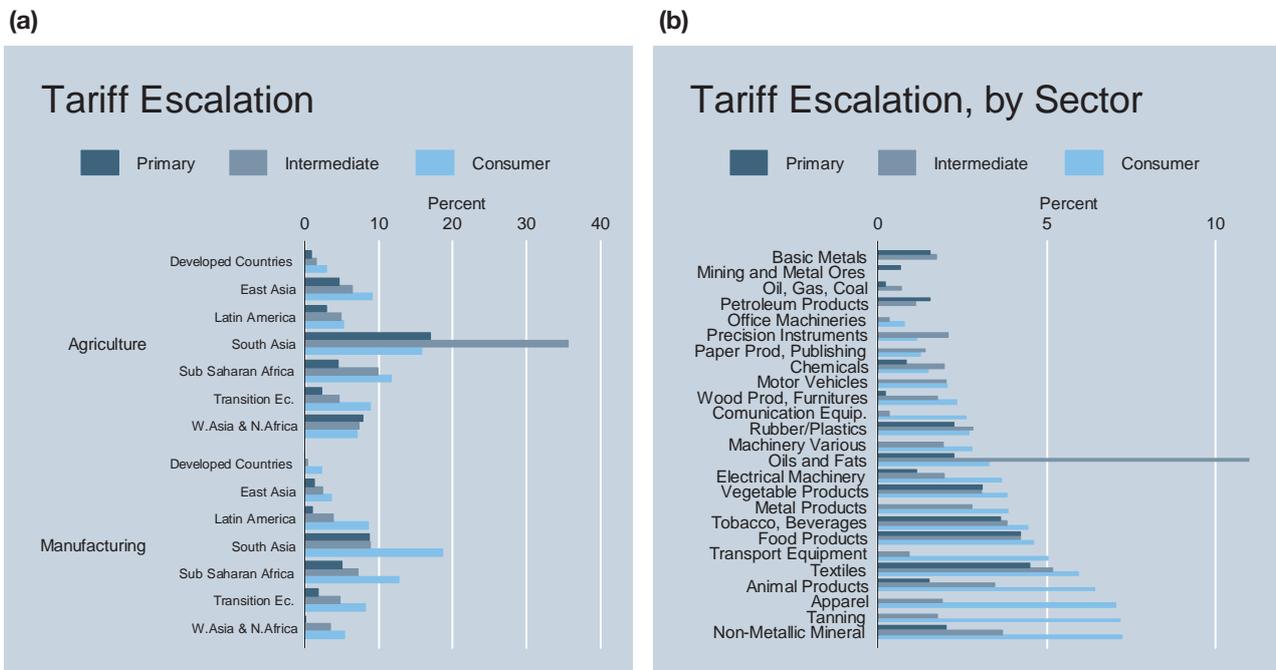
Figure 5
Tariff Peaks (2013), by Region, Broad Category and Sector



In view of generally low tariffs, and even after all concessions such as unilateral and reciprocal preferential schemes are taken into account, there remain a significant number of products where tariffs are relatively high. These high tariffs (above 15 per cent) are generally referred to as tariff peaks and are usually applied to sensitive products. Tariff peaks appear in the tariff structure of many developing countries, but with different patterns. For example, tariff peaks are a large part of the tariff structure of agricultural products of developing countries in South Asia, but not in Latin America (Figure 5a). Tariff peaks tend to be much lower in manufacturing (with the exception of Sub-Saharan countries), and especially in natural resources. Tariff peaks tend to be concentrated in products of interest to low income countries, such as most agricultural sectors, but also apparel, textiles and tanning. For example, tariffs on about 10 percent of international trade in food products (and 25 per cent of the tariffs in this product group) are higher than 15 per cent (Figure 5b). Similarly, about 10 percent of international trade in apparel is subject to a tariff of 15 per cent or more.

Tariff escalation remains a feature of the tariff regimes of both developed and developing countries. Tariff escalation is more pervasive in manufacturing products than in agriculture. Tariff escalation is prevalent in most sectors, including those of importance to developing countries, such as apparel.

Figure 6
Tariff Escalation (2013) by Region, Broad Category and Sector



Tariff escalation – the practice of imposing higher tariffs on consumer (finished) products than on intermediates and raw materials – is present in the tariff structure of many countries. This practice favours processing industries closer to consumers, while discouraging the undertaking of processing activities in countries where raw materials originate. Most developing and developed countries adopt escalating tariff structures, but to varying degrees. Tariff escalation is more pervasive in manufacturing products rather than in agriculture (Figure 6a). Indeed, the tariff structure of countries in South Asia, West Asia and North Africa is not escalating in the agricultural sector. Tariff escalation is prevalent in most sectors, including those of importance to developing countries, such as apparel, animal products, tanning and many light manufacturing sectors (Figure 6b).

The pattern of trade restrictiveness varies greatly among regional trade flows. Intra-regional trade is generally subject to lower TTRI than inter-regional trade. Across regions, tariffs are relatively higher for exports originating in East Asia and for goods being imported into South Asia, Sub-Saharan Africa, West Asia and North Africa. The tariff liberalization process of the past 5 years is reflected in the lower tariffs for most intra- an inter-regional flows.

Table 1: Tariff Restrictiveness, Matrix by Region (2013)

Importing Region	Developed Countries	Exporting Region					
		East Asia	Latin America	South Asia	Sub-Saharan Africa	Transition Economies	W.Asia & N.Africa
Developed Countries	1.3	2.3	1.0	3.5	0.3	0.6	0.4
	-0.2	-0.1	0.0	0.3	-0.4	0.2	0.1
East Asia	5.6	2.7	5.9	3.1	0.8	1.9	1.6
	0.0	-0.5	-0.6	-0.9	-0.5	-0.5	-0.2
Latin America	3.4	7.7	1.3	8.4	0.8	2.1	2.5
	-0.4	-1.1	-0.3	-0.9	-0.8	0.2	-0.2
South Asia	9.5	12.2	2.2	4.5	3.6	6.8	3.4
	0.9	3.0	-3.7	-2.0	-2.8	0.4	-3.4
Sub-Saharan Africa	5.1	9.9	7.2	7.4	1.4	4.4	4.0
	-0.9	-0.3	-0.6	0.0	-1.2	-3.5	0.1
Transition Economies	6.9	6.8	12.1	6.7	2.9	0.5	6.6
	0.6	-0.7	1.8	-1.0	0.2	-0.4	-0.3
W.Asia & N.Africa	3.8	5.6	6.6	4.2	4.0	6.7	2.5
	-0.4	-0.3	-0.7	-0.1	0.6	2.6	0.5

Note: changes between 2008-2013 in smaller font

Table 1 represents a matrix of the average levels of tariffs imposed on trade flows between regions. Differences in the rates exhibited in Table 1 arise both from different patterns of market access due to preferential trade agreements as well as trade composition (as different goods are taxed at different rates). The effect of regional trade agreements is reflected in the relatively lower degree of restrictiveness on intra-regional as opposed to inter-regional trade. However, this has not been the case for Sub-Saharan Africa where market access is often relatively more favourable for inter-regional than intra-regional exports. This is partly due to preferences granted to least developed countries (LDCs), but also owing to the tariff barriers imposed by Sub-Saharan African countries on trade amongst each other. With regard to tariff restrictions imposed on South-South trade flows, a large number of such regional flows are still burdened by relatively high tariffs. For example, East Asian exports are subject to an average tariff of 10 per cent or more when sold to South Asia and Sub-Saharan Africa. Turning to assess recent changes in market access conditions, during the last 5 years some trade flows have been liberalized, whilst others have become more taxed. This is a reflection of the diverse geographic patterns of regional trade agreements, but also because of shifting in the composition of trade flows. The latter is the main cause of the increase in tariff restrictiveness observed in the case of certain trade flows.

The system of tariff preferences affects international competitiveness by providing various countries with different market access conditions. Owing to the fact that trade agreements are often regional, the system of preferences tends to favour regional versus inter-regional trade. Still, the magnitude of the effect of preferences differs widely across regions. Latin American countries enjoy the highest preferential margins in trading with regional partners, estimated at about 5 percentage points.

Table 2: Relative Preferential Margins, Matrix by Region (2013)

Importing Region	Exporting Region						
	Developed Countries	East Asia	Latin America	South Asia	Sub-Saharan Africa	Transition Economies	W.Asia & N.Africa
Developed Countries	0.3	-0.8	0.4	-1.0	0.2	-0.3	0.2
	0.0	0.0	0.2	-0.2	0.1	-0.2	0.0
East Asia	-0.6	0.6	0.3	-0.2	0.2	0.1	-0.1
	-0.2	0.1	0.3	-0.1	0.2	0.2	0.0
Latin America	0.1	-2.2	5.1	-2.8	-0.2	-0.5	-0.9
	-0.9	0.4	0.7	-0.1	0.6	-0.1	0.1
South Asia	-0.2	0.1	0.0	1.8	-0.1	-0.1	0.0
	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Sub-Saharan Africa	0.3	-1.9	-1.5	-0.9	4.4	-0.8	-0.2
	0.2	-0.7	-0.7	-0.3	1.4	-0.7	0.0
Transition Economies	-0.9	-1.1	0.0	-0.8	-0.2	4.2	-0.9
	-0.4	-0.2	0.2	-0.1	-0.2	1.4	0.0
W.Asia & N.Africa	0.1	-0.9	-0.3	-0.3	0.3	-1.0	1.9
	0.0	0.4	0.5	0.4	0.4	-0.1	-0.5

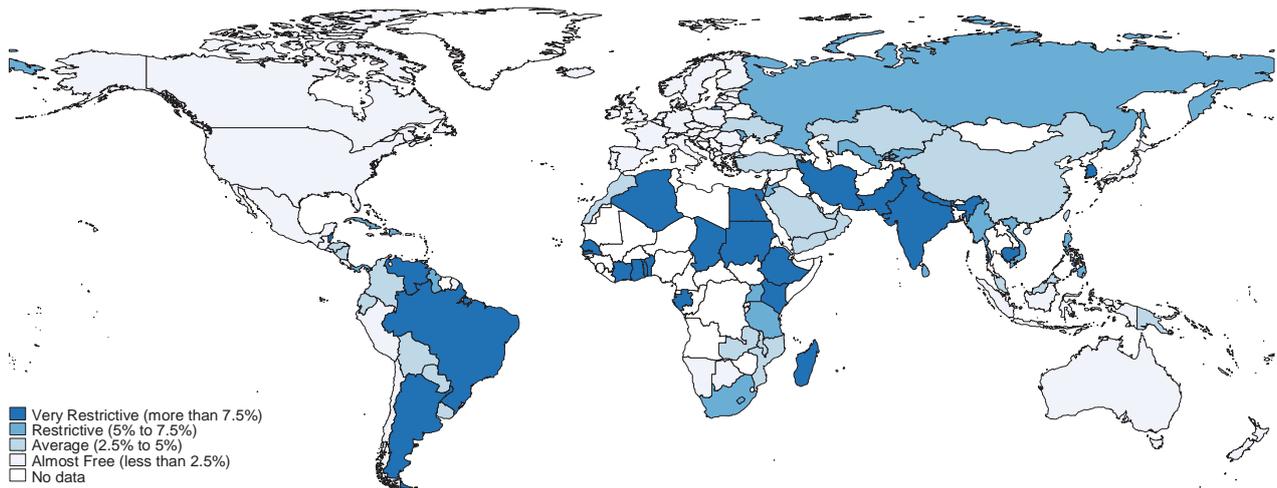
Note: changes between 2008-2013 in smaller font

