

“Progressive Volume of World Trade and the Rising Trade Delays: A Paradox”

Anuradha Yesugade¹, Hemant Abhyankar²

¹ Assistant Professor, BVDU – IMED, Pune 411038

Institute of Management and Entrepreneurship Development, Pune.

² Professor, Gokhale Institute of Politics and Economics, Pune 411038

Abstract: - This paper is aimed at exploring and understanding the issues leading to the significant rise in Cross Border Trade Settlement Delays and Disputes as a result of Substantial Rise in Volume of World Trade. The study is based on use of Secondary Data and Primary Data. Primary Data is collected through informal interview with the parties to the trade (i.e. Importer, Exporter and Banker) from Pune region. The study concludes that with the rise in Volume of World Trade as a fallout of globalization the Dispute and/or Delay/ Non Settlement Cases or on rise. This is an alarming situation and matter of concern to the trading nations. The Paper tries to explore the major issues leading to such situation (i.e. cross border trade settlement disputes/delays/ non settlement etc.). Therefore the trading countries in general and the parties to the trade in particular can work out certain mechanism to avoid such delays/non settlement and can get benefited with the early settlements avoiding further business losses and can take advantage of gaining, in the era of Globalization.

Keywords: Cross Border Trade, International Trade, Non Settlement, Delay in Trade Settlement, Disputes in Cross Border Trade Settlement, Arbitration.

I. Introduction :

With the advent of globalization the world trade has witnessed phenomenal growth, particularly in the first decade of the 21st century. The increase in the volume of world trade is certainly not without trade settlement related issues, which are somewhat complex in nature, resulting into unavoidable delay the process of trade settlement. The complexities are attributed to various factors that really differentiate cross border trade from domestic trade. These factors are financial and Non-financial in nature, such as Economic Environment, Socio Political environment, Currencies and Distance. This paper mainly focuses upon understanding and exploring the issues leading to the Delays and Disputes in Cross Border Trade.

II. Objectives of the Study

1. To exhibit the paradox between Volume of world trade and Non - Settlement cases/ Delay in settlement/Disputes
2. To explore the issues leading to the Delays/Disputes and Non - Settlement cases in Cross Border Trade.

III. Research Methodology

A combination of Exploratory and Descriptive Research Design is applied. Exploration is done through the extensive review of literature and Descriptive study is carried out to delve deeper into the characteristics of the

problem under study. Primary Data is collected through informal interviews with Importers/ Exporters and Bankers from Pune City.

IV. Literature Review:

Against the background of the Research Theme and the following literature have been reviewed

- A. Research Papers related to Delays /Disputes / Non Settlement cases in Cross Border Trade
- B. WTO and ICC Reports on World Trade Statistics and Dispute/Arbitration Cases

A. Review of Research Papers:

- a) Alberto Behar and Anthony J. Venables (2010) [1] Transport Costs and International Trade, *Handbook of transport economics*,1-15.

This paper studies the impact of transport costs on the volume and nature of international trade. To what extent has the rise in international trade been driven by changes in transport costs? Secondly it tries to identify the determinants of international transport costs in terms of distance, geography, infrastructure, trade facilitation, technology, fuel costs. This paper concludes that Transport costs affect international trade and vice versa. Both are influenced by considerations of geography, technology, infrastructure, fuel costs and policy towards trade facilitation.

The work surveyed in this paper suggests some initiatives which will help to reduce transport costs and boost trade volumes for many countries and their neighbours.

- b) Liu Lan, Yue, Chengyan (2013), [2] Investigating the impacts of time delays on trade, Food Policy, Elsevier, 108-114.

This paper investigates how time delays affect product quality, product price, trade flow, and social welfare, using data on the days it takes to clear customs in 96 countries. The paper explores the impacts of time delays on product quality and price with different levels of perishability. It identifies that longer time delays at the border would significantly decrease highly perishable agricultural products' quality and price. It also identifies that for highly perishable agricultural products, improved and simplified customs delays would increase trade flows and social welfare of importing countries.

- c) Simeon Djankov, Caroline Freund, Cong S. Pham, (2006) [3] Trading on Time, World bank policy Research Working Paper.

