

# TRADE HOT TOPICS *Commonwealth*

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## Trade Facilitation: Facilitating Trade for Development

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### Introduction

Trade facilitation has become a hot topic in the context of the World Trade Organisation (WTO) Doha Development Round of multilateral trade negotiations. Humble, technical issues concerning goods in transit, fees and formalities for exports and imports, and customs procedures have suddenly moved onto the global political agenda. During 2005, the temperature of the multilateral trade negotiations on these and related subjects will undoubtedly heat up even more. Many Commonwealth governments will be faced by the need to re-evaluate their approaches to cross-border trade procedures. This short paper examines the topic of trade facilitation, the likely scope of the WTO negotiations on this theme, and suggests some ways in which broader approaches to facilitating trade could generate significant benefits and contribute to economic development—especially for less-advantaged countries.

### Background

On 1 August 2004, after two weeks of intense talks, WTO members adopted the so-called July Package, an agreement setting the parameters for further negotiations in the Doha Round. This included an agreement to drop the controversial Singapore issues (including investment, competition and transparency in government procurement) but to include trade facilitation in the Work Programme<sup>2</sup>. By explicit consensus, members decided to commence negotiations on trade facilitation, according to the “Modalities for Negotiations on Trade Facilitation”. The Modalities stipulate that negotiations “shall aim to clarify and improve relevant aspects of articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit”<sup>3</sup>. The Modalities also assure that the special and differential treatment principles for developing and least-developed countries shall be fully taken into account, and more effective technical assistance and capacity building carried out as part of a collaborative

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<sup>2</sup> For a good overview of the key issues under discussion in the Doha Work Programme, see Commonwealth Trade Hot Topics issue No.35.

<sup>3</sup> WTO, Doha Work Programme: Decision Adopted by the General Council on 1 August 2004, Geneva: WTO, WT/L/579.

approach among international organisations. So the WTO decisions brought trade facilitation into the mainstream.

Many definitions of trade facilitation abound. One that is perhaps most helpful is that: “the primary goal of trade facilitation is to reduce the transaction cost and complexity of international trade for business and improve the trading environment in a country, while at the same time optimising efficient and effective levels of government controls”<sup>4</sup>. Trade facilitation measures are also considered as beneficial in improving transparency, especially at the border. Once considered primarily a technical issue, several recent developments in the way that international trade is conducted have led to the emergence of trade facilitation as an important economic and trade development issue. Some of the most significant developments include<sup>5</sup>:

- more and more industrial products sold throughout the world are assembled in one country from components manufactured in several others. As complexity in the supply chain increases, the delays and costs caused by slow and inefficient border procedures are multiplied;
- increased reliance on just-in-time techniques by manufacturing industries and the growth of integrated global supply, production and distribution systems in the hands of multinational companies place new importance on finely-timed transport arrangements;
- the procedures and information flows associated with traditional port-to-port and surface operations are not able to cope with the exponential growth of cross border trade in goods due to lower tariffs and the advent of rapid containerised through-movement and jet airfreight;
- aid agencies increasingly perceive that poor quality frontier and payment procedures and associated inefficient practices are having pronounced adverse effects on the ability of developing countries to play a full role in global international trade expansion and in the attraction of foreign direct investment;
- the internet and e-commerce are transforming shipments that once would have been transported in a single container and cleared on a single entry into dozens of individualised shipments, each requiring separate customs documents and clearance procedures, presenting a major challenge to customs authorities and couriers;
- due to the increased focus on security issues, countries with complex and/or obscure trade procedures will tend to be excluded from international supply chains in favour of countries with better trade facilitation procedures.