Table 2 reports relative preferential margins (RPM) calculated at the regional level and their changes since 2008. RPMs provide a measure of export competitiveness for a given country by taking into consideration any preference provided by its trading partners to foreign competitors. RPM can be positive or negative, depending on the advantage or disadvantage a country has in terms of preferences with respect to other competing exporters. The RPM is exactly zero when there is no discrimination. RPM is larger for Latin American countries which enjoy about a 5 percentage point advantage on foreign competitors when trading within their region. On the other hand, the system of preferences provides only half of a percentage point advantage to East Asian countries trading in their own region. With very few exceptions, inter-regional trade faces a negative RPM, suggesting that the tariff structure negatively impacts non-regional exporters' competitiveness. Least favoured are exporters of South Asia and East Asia seeking to trade with Latin America. For Sub-Saharan exporters, the effects of the system of preferences for inter-regional trade are often negligible.

Import restrictiveness differs substantially across countries, and even among countries within the same region. Preferential schemes allow least developed countries to enjoy duty free access to many developed countries markets. However least developed countries' exports still face relatively high tariffs in many developing country markets.

Figure 7
Import Restrictiveness

(a) Import restrictiveness (2013)



(b) Import restrictiveness vs Least Developed Countries (2013)

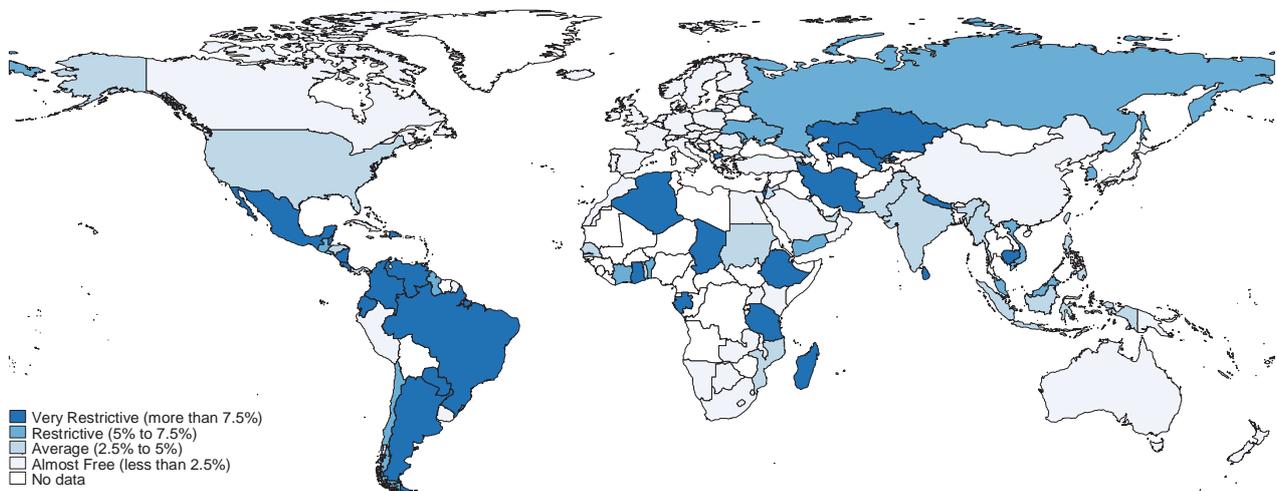
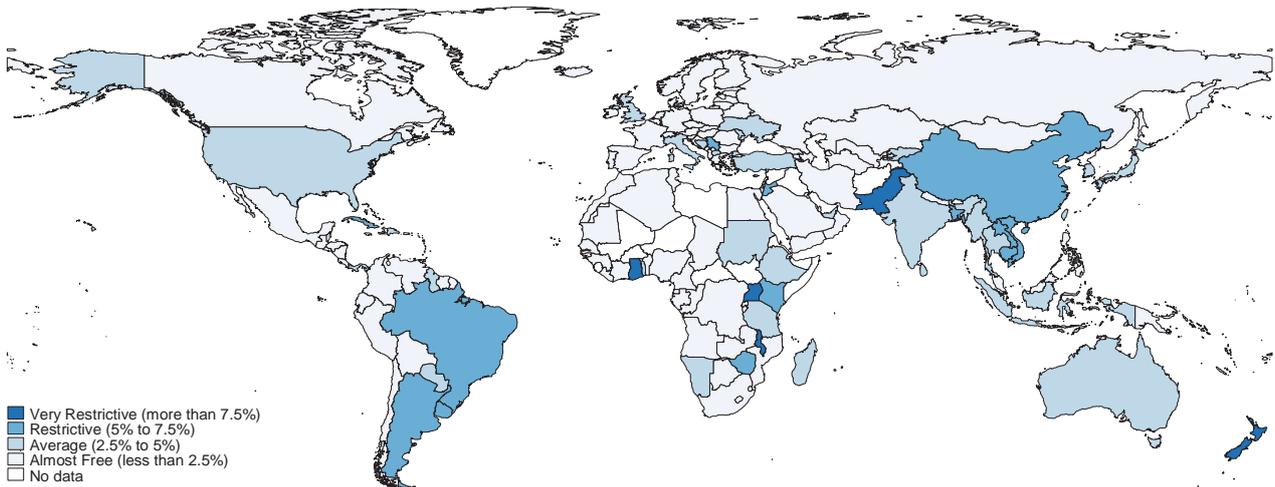


Figure 7a illustrates the average level of tariff restrictions imposed on imports (as measured by the TTRI). Figure 7b reports a similar indicator but only for imports originating from least developed countries (LDCs). The level of tariff taxation differs substantially across countries, and even among countries within the same region. Trade originating from LDCs is often taxed at a lower degree both because of preferential schemes and because this trade generally consists of natural resources, which often face relatively lower tariffs. Nonetheless, the tariffs imposed by many developing countries on imports from LDCs remain often relatively high.

Export restrictiveness varies substantially across countries and depends both on whether countries have engaged in preferential agreements with major trading partners and on the composition of the export basket.

Figure 8
Export Restrictiveness

(a) Export restrictiveness (2013)



(b) Relative preferential margins vis-à-vis foreign competitors (2013)

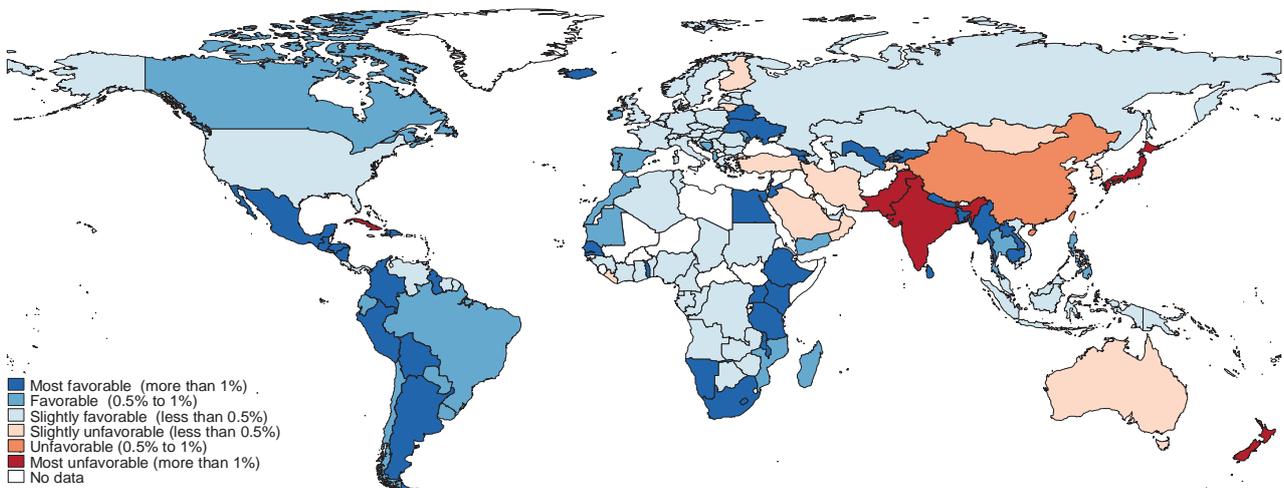


Figure 8 reports the overall level of tariff restrictions faced by exporters (as measured by the MA-TTRI), and the relative preferential margins vis-à-vis foreign competitors. Many Latin American countries face high tariffs because their exports largely comprise of agricultural products; nevertheless, they still benefit from an advantageous system of preferences which provides them with improved access vis-à-vis foreign competitors. On the other hand, the lack of preferential agreements results in both high tariffs and unfavourable market access conditions for a number of Asian countries, most notably India and China.

2. TRADE AGREEMENTS

The international trading system is regulated by an increasing number of PTAs, many of which address not only goods but also services, and often deal with rules beyond reciprocal tariff concessions. As of 2013, there were more than 300 PTAs in force, about half of which covered services. In 2013 almost half of world trade was taking place between countries that had signed a PTA, and almost one third was regulated by deep trade agreements.