This paper determines how time delays affect international trade, using newly collected World Bank data on the days it takes to move standard cargo from the factory gate to the ship in 126 countries. It estimates a difference gravity equation that controls for remoteness, and find significant effects of time costs on trade. It identifies that each additional day that a product is delayed prior to being

shipped reduces trade by more than one percent.

The paper concludes that delays have an ever greater impact on developing country exports and exports of time sensitive goods, such as perishable agriculture products. Results of the paper highlights the importance of reducing trade costs (as opposed to tariff barriers) to stimulate exports. These results have important implications for developing countries seeking to expand exports.

The literature in the form of research papers throws light upon the determinants causing delay in trade disputes in terms of Distance, Geography, Infrastructure, Trade Facilitation, Technology, Fuel Costs and Policy Towards Trade Facilitation and Logistic related issues Transport Costs, Custom Duties, and how delay in perishable goods leads to loss of quality of goods leading to further business losses. It is about the logistic aspects involved in the movement of the goods and the role played by clearing and forwarding agents with focus on International commercial terms, without offering remedial measures that may cause in the flow of goods resulting delay and non-settlement.

- B. The second part of literature review presents the statistical data obtained from WTO and ICC about the Volume of World Trade and Dispute Cases

With the advent of globalization and subsequent openings of economies there has been phenomenal rise in world trade. It is evidenced by the statistical data obtained from authentic sources i.e. WTO, IMF, and I.C.C. The data so obtained is reproduced below and clearly indicates growth in the volume of cross border trade transactions.

The data so derived from WTO website is tabularized and presented graphically as above

Year	World trade in US Million \$	Year	World trade in US Million \$	Year	World trade in US Million \$	Year	World trade in US Million \$
1980	20,36,000						
1981	20,14,000	1991	35,11,000	2001	61,95,000	2011	1,83,38,000
1982	18,86,000	1992	37,79,000	2002	64,99,000	2012	1,84,96,000
1983	18,46,000	1993	37,95,000	2003	75,90,000	2013	1,89,48,000
1984	19,56,000	1994	43,28,000	2004	92,23,000	2014	1,89,95,000
1985	19,53,000	1995	51,68,000	2005	1,05,09,000		
1986	21,39,000	1996	54,06,000	2006	1,21,31,000		
1987	25,16,000	1997	55,92,000	2007	1,40,23,000		
1988	28,69,000	1998	55,03,000	2008	1,61,60,000		
1989	30,99,000	1999	57,19,000	2009	1,25,55,000		
1990	34,90,000	2000	64,58,000	2010	1,53,01,000		

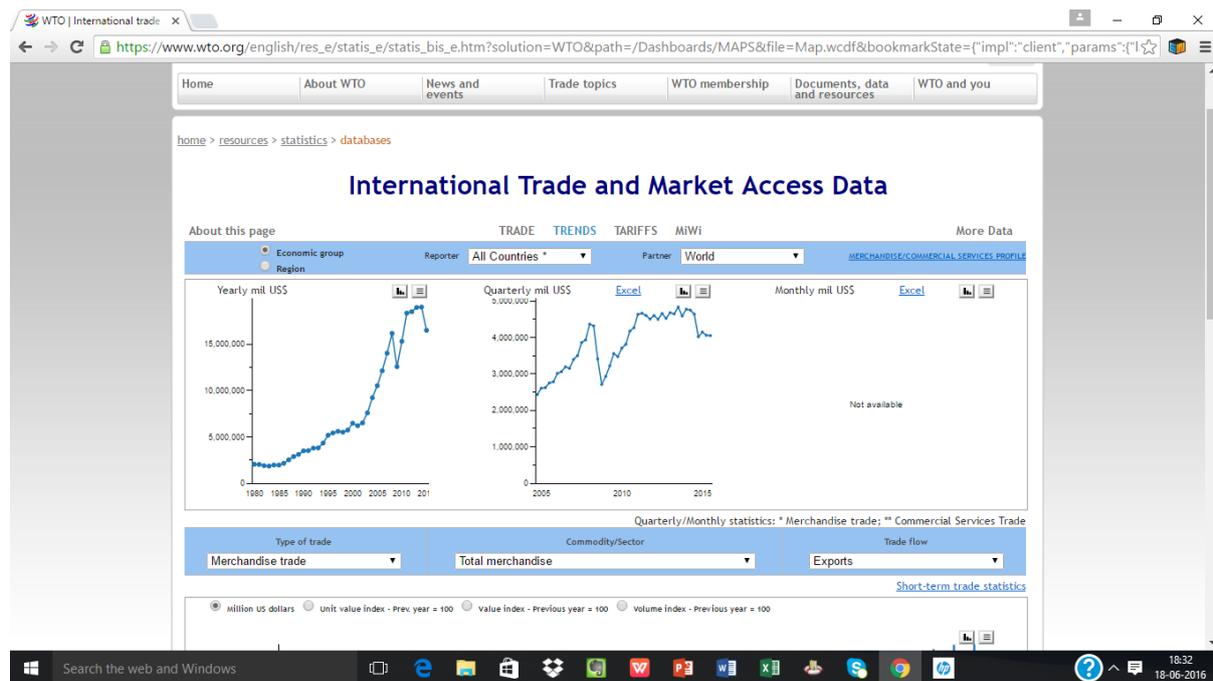
The following graph shows the trend of world trade since the year 1980 to 2014