In fact, some experts would argue that, after several rounds of tariff cuts under the GATT/WTO, trade facilitation is arguably more important than further tariff reductions as a trade development tool. According to a recent study carried out by the Organisation for Economic Co-operation and Development (OECD), estimates of transaction costs range from 2 percent to 15 percent of the total transaction value<sup>6</sup>. These estimates may seem surprisingly high. But imagine the costs associated with the 250 kg of paper in the form of invoices, bills of lading etcetera that an average cargo ship carries with it to get through customs<sup>7</sup> or the time and money allegedly needed by an exporter in India, who has to obtain 258 signatures and make 118 copies of the required information, the keypunching of which takes 22 hours<sup>8</sup>.

<sup>4</sup> UNECE (2002), *Trade Facilitation: an Introduction to Basic Concepts and Benefits*, Geneva: United Nations, ECE/TRADE/289.

<sup>5</sup> OECD (2002), *Trade Facilitation*, Paris: OECD, TD/TC/WP(2002)7

<sup>6</sup> OECD (2001), *Business Benefits of Trade Facilitation*, Paris: OECD, TD/TC/WP/2001/21/Final.

<sup>7</sup> Lamy, P. (2003), “Trade Facilitation in the New World Trade Environment” in Cosgrove-Sacks, C. and M. Apostolov (eds.), *Trade Facilitation: The Challenges for Growth and Development*, ECE/TRADE/299.

<sup>8</sup> Roy, J. (2003), “Feeling Good, but Vision Still Needed”, The Financial Express, India, October 2003.

Indeed, the implementation of appropriate and efficient facilitation measures could help countries significantly cut the costs related to the regulation, administration and enforcement of trade policies. Evidence suggests that these measures would benefit governments, exporters, importers and consumers alike. For several reasons, as set out below, it is particularly developing countries that could gain most from the adoption of trade facilitation measures. This would also contribute to their efficient participation in international trade and increase their attractions for foreign direct investment.

To allow developing countries to achieve trade facilitation in its broadest sense, international, regional and national aid organisations and developing countries must together coordinate their efforts to develop a comprehensive strategy to address all areas of trade facilitation. Only in this way could less-advantaged countries take full advantage of the many development opportunities provided by the global trading system.

### **What does Trade Facilitation mean?**

The negotiations on trade facilitation under the WTO's Doha Work Programme aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994, dealing with, respectively, freedom of transit; fees and formalities connected with importation and exportation; and publication and administration of trade regulations.

“Article V sets out the basic principles allowing for freedom of transit through the territory of each Member, but provides no guidelines on how these principles should be applied. Proposals for negotiations relate to issues that include: simplifying and standardising customs procedures and documentary requirements; providing non-discriminatory treatment between the modes of transit, individual carriers and types of consignment; and implementing existing international and regional transit instruments and arrangements.

Article VIII recognises the need for simplifying import and export formalities and documentation. It does not, however, provide any mandatory requirements in this area. Several Members have suggested that international standards should be used to simplify border-related documentation and procedures.

Article X has the objective of ensuring transparency through publishing and making available to all parties concerned, in particular to traders, all regulations, laws, rulings and other information affecting and relating to international trade processes, including cross-border procedures and customs administration”<sup>9</sup>.

In the United Nations (UN), trade facilitation is generally defined more broadly than simply the three GATT articles, including all formalities and procedures related to international trade and the transportation of goods and services over borders—including contractual, transactional and payments issues. A more holistic approach to trade facilitation is suggested by the list of factors included in the so-called *diagnostics tools* proposed by the World Bank in the context of the Global Facilitation Partnership for Transportation and Trade<sup>10</sup>. These factors include:

- the operational efficiency and integrity of customs services;
- the management of ports through which imports and exports are processed;
- commercial integrity and the compliance of the private sector with trade related procedures;
- the national and international trade-related regulatory framework;
- multi-modal transport operations and legislation;
- payment systems for traded goods and services

<sup>9</sup> UN/CEFACT (2004), UNECE Instruments to Address Trade Facilitation in the WTO Doha Work Programme: Review of Articles V, VII and X of the GATT 1994, Geneva: United Nations, TRADE/CEFACT/2005/28.