Figure 9
Trade Agreements

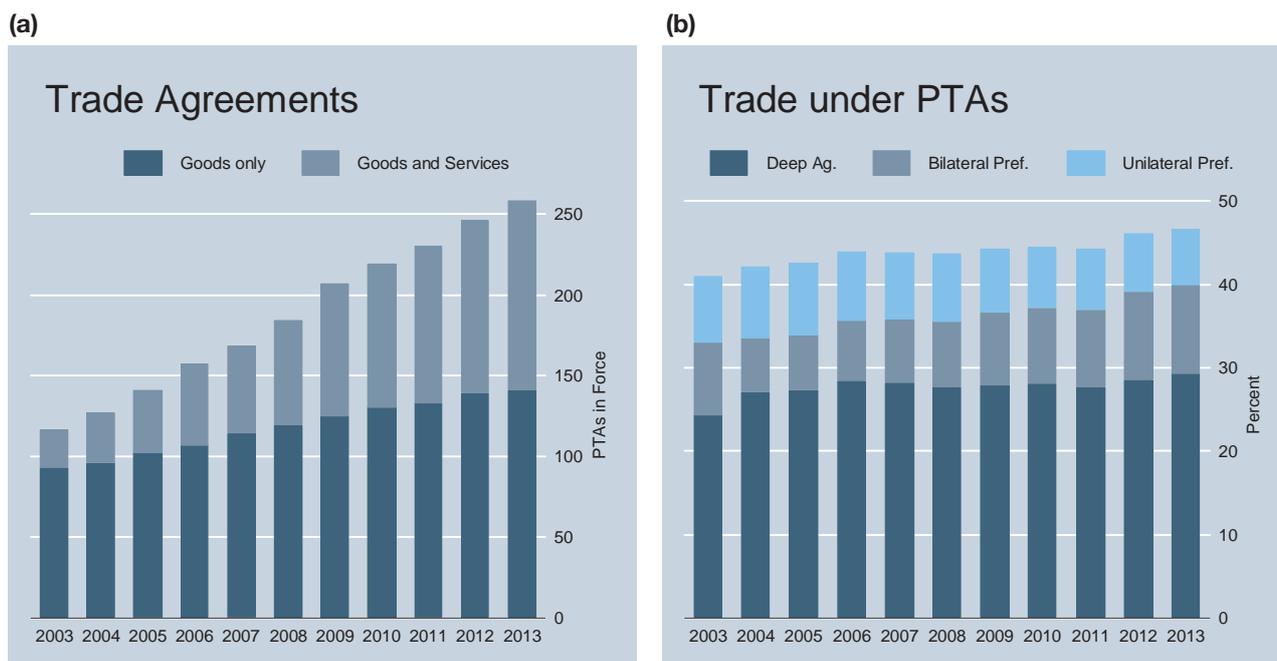
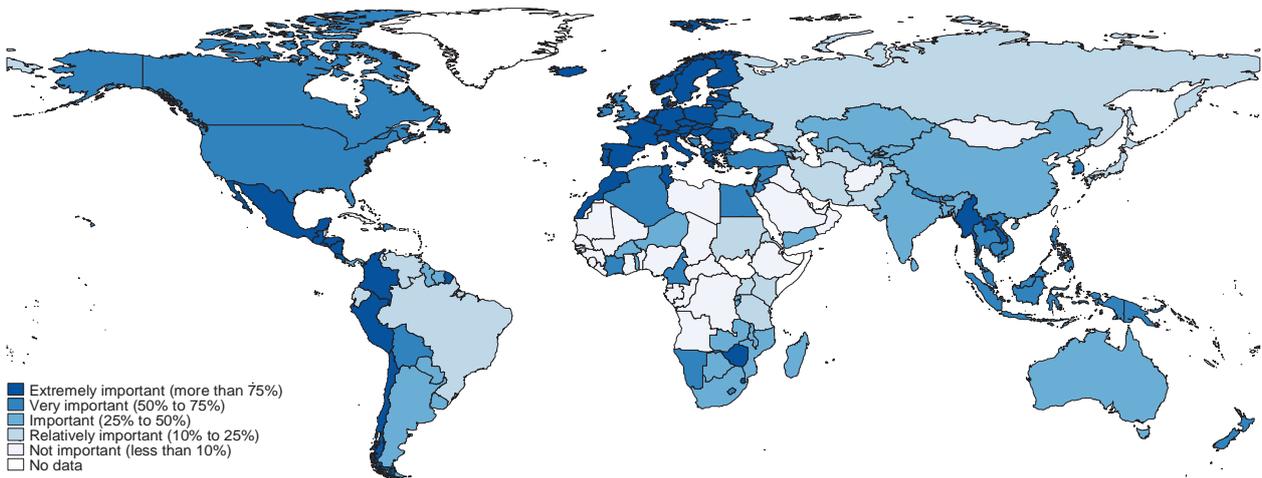


Figure 9a illustrates the number of bilateral preferential trade agreements (PTAs) that have been in force in each year since 2003. The number of PTAs in force has more than doubled from less than 120 in 2003 to more than 250 in 2013. This upward trend is likely to continue as additional PTAs are still in the negotiation phase and likely to be implemented in the next few years. About half of trade agreements in force go beyond tariff concessions, to cover services and behind-the border measures. Although the number of PTAs has increased dramatically, the percentage of trade taking place under PTAs has not increased as much (Figure 9b). One reason is that, as of 2013, recent PTAs had not been signed among major economies, thus the bulk of world trade remained between countries not participating in common PTAs (for example, United States, China, and the European Union). Still, even without considering intra-EU trade, about 30 percent of world trade took place under deep trade agreements (i.e. those with trade rules going beyond traditional tariffs and existing WTO agreements, to cover deeper behind-the-border measures) in 2013. Another 15 per cent of world trade was related to trade agreements limited to preferential access, and about 7 per cent was under unilateral preferences such as the ones provided by developed countries to least developed countries.

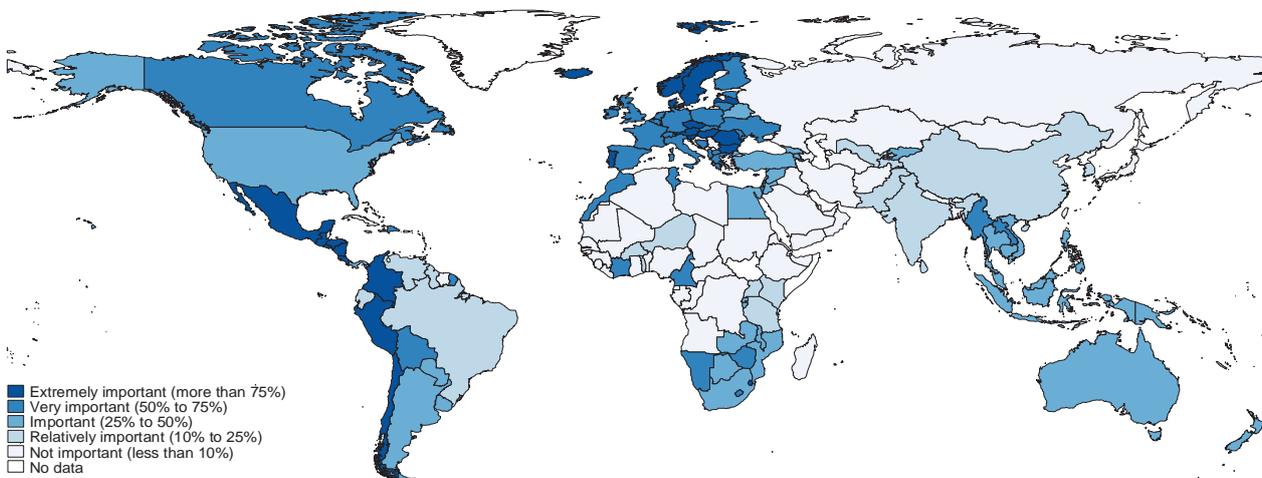
The importance of trade agreements is high for many developed countries, but not as much for the majority of developing countries; notable exceptions include a number of countries in South East Asia, Southern Africa and Latin America.

Figure 10
Importance of Preferential Trade Agreements (PTAs)

(a) Importance of PTAs, as measured by percentage of trade (2013)



(b) Importance of deep PTAs, as measured by percentage of trade (2013)

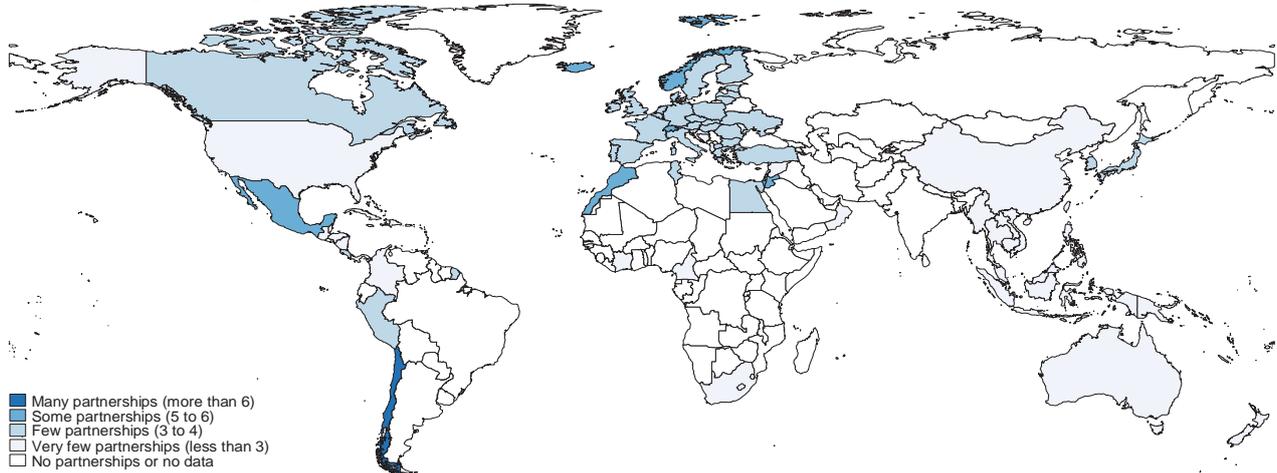


A large share of international trade of many developed countries occurs under some form of preferential trade agreement (PTA), and in many cases under trade rules going beyond traditional reciprocal market access concessions. For EU countries, more than 75 per cent of trade occurs under some form of PTA (Figure 10a), and more than 50 per cent under deep agreements (i.e. those with trade rules going beyond traditional tariffs and existing WTO agreements, to cover deeper behind-the-border measures) (Figure 10b). However, most developing countries' trade still occurs outside PTA rules, with notable exceptions being some countries in South East Asia, Southern Africa and Latin America.