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Source: Link (WTO International Trade and Market Access Data)

https://www.wto.org/english/res_e/statis_e/statis_bis_e.htm?solution=WTO&path=/Dashboards/MAPS&file=Map.wcdf&bookmarkState={%22impl%22:%22client%22,%22params%22:{%22langParam%22:%22en%22}}



Source: Link (WTO International Trade and Market Access Data)

https://www.wto.org/english/res_e/statis_e/statis_bis_e.htm?solution=WTO&path=/Dashboards/MAPS&file=Map.wcdf&bookmarkState={%22impl%22:%22client%22,%22params%22:{%22langParam%22:%22en%22}}

The data is derived from WTO website is tabularized and presented graphically as above.

It is observed that rise in the volume of world trade is certainly not without complexities and subsequent disputes and delays in the settlement process. Which is evidenced by figures pertaining to settlement claims and cases obtained from various authentic sources. The data so obtained is reproduced below and also clearly indicates rise in non-settlement related issues.

- At the London Court of Arbitration (LCIA), new claims filed increased by 55% between 2007 & 2008 and again by over 14% in 2009 to 243 cases.
- Statistics from Paris based International chamber of commerce (ICC), and the Swiss Chamber’s Court of Arbitration and mediation (SCCAM) tell the same story. ICC new cases increased 11% in 2008 and a further 23% in 2009 to 817 new claims.

- The Dubai International arbitration centre reported a doubling of cases in 2009 compared with 2008. Similar trends have also been observed in Asia.
- Similarly cases filed with ECC were shown growth in number from 2007 to 2009 by 60%
- European Consumer Centres Network consisting 29 centres operating with an aim. The complaints registered with them has grown from 500 in the year 2007 to 6500 in the year 2008 and estimated to be 8000 in 2009. In other words an increase in the no. of complaints 60% from 2007 to 2009.

The above data is summarized in table as follows:

Competent Authority	Year	% Rise in Dispute cases/claims
LCIA (London Court of Arbitration)	2007-2008	Increase in Claims by 55%
	2008-2009	Further increase by 11%
ICC (Paris based international chamber of commerce)	2007-2008	Increase by 11%
	2008-2009	Further increase by 23 %
ECC (European consumers center network)	2007-2009	Increase in cases by 61%

Thus the above Data clearly indicates year wise rise in settlement related issues along with rise in world trade. The above aspect is quite clear from comparison of world trade and trade disputes.