<sup>10</sup> Raven, J. (2001), *Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action*, Washington: World Bank.

- the automation of trade-related systems and procedures;
- agents' functions and attitudes;
- institutional resources, and
- the flows of information and consultation between various parties involved in international trade.

Although relatively broad, including trade and transport issues together, it could be argued that even this list still remains too focused on the movement of goods without considering the legal and transactional issues associated with security and e-commerce in a cross border context. In the age of globalisation, all countries, however remote and whatever their level of economic development, are increasingly challenged by the need to integrate into regional and global markets.

To deal with this challenge, “countries should not limit themselves to national regulations and procedures. They should work with other countries to achieve international harmonisation, simplification and standardisation of procedures and documents, as well as the harmonisation and standardisation of national trade and transport system components. In addition, measures must be included to improve the physical movement of goods, through the supply of better (transparent, predictable, uniform) services, creating an adequate legal environment, appropriate transport infrastructure, use of modern information and communication technology tools by service providers and users”<sup>11</sup>.

### **A Short History of Trade Facilitation**

Although it has never before commanded such high-level political attention, trade facilitation is by no means a new issue in international trade. Staples traces back the issue to medieval times, “when a bewildering array of discriminatory charges by local rulers inhibited trade. The consolidation of nation states from the fourteenth century gave a stimulus to both local and international trade. In this period, the power of regulation gradually shifted from town to state from Guild Merchant to Parliament. In England, prior to obtaining the full right of royalty to impose duties, kings had attempted to offset declining feudal revenues by instituting a range of fees for services such as inspection, weighing of goods and mooring of vessels. Over time, English Parliament secured taxation and trade powers and started to create several democratic institutions, including one of the oldest departments of government: customs. It was during this time that we come across one of the first well-known trade facilitators, Edward III, known as “The Father of English Commerce” because of the consolidation of customs during his reign”<sup>12</sup>.

While most export tariffs were eliminated over time, import duties became ever more important as a source of government revenue. English tariff structures and regulations were still very complex when Sir Robert Walpole, in the first half of the 18th century, initiated a comprehensive simplification of the tariff system. Over time, trade facilitation became more of an international concern. In 1920, the International Chamber of Commerce was founded to apply the principles of private business to the current issues of international economic policy. Even at that time, it already dealt with issues such as double taxation, commercial arbitration, customs formalities, international river communication, bills of lading and the interpretation of most-favoured nation treatment<sup>13</sup>, and many of these issues have come to be seen as part of the mosaic of trade facilitation.

### **Trade Facilitation Today**

Nowadays the focus of facilitation is on various international measures to provide a common set of international standards or common trade and customs rules and guidelines for all countries. It is

<sup>11</sup> UNECE (2002), op cit.

<sup>12</sup> Staples (1998), Trade Facilitation – Draft, Washington D.C.: World Bank.

<sup>13</sup> Condliffe, J.B. (1950), *The Commerce of Nations*, Binghamton, N.Y.: Norton and Company.

of the utmost importance that this work is carried out in as broad an international context as possible. If countries implement different standards and systems of simplification of trade procedures, the result will be very complex and progress will be limited. To date, the most important work in the field has been done by intergovernmental organisations including the World Customs Organisation (WCO), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Economic Commission for Europe (UNECE)<sup>14</sup>.

The WCO is the international organisation most closely identified with the issue of trade facilitation focused on customs administrations. Its objective is to increase the efficiency and effectiveness of customs administrations around the world by reviewing the technical aspects of customs programmes and sharing the results of these studies co-operatively with customs organisations. Its 1973 International Convention on the Simplification of Customs Procedures (the Kyoto Convention) was a major international treaty designed to promote the standardisation and simplification of customs procedures worldwide. The convention underwent a substantial revision in 1999, resulting in improved provisions for customs automation, electronic commerce, audit-based reviews and risk management techniques. It is the most comprehensive instrument for promoting international trade facilitation in the world today. Another major instrument is the 1993 Declaration Concerning Integrity in Customs (the Arusha Declaration), which addresses the issue of corruption within customs administrations. The WCO is responsible for literally dozens of additional programmes, guidelines, resolutions, norms, recommendations and international conventions.