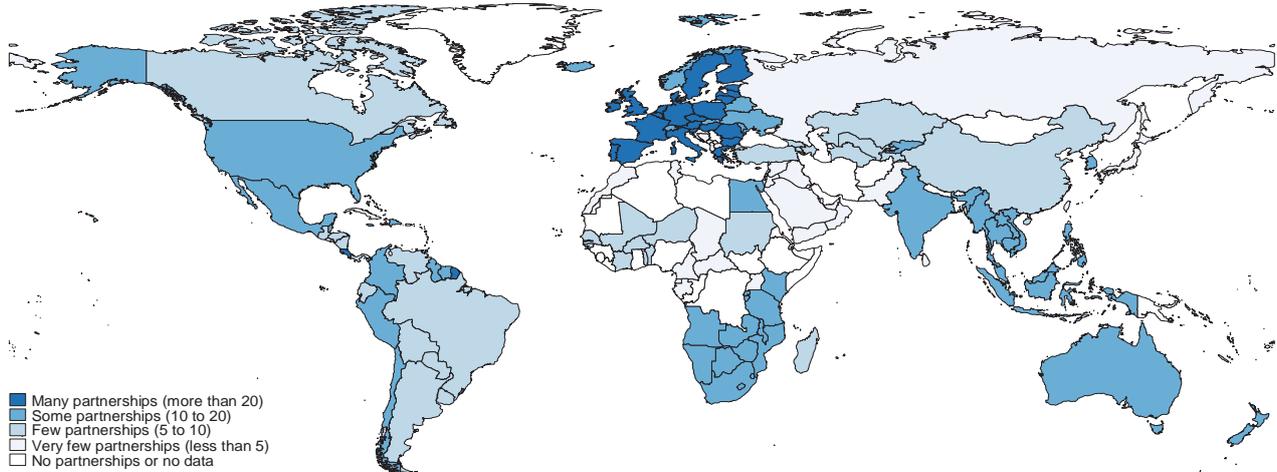
While developed countries have signed deep trade agreements with many trading partners, developing countries have been less active in pursuing deeper integration, especially with countries outside the regional context.

Figure 11
Trade Partnerships

(a) Deep trade agreements with developed countries (number of countries, 2013)



(b) Deep trade agreements with developing countries (number of countries, 2013)

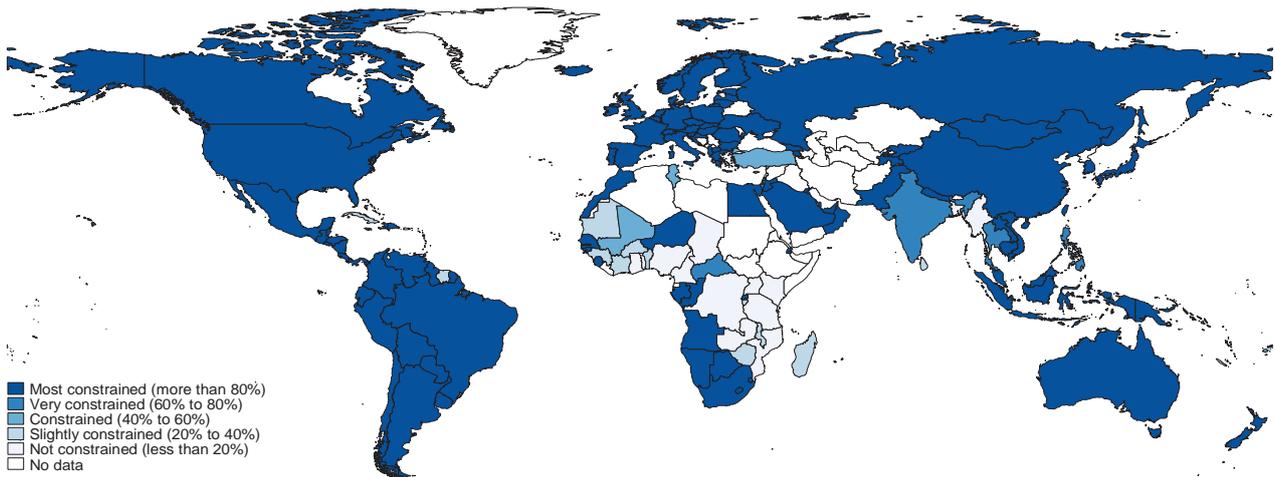


The proliferation of PTAs has been largely driven by developed countries in the form of deep agreements (i.e. those with trade rules going beyond traditional tariffs and existing WTO agreements, to cover deeper behind-the-border measures) (Figure 11a). While the United States and especially the EU have signed deep trade agreements with many trading partners, developing countries have generally been less active in pursuing deeper integration; exceptions being the regional integration of Latin America, Southern Africa and East Asia (Figure 11b). In addition, some developing countries' (notably Chile, Mexico and Morocco's) export strategy has been oriented towards deeper integration with developed markets, which can provide more advantageous access to these markets.

Differences in WTO obligations with respect to MFN tariffs result in different degrees of policy space across countries. Developed countries and economies in transition tend to have very limited policy space as most tariff lines are bound by WTO obligations with little tariff water. For Latin American countries, policy space is largely due to tariff water rather than unbounded tariffs lines. Policy space is greater for Sub-Saharan African countries, and lower income countries in general.

Figure 12
Policy Space: Multilateral Constraints

(a) Bound tariff lines (2013)



(b) Tariff water (2013)

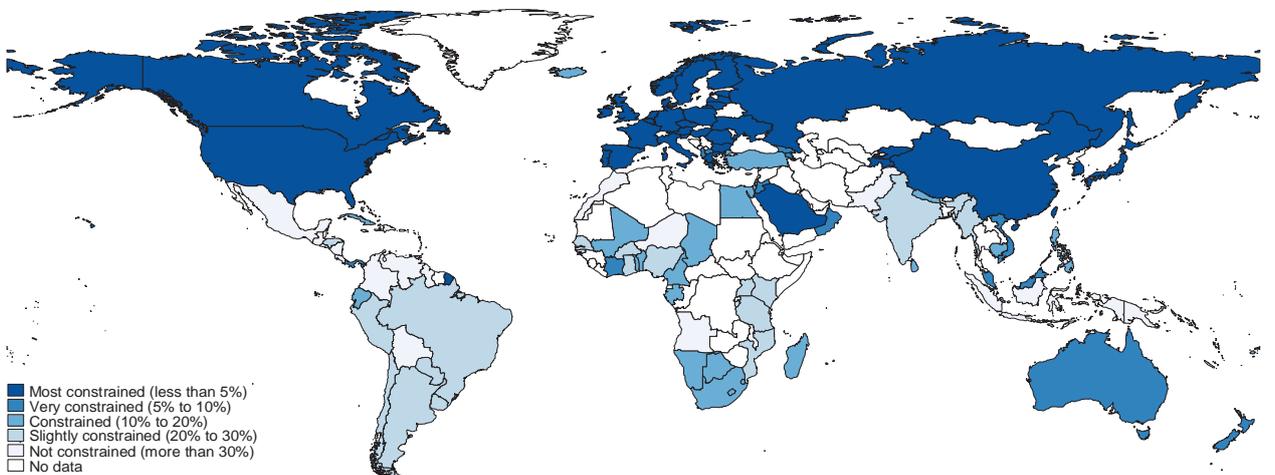
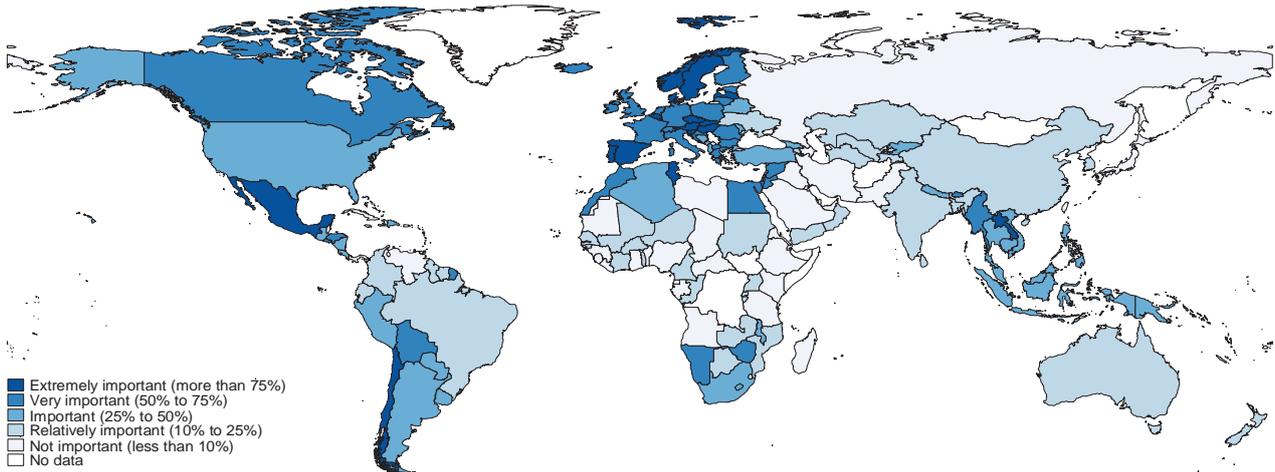


Figure 12 presents the percentage of bound tariff lines (those for which upper limits are negotiated in the WTO accession process) as well as the tariff water (or binding overhang, referring to the difference between applied MFN and bound tariffs). Countries which have few bound tariff lines and/or a large amount of tariff water can raise tariffs without infringing their WTO commitments.

Participation in preferential and regional trade agreements (PTAs) also restricts countries' ability to raise tariffs without breaking treaties' commitments or provoking retaliatory action. Once PTAs are accounted for, a substantial amount of trade is locked under preferential tariffs, which in turn means that the amount of "true" tariff water in many cases is less than half of the WTO binding overhang.