II. Trend Analysis of the Volume of Cross Border Trade

Table Showing Comparison of Volume of World Trade with Dispute Cases:

Period	% Rise in World Trade	% Rise in Disputes
2007-2008	15.18%	55%
2008-2009	22.30%	69%
2009-2010	21.78%	60%
Average	19.75%	61.33

Data Derived from ICC Arbitration Statistics:

The ICC International Court of Arbitration has administered more than 20,000 disputes involving parties and arbitrators from some 200 countries and independent territories. The data so procured is tabularized and presented as below:

Year	Arbitration Cases	Parties	Countries	Awards Rendered
1999	529	1354	107	269
2000	541	1398	120	334
2001	566	1492	116	341
2002	593	1622	126	359
2003	580	1584	123	369
2004	561	1682	116	345
2005	521	1422	117	325
2006	593	1613	125	293
2007	599	1611	126	349
2008	663	1758	120	407
2009	817	2095	128	415
2010	793	2145	140	479
2011	796	2293	139	508
2012	759	2036	137	491
2013	767	2120	138	471
2014	791	2222	140	459
2015	801	2283	133	498

Table showing % rise in Arbitration cases filed at ICC

Period	Arbitration Cases	Percentage Increase
1999 to 2015	529 to 801	51.41%

Table showing % rise in Arbitration cases filed at ICC

Period	Total Arbitration Cases	Parties to the trade	Total Awards Rendered	Percentage of Awards rendered
17 years	11270	30730	6712	40.44%

The comparative study of the data brings to light an interesting observation that with the progressive rise in the world trade, as a fall out of globalization, is also marked by corresponding rise in settlement related issues like outstanding claims and cases exhibiting the Paradox. *One of the glaring fact noticed is settlement process is getting delayed.*

The above fact aroused the interest of the researcher in understanding intricacies of Cross Border Trade Transactions and probing further into cross border Trade Settlement Related Issues and Problems associated thereto.

To delve deeper into the problem of research researcher undertook a pilot survey followed by literature review. The Pilot Survey of traders was carried out, to understand the issues faced by participants of Cross Border Trade leading to Delay and Non Settlement. i.e. Established Traders: Importers and Exporters, New Entrepreneurs/ new entrants in cross border trade settlement and the Bankers.

The results of the pilot survey brought to light following facts.

1. The International trade settlement methods commonly followed are:
Documentary credits, Advance Payment, Documentary collection, On Consignment trading, Open Account, International guarantees.
2. Recently, new entrepreneurs have entered into international business deals, and they are not well conversant as regards selection of trade settlement method and process involved therein and much rely upon advice of consultants.
3. The establish traders are continuing with traditional practices and opt for Letter of Credit as a popular and commonly acceptable method.
4. Parties to the trade are facing increasing competition. Due to Globalization this competitive nature has direct bearing in the process of selection of the method.
5. Even established traders have not developed any mechanism to study the pros and cons of the methods while entering into negotiation and rationale in selection of method.

References:

➤ Research Papers:

1. Alberto Behar and Anthony J. Venables (2010) [1] Transport Costs and International Trade, *Handbook of transport economics*,1-15.

6. The methods as such are perfect in nature, but wrong selection and application of method entails risk

V. Conclusion:

The observations made above are based on pilot survey and the secondary data presented above, led researcher to conclude that the issues causing to non-settlement or delay or dispute in cross border trade are Social, Political, Economic, Legal, Logistics, Infrastructure, Technology etc. which can be considered as external factors for the parties to the trade.

Secondly the findings of Pilot Survey revealed that, the parties to the trade face certain issues while dealing in Cross Border Trade and one of the reason revealed by them is the Lack of mechanism to Appropriate Selection of Trade Settlement Method. Methods are perfect in nature. But most of the time wrong selection and application of method led to delay in the settlement process.

The new entrants lack the desired skill sets while selection of method. Without regard to comparative study of Trade Settlement Methods, the method is decided through trade negotiation between the parties to the trade. The Established Traders also without doing much analysis of available trade methods, generally prefer the Documentary Credit Method as Most Commonly used and Popular Trade Method. Even though the method is popular, it is not full proof. The delay/dispute cases under Documentary Credit is also reported high in number.

Further Scope for Research:

In Both the above cases of New Entrants/Entrepreneurs/ Traders and the Established Traders lack the desired skill sets for selection of appropriate cross border trade method which further entails the delay or non-settlement or dispute cases. In order to minimize such things, further research can be carried out on comparative and critical analysis of cross border trade settlement methods recommending certain mechanism, guidelines or framework to the parties the trade in Selection of appropriate trade method suitable to particular situation and the transaction leading to early settlement.

2. Liu Lan, Yue, Chengyan (2013), [2] Investigating the impacts of time delays on trade, Food Policy, Elsevier, 108-114.
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