UNCTAD is actively involved in trade facilitation and encourages the input and participation of developing economies in trade facilitation initiatives. UNCTAD's Automated System for Customs Data and Management (ASYCUDA), a customs software programme developed specifically for developing countries, simplifies and automates customs functions with a view towards increasing revenue collection, speeding clearance of cargo and improving data collection and dissemination.

The regional economic commissions of the United Nations are also significant in promoting trade facilitation. The UN Economic Commission for Europe (UNECE) is in many ways the home of modern trade facilitation. Its fifty-five member states, including the USA and Canada, all of the European Union and EFTA, and all the former Soviet countries plus Turkey and Israel together account for more than two-thirds of world trade. Countries like Canada, the United Kingdom, Finland and Sweden have been in the forefront of measures to promote the facilitation of international trade for more than fifty years. Indeed the UNECE and its internationally recognised Centre for Facilitation of Procedures and Practices for Administration, Commerce and Transportation (CEFACT) has become the principal forum for developing trade facilitation recommendations, including agreed norms and standards for automating international procedures to support regional and global supply chains. In 2004 it adopted a recommendation on the establishment of a "Single Window". A Single Window would allow for the lodgement of standardised information and documents with a single entry point to fulfil all export, import and transit related regulatory requirements. UNECE is perhaps best known for its work on Electronic Data Interchange (EDI), a form of electronic commerce that uses a structured exchange of data between two parties in any trade transaction, and for the development of the United Nations Electronic Data Interchange for Administration, Commerce and Transport (UNEDIFACT).

Another trade facilitation instrument originating in UNECE is the TIR transit system, one of the most successful international transport conventions and so far the only universal transit system in

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<sup>14</sup> This paragraph relies heavily on Staples, B.R., (2002), "Trade facilitation: improving the invisible infrastructure" in Hoekman, B., Matto, A. and English, P. (eds.) *Development, Trade and the WTO: a Handbook*, Washington, D.C.: World Bank, to whom one may also refer for further information on the different organisations working on trade facilitation and their specific areas of expertise.

existence. First drawn up in 1949, and having undergone a major revision in 1975, UNECE is currently computerising the whole TIR process. The final objective is to provide countries with an electronic tool for the international transfer of advanced cargo information for TIR transport, thereby also enhancing the security of transit operations. Also in the line of security, UNECE manages the regulation of the carriage of dangerous goods by rail and by road. In the light of recent developments, it has adopted new provisions with a view to enhancing the security of the transport of such goods. The provisions focus in particular on identification of carriers, securing temporary storage, better identification of crew and the implementation of training and security plans.

Many other organisations undertake valuable work in the field, including, but not limited to, the United Nations Commission on International Trade Law, the International Maritime Organisation, the International Civil Aviation Organisation, the International Organisation for Standardisation, the International Federation of Freight Forwarders Associations and the International Road Transport Union. Some countries maintain public or semi-public organisations that seek to facilitate trade such as SITPRO (UK) or organisations that focus on trade facilitation through electronic means such as Tradegate (Australia).

Meanwhile in the WTO, apart from the three articles of the GATT 1994 currently under discussion in the Doha Round, a number of international agreements have direct implications for trade facilitation. These include the Harmonised Commodity Description and Coding System, the Customs Valuation Agreement and the Agreement on Rules of Origin. These agreements determine the tariff classification of an imported product, its country of origin and its value for duty purposes. Other WTO agreements, which have an effect on trade facilitation, include the Agreement on Import Licensing Procedures, the Agreements on Technical Barriers to Trade and on Sanitary and Phytosanitary Measures and the Agreement on Preshipment Inspection. However, within the Doha Development Agenda, the focus is strictly on articles V, VIII and X of the GATT 1994.