Figure 13
Policy Space: Preferential Trade Agreements

(a) Trade within reciprocal preferential trade agreements (2013)



(b) True tariff water (2013)

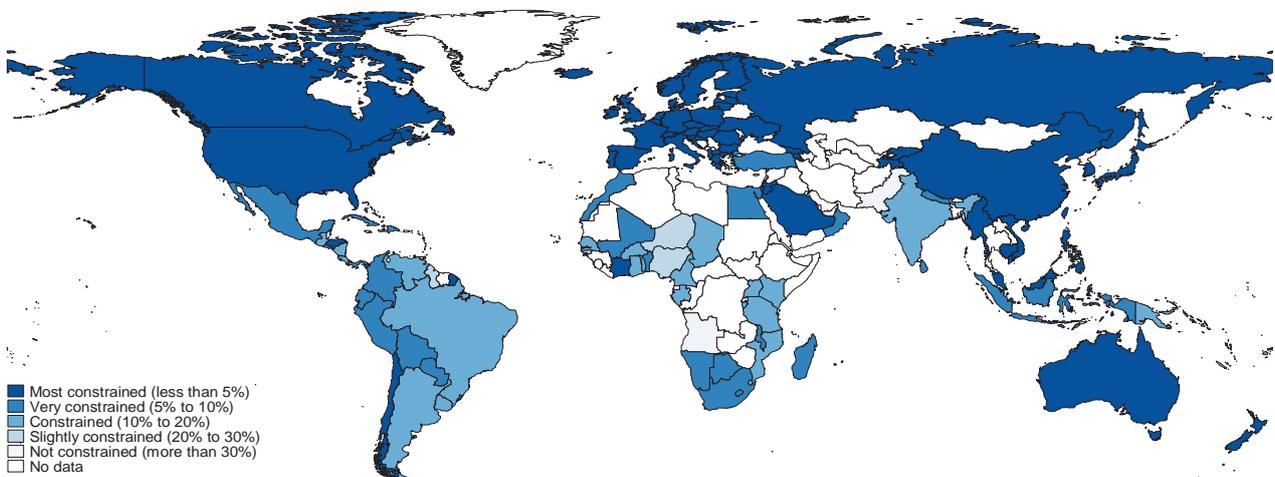
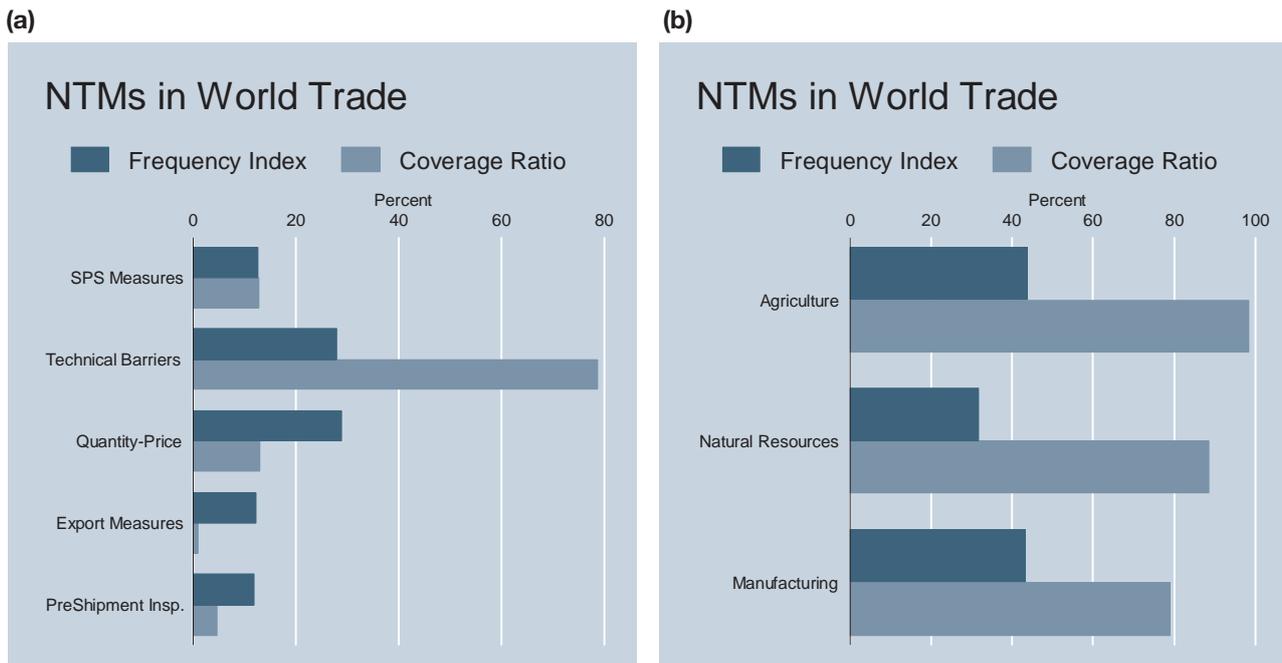


Figure 13a depicts the share of trade subject to rules and commitments of preferential trade agreements (excluding unilateral concessions). Figure 13b portrays the average tariff water calculated as the difference between the WTO bound and applied tariffs, also taking into account the implicit bindings imposed by PTA commitments. Countries that have a large share of trade under preferential commitments and/or have low true tariff water cannot raise their tariffs without infringing WTO or PTA commitments.

3. NON-TARIFF MEASURES

Non-tariff measures include a diverse array of policy measures serving different purposes. Among the various types of non-tariff measures, technical barriers are the most pervasive, as nearly 80 per cent of international trade is regulated by means of some form of technical barrier. Other types of these measures cover about 15 per cent of world trade.

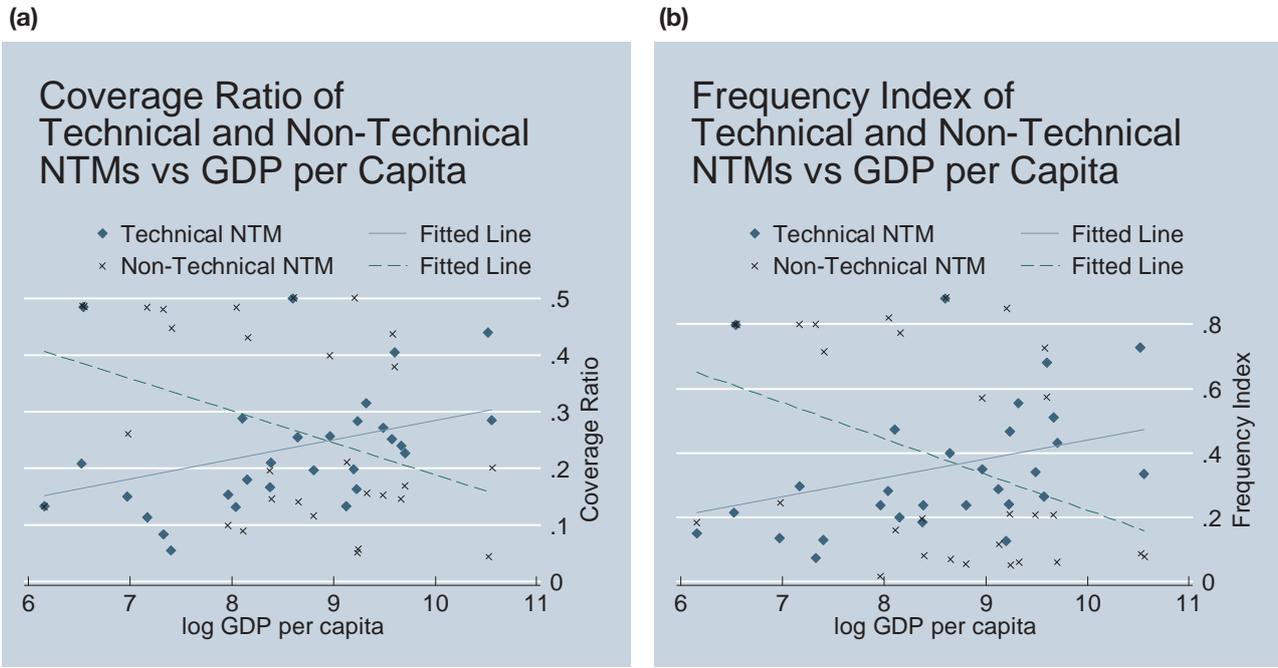
Figure 14
Prevalence of Non-Tariff Measures, by Type and Broad Category (2013)



Data on non-tariff measures (NTMs) is still fragmentary and therefore does not allow computation of comparative statistics. The data may also not be fully representative of world trade. Still, some preliminary statistics may be derived from the available data. Figure 14a illustrates the distribution of NTMs across five broad categories. For each category, both the frequency index (i.e. the percentage of HS 6 digit lines covered) and coverage ratio (i.e. the percentage of trade affected) are reported. International trade is highly regulated through the imposition of technical barriers (TBT), with more than 25 per cent of product lines and almost 80 per cent of world trade affected. Quantity and price control measures (which also include non-automatic licensing), as well as sanitary and phytosanitary measures (SPS) still affect about 15 per cent of world trade, and cover over 25 per cent of lines for the former and around 15 per cent for the latter. Export measures and pre-shipment inspections are applied to international trade less frequently as their use is specific to particular sectors or they are employed by a specific group of countries (for example, pre-shipment inspections in low income countries). When looking at the coverage of NTMs by broad category (Figure 14b), one can observe that agriculture is the most affected, with nearly all of world trade and almost a half of HS 6 digit lines covered. In the case of natural resources and manufacturing, NTMs affect almost 90 per cent and 80 per cent of their respective trade.

The amount of trade affected by non-tariff measures varies substantially among countries. Nonetheless, the use of technical non-tariff measures increases with the level of GDP per capita, while that of non-technical measures decreases.

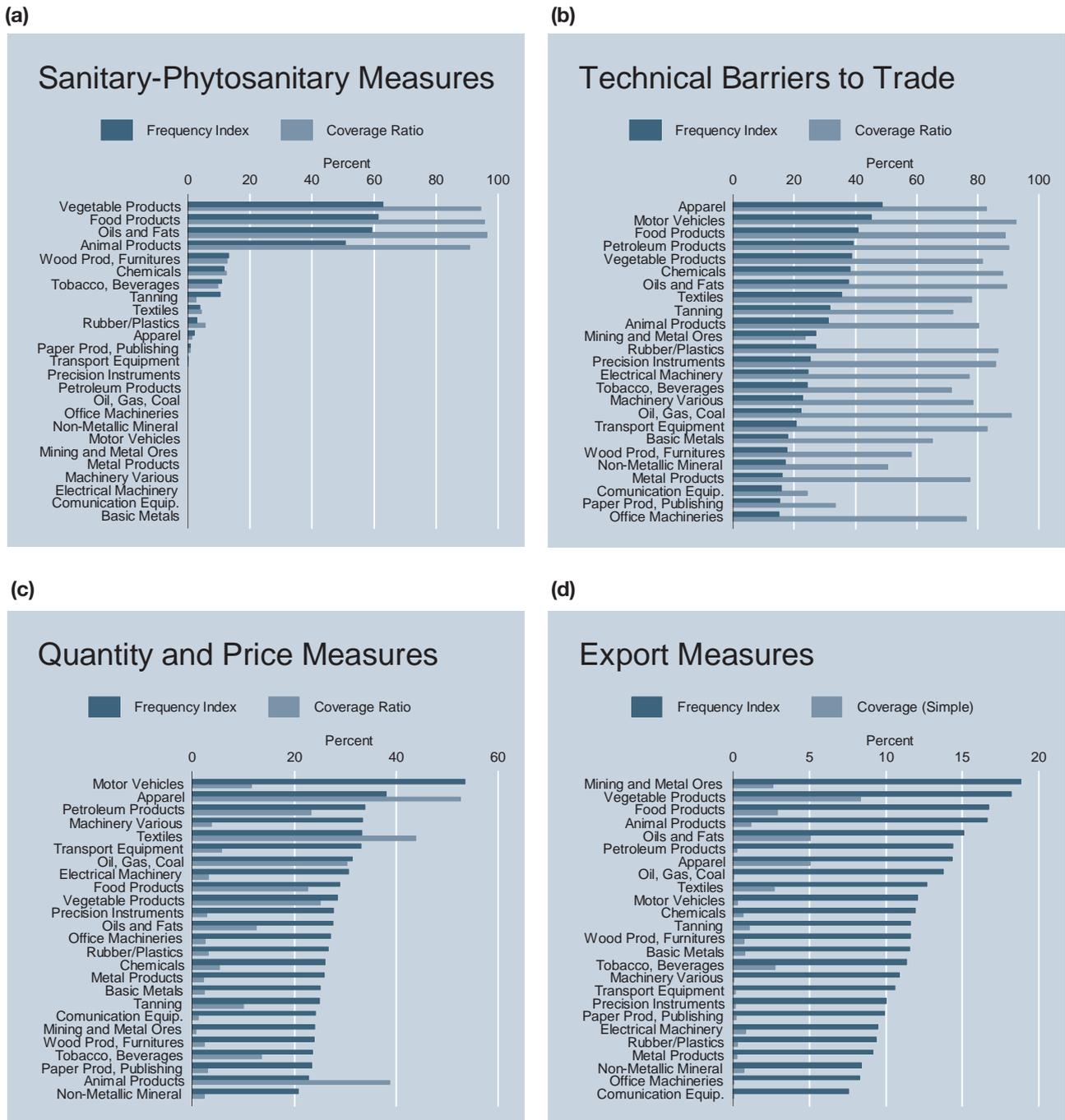
Figure 15
Prevalence of Non-Tariff Measures, by Income Level (2013)



Figures 15a and 15b correlate the prevalence of technical non-tariff measures (SPS and TBT) and non-technical measures (quantity, price and export measures) with gross domestic product (GDP) per capita. In general, the importance of technical NTMs in regulating imports tends to increase with GDP per capita both in terms of trade (coverage ratio) and tariff lines (frequency index). However, the prevalence of non-technical NTMs tends to be greater in low income countries, and decreases with income levels.

The prevalence of various types of non-tariff measures differs by economic sectors. Sectors related to agriculture tend to be regulated by SPS and export measures. TBTs and quantity and price measures are more commonly used to regulate manufacturing trade.

Figure 16
Technical and Non-Technical Non-Tariff Measures, by Sector (2013)

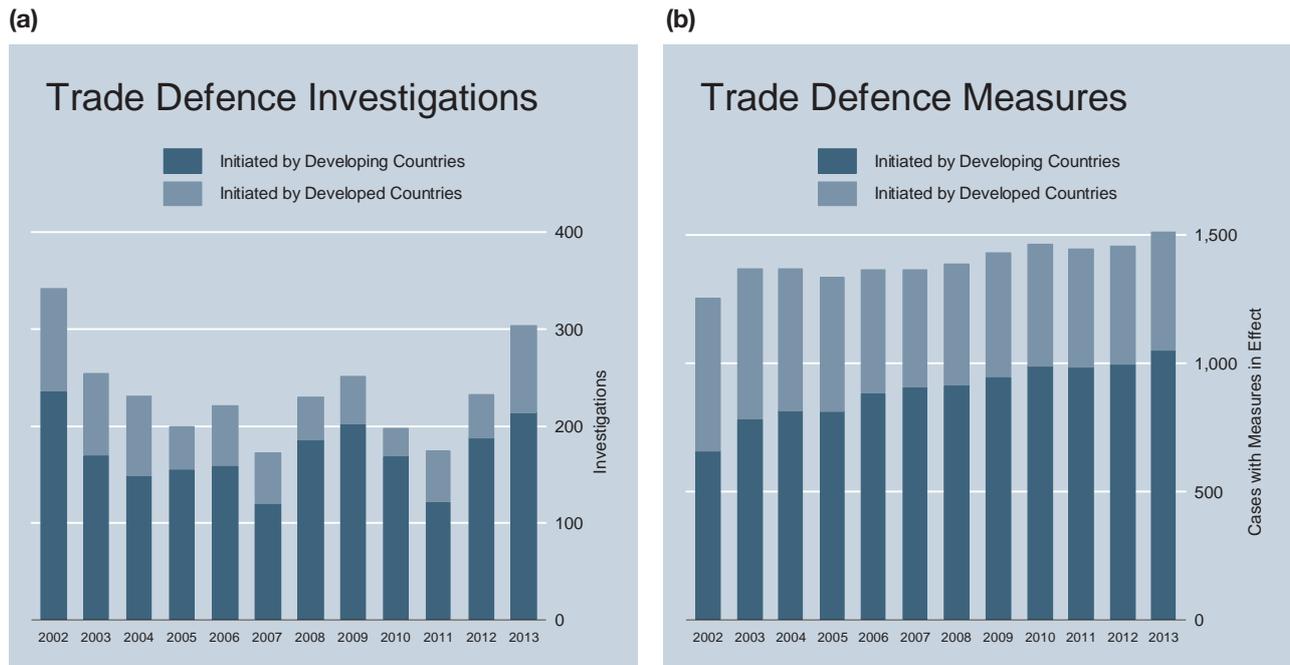


Technical barriers to trade (TBT) are widely used to regulate international trade in most sectors (Figure 16b). Turning to Sanitary and Phytosanitary (SPS) measures, these are typically applied to agricultural products as well as other products that may have inherent health hazards due to contaminants (Figure 16a). Quantity and price control measures are widely applied to motor vehicles, apparel and petroleum products (Figure 16c). Finally, sectors including mining and metal ores and agriculture are often affected by export measures (Figure 16d).

4. TRADE DEFENCE MEASURES

The use of trade defence measures spiked in 2013 with more than 300 new investigations started at the WTO. Cumulatively there were about 1,500 cases involving trade defence measures in effect in 2013. During the last decade, developing countries have become more active users of trade defence measures.

Figure 17
Trade Defence Measures

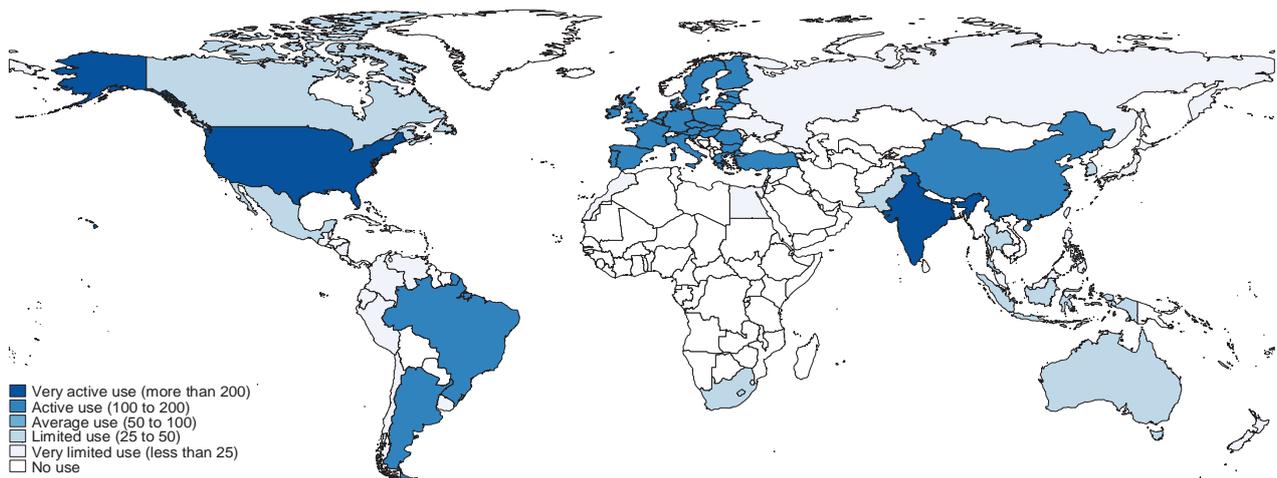


Trade defence measures in the form of antidumping, countervailing duties and safeguards allow countries to actively respond to import-related concerns within a well-established WTO mechanism. During the past decade there were commonly between 150 and 250 antidumping cases brought annually before the WTO (Figure 17a). However, the number of antidumping cases brought to the WTO spiked in 2013, with more than 300 new cases. Generally, trade defence measures remain in effect for five years and sometimes more, and therefore the stock of measures affecting trade in any given year tends to be significantly higher than the corresponding number of new cases each year. As of 2013, there were more than 1,500 cases whereby some form of trade defence measure (generally specific or ad-valorem duty) was in effect (Figure 17b). Both developed and developing countries make use of trade defence measures.

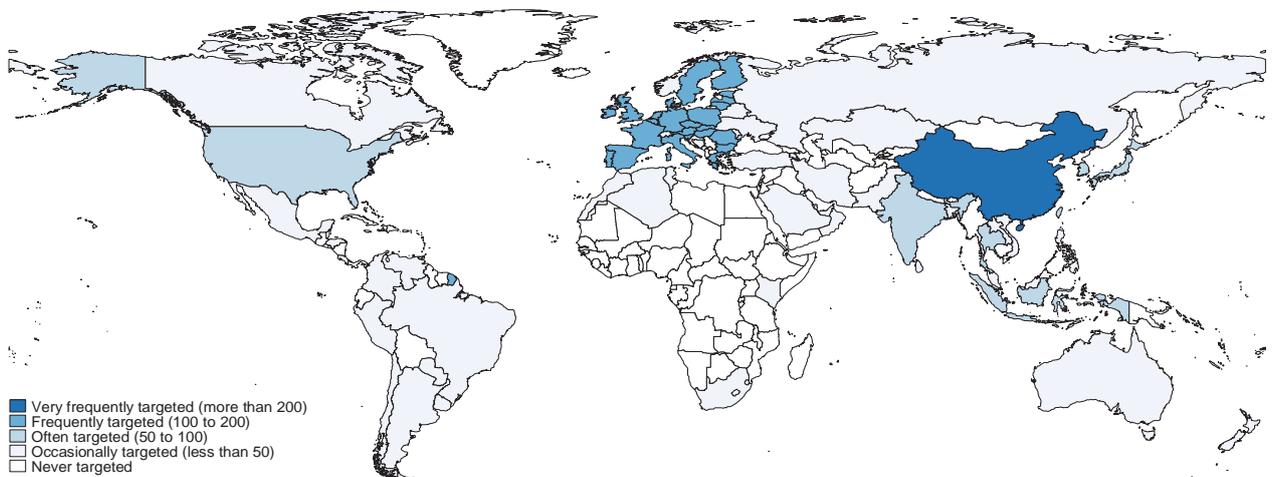
The use and impact of trade defence measures varies greatly across countries. Trade defence measures are imposed mainly by developed and emerging economies, and are largely targeted against products originating from China, the European Union and United States.

Figure 18
Trade Defence Measures in Effect, by Country

(a) Trade defence measures in effect, by imposing country (2013)



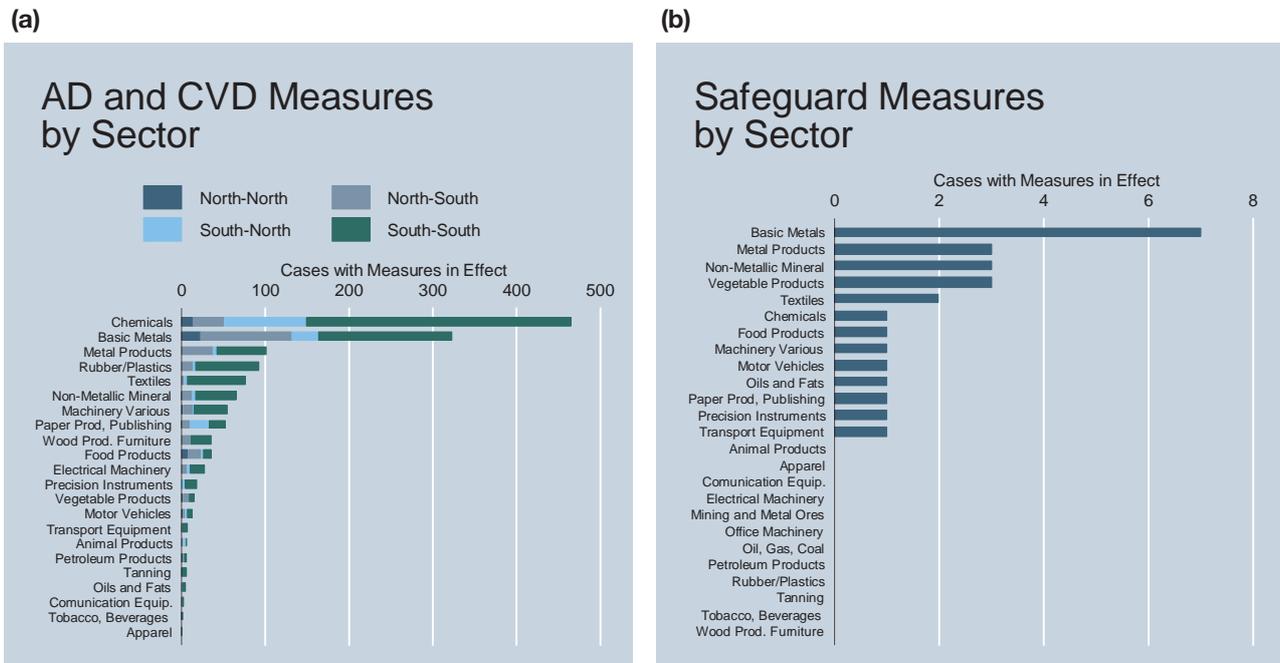
(b) Trade defence measures in effect, by targeted country (2013)



The vast majority of cases relating to trade defence measures are brought by developed countries and major developing economies. The main users of such measures include India, United States, European Union, China and, more recently, also Turkey, Brazil and Argentina (Figure 18a). China is by far the most targeted country with more than 400 measures in effect as of 2013 (Figure 18b). A large number of trade defence measures are also imposed against the European Union, United States and India.

Most trade defence measures take the form of antidumping and countervailing duties. As of 2013, more than half of trade defence measures were targeted at firms operating in two sectors: chemicals and basic metals. Most trade defence measures were initiated by developing countries against other developing countries.

Figure 19
Trade Defence Measures in Effect, by Sector (2013)

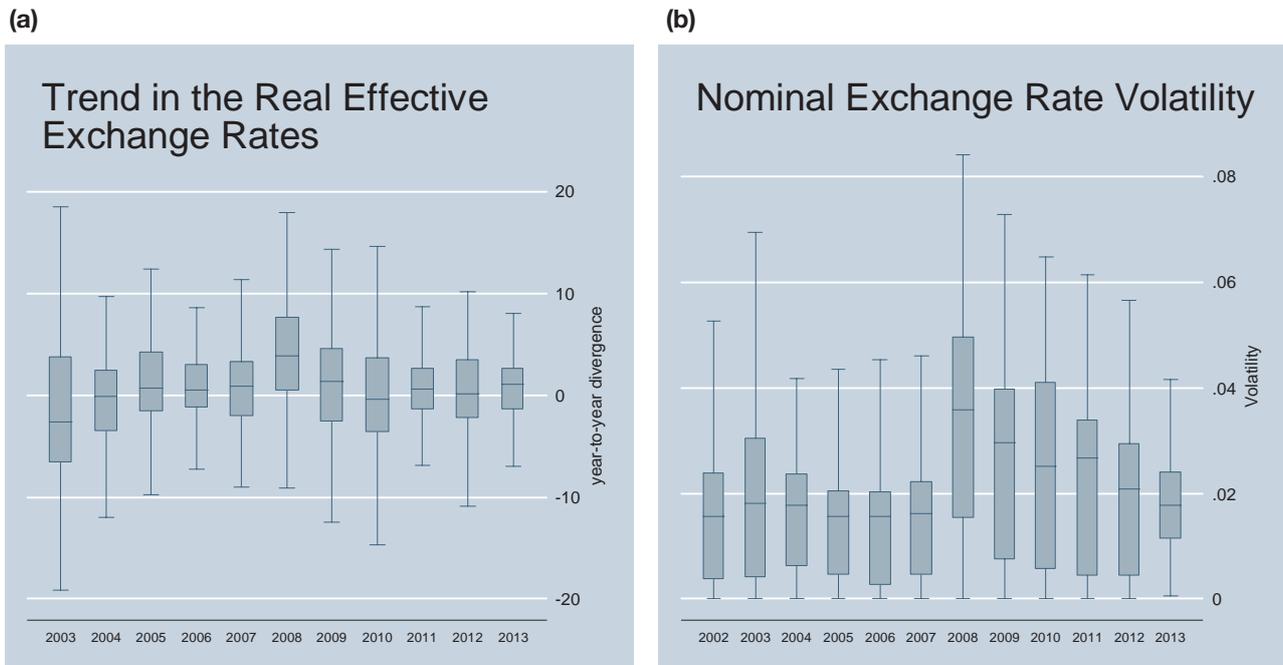


Most trade defence measures take the form of antidumping and countervailing duties (Figure 19a). These measures are largely targeted at firms operating in two sectors: chemicals and basic metals. Other sectors including metal products, rubber and plastics, textiles and to non-metallic minerals are also targeted by trade defence measure, although to a much lower extent. Most trade defence measures are initiated by developing countries against other developing countries (South-South). Measures imposed by developing countries and targeting developed countries (South-North) are less common and largely confined to the case of chemicals, basic metals and paper products. Measures applied by developed countries are largely concentrated in three sectors - namely, metals, chemicals and food products - and mostly directed against firms in developing countries. With regard to safeguard measures, these are only occasionally used by developing countries to protect their economies from imports regardless of their origin (Figure 19b). Safeguard measures are largely concentrated in basic metals, metal products, non-metallic minerals and textiles.

5. EXCHANGE RATES

Turbulence in currency markets increased substantially during the financial crisis of 2008, and remained an issue until 2012. Only in 2013 did currency misalignments and short term volatility subside.

Figure 20
Trends in Real Exchange Rates and Volatility

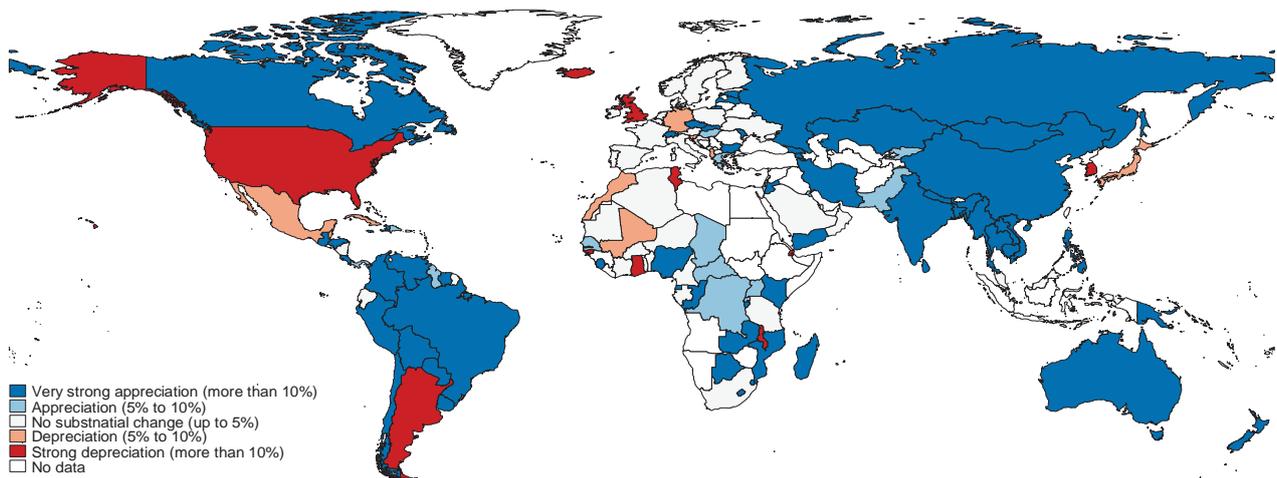


Exchange rates play a vital role in shaping countries' level of trade as they influence competitiveness in international markets. The real effective exchange rate (REER) is an indicator which is useful to identify gains (decreasing REER) or losses (increasing REER) in international competitiveness across time. Figure 20a illustrates the overall year-on-year change in the REER across all countries. This change is positive when the majority of national currencies have become overvalued and negative when they have become undervalued. While at the onset of the economic crisis most currencies were on an overvaluation trend, the trend rapidly shifted towards undervaluation in 2009. This shift reflects the implementation of devaluation policies by many countries in order to maintain international competitiveness during the crisis. In more recent years currencies have substantially stabilized. Indeed, between 2012 and 2013 data points to an increase in the REER for most countries. Exchange rate volatility also affects competitiveness as it makes foreign transactions more risky, and therefore negatively impacts international trade. Figure 20b illustrates the distribution of nominal exchange rate volatility (measured using monthly data) of currencies for circa 130 countries for each of the past 10 years. Turbulence in the currency markets increased substantially during the financial crisis of 2008 and remained high until 2012. Only in 2013 did exchange rate volatility notably subside.

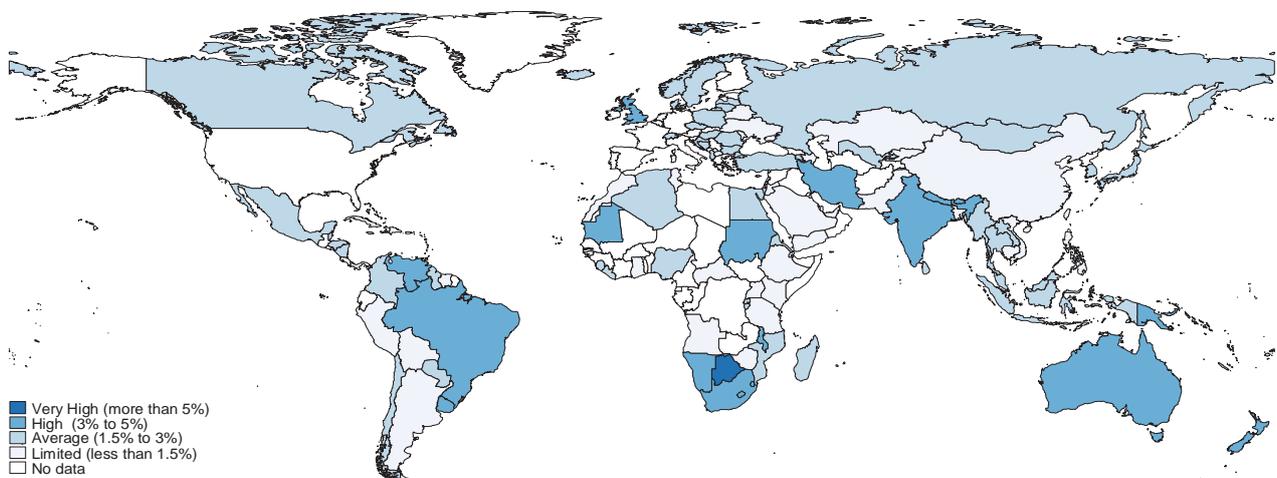
As measured by the real effective exchange rate, most developing countries experienced an overall loss in external competitiveness between 2008 and 2013. As of 2013, short term volatility in the nominal exchange rate remained an issue for many developing countries.

Figure 21
International Competitiveness, Real Effective Exchange Rate and Volatility

(a) REER changes between 2008 and 2013



(b) Short term volatility of nominal exchange rate, 2013

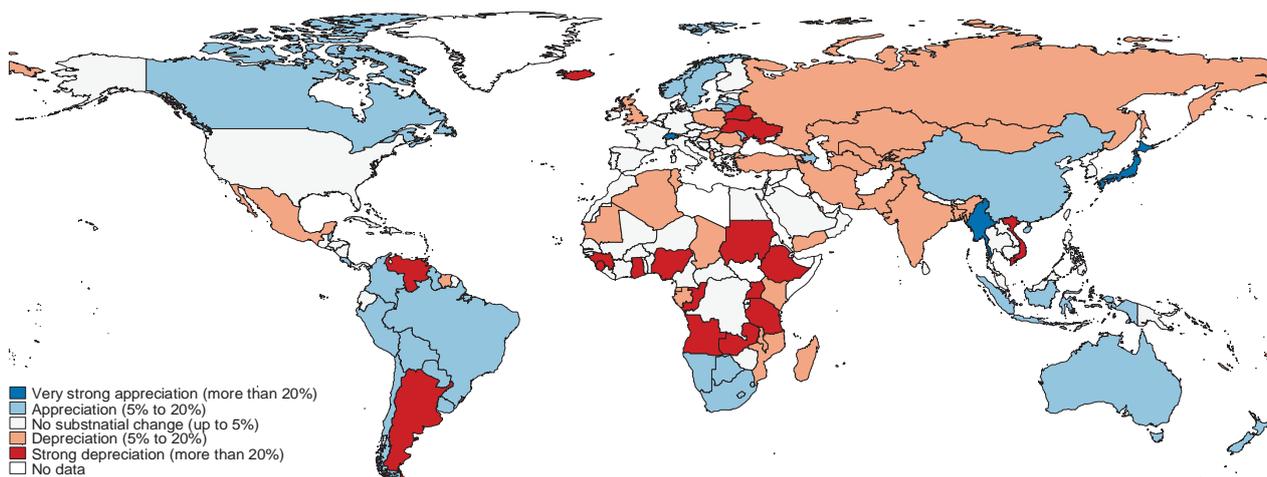


A strong appreciation of the real effective exchange rate (REER) was experienced between 2008 and 2013 by a substantial number of developing countries, therefore reducing their international competitiveness (Figure 21a). The progressive loss of competitiveness has affected most major emerging economies, with the exception of the Republic of Korea and Argentina. On the other hand, the REER has declined in the case of certain developed countries, including the United States, Germany and Japan. As of 2013, exchange rate volatility remains high for numerous countries, both developing and developed (Figure 21b).

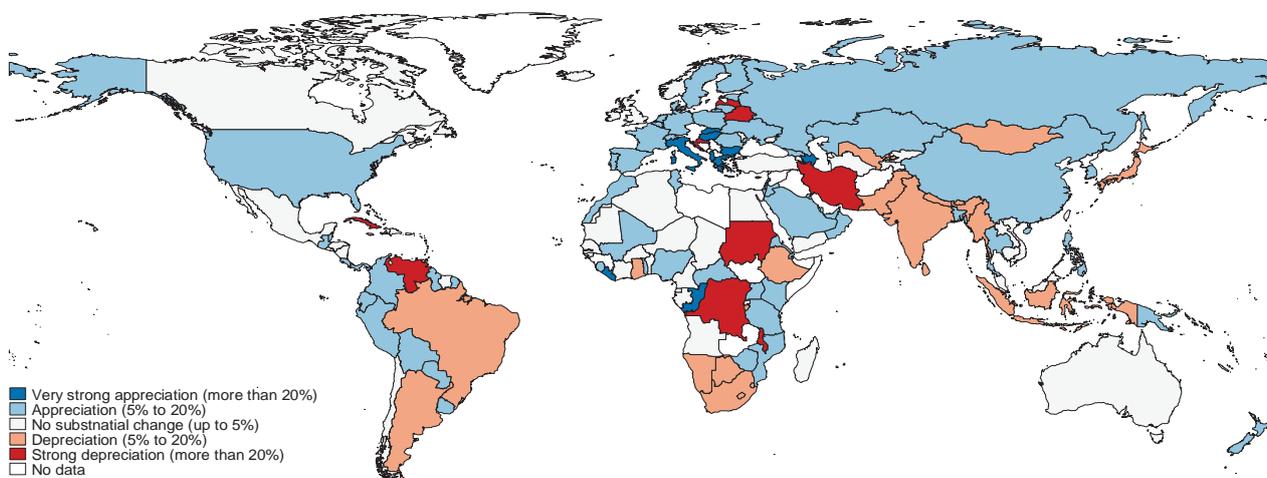
During the global economic crisis and its aftermath many developing countries' currencies depreciated, leading to an increase in their international competitiveness. With some notable exceptions, this trend has largely been reversed since 2011.

Figure 22
Nominal Effective Exchange Rates

(a) Percentage change between 2008 and 2011



(b) Percentage change between 2011 and 2013



Figures 22a and 22b portray the change in nominal effective exchange rates between 2008-2011 and between 2011-2013, respectively. Countries' exchange rate movements are measured against a basket of currencies weighted according to levels of trade with the issuing countries. This measure captures movements of a country's currency against those of its main trading partners. During the economic crisis many developing countries pursued policies that allowed their currencies to depreciate, thus helping to boost their international competitiveness. However, since 2011 this trend has for the most part been reversed. Some notable exceptions include Argentina, Venezuela, India and Pakistan, that continued to experience depreciating currencies relative to their major trading partners, even after 2011.

DATA SOURCES:

All statistics in this publication have been produced by the UNCTAD Secretariat by using data from various sources. Data on tariffs and non-tariff measures originates from the UNCTAD TRAINS database (www.unctad.org/trains), while data on bound tariffs derives from the WTO's Consolidated Tariff Schedules database (tdf.wto.org). Trade data is from UN COMTRADE (comtrade.un.org). Data on trade defence measures is sourced from the World Bank Temporary Trade Barriers database (go.worldbank.org/W5AGKE6DH0) and WTO I-TIP (i-tip.wto.org). The underlining tariff and trade data is at the Harmonized System 6-digit level and has been standardized to ensure comparability across countries. Data related to preferential trade agreements is derived from various databases including the WTO regional trade agreement gateway (rtais.wto.org), the World Bank global preferential agreements database (wits.worldbank.org/gptad/trade_database.html) and the NSF-Kellogg Institute Database on Economic Integration Agreements (kellogg.nd.edu). Yearly exchange rate data and other macro level data used in the figures originate from UNCTADSTAT (unctadstat.unctad.org). Monthly exchange rate data used to compute volatility indices is sourced from Bloomberg (www.bloomberg.com). Unless otherwise specified, aggregated data covers more than 160 countries representing over 95 per cent of world trade. Data on non-tariff measures only covers around 30 countries, and therefore may not be representative of world trade.

Countries are categorized by geographic region as defined by the UN classification (UNSD M49). Developed countries comprise those commonly categorized as such in UN statistics. For the purpose of this report, transition economies, when not treated as a single group, are included in the broad aggregate of developing countries. Following the Broad Economic Categories (BEC) classification, international trade is classified into different categories (primary, intermediate, consumers and capital goods; and agriculture, manufacturing and natural resources). At the more detailed level, product sectors are categorized according to the International Standard Industrial Classification (ISIC), augmented by five broad agricultural sectors based on the Harmonized System classification.

Unless otherwise specified, the statistics in this report are trade weighed. Statistics on tariffs also include ad-valorem equivalents of specific duties (see wits.worldbank.org for more details on how ad-valorem equivalents are calculated).

Data on preferential trade agreements include agreements in force as of December 31st 2013. Preferential trade agreements that relate to both goods and services are counted as one.

Non-tariff measures are classified according to UNCTAD classification 2012 (www.unctad.info/en/Trade-Analysis-Branch/Key-Areas/NTM)

Further information relating to the construction of data, statistics, tables and graphs contained in this publication can be made available by contacting tab@unctad.org.

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