### **Trade Facilitation in Practice**

An illustration of the benefits of trade facilitation in practice is the way Canada has dealt with the trade challenges it has faced over the past decade, particularly the creation of the North American Free Trade Agreement which created a huge market of more than 380 million people, generating over CA\$500 billion a year of cross border trade in this market alone, but posing enormous demands on the customs infrastructure. As a consequence, the Canada Customs and Revenue Agency (CCRA) had to completely change its way of doing business<sup>15</sup>.

In the early 1990s, innovative customs line release systems, which process the information of shipments before its arrival at the border, were introduced enabling the country to deal with traffic congestion at border locations and to expedite the movement of goods on arrival in Canada. Nearly 70 percent of shipments arriving at border offices are now cleared in advance. This process, in conjunction with EDI, has greatly changed the way the importers and the CCRA do business. For example:

- importers/brokers are able to present the necessary information before the truck arrives, thereby allowing better workload management;
- customs broker after hour service charges can be eliminated since a broker can present the necessary information prior to the arrival of the goods. The Customs administration provides 24-hour service, seven days a week. Release of the goods can take place without the broker being present;

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<sup>15</sup> *Trade Facilitation: Canada's National Experience*, WTO G/C/W/238.

- driver waiting time is reduced from hours to minutes since goods can be released at the primary inspection point without the driver even leaving the truck.

An example of a completely different kind of trade facilitation is the broad and inclusive consultative mechanisms set up in New Zealand to encourage dialogue between users and border control agencies including the Customs Service<sup>16</sup>. An example is “Tomorrow’s Cargo Logistics” which consists of major government and business organisations involved in freight handling. The group provides a forum for discussion and resolution of customs related problems and aims to work together in achieving seamless cargo processing with the least regulatory impact. The current focus is on reducing the costs involved in the export process by identifying the data each participation in the export chain requires and agreeing, wherever possible, to transfer the data to each other. Ultimately, the goal is to be able to share this information with freight and agency interests at the point of destination.

### **Threats to Security—A new Challenge to Trade Facilitation**

Security has always been a factor to be considered in international trade. However, the nature of security threats and particularly the perception of the nature of these threats have changed dramatically since the terrorist attacks in the United States in September 2001. Effectively, the focus has shifted from the relatively minor threat *to* trade (from theft, hijackings, corruption and terrorist interventions, etc.) to the much more alarming threat *from* trade, where terrorists could use the mechanisms and processes of trade as a weapon in its own might. This challenge affects the developed, and indeed the developing, world. Although the nature and extent of the threat from trade is, fortunately, mostly speculative at present, it is essential to understand the seriousness with which many countries approach the issue<sup>17</sup>.

Not surprisingly, after the attacks of 11 September 2001, the United States has been one of the first countries in the world to assess the potential security threat from international trade. Its government identified seaborne containers as a major potential threat and, as a response, United States Customs launched the Container Security Initiative to prevent global containerised cargo from being exploited by terrorists. The initiative is designed to enhance security of the sea cargo container—a vital link in global trade. Since December 2002, all carriers must submit a cargo declaration at least 24 hours before cargo is laden aboard the vessel at a foreign port, i.e. *before* departure for the USA.

These measures need not necessarily have a negative effect on competitiveness. The port of Singapore, on a global scale, is probably the busiest port in the world, with almost 90 percent of its traffic accounted for by transshipment. The port management has invested hugely in both trade facilitation and security measures. In 2001, the author was informed that the port, at that time, was dealing with more than 100 container transshipments per hour (compared with 25 in most US ports and fewer than 10 in most other Asian ports). Its “Flow Through Container Gate” system had reduced average processing time from 5 minutes in 1988 to 25 seconds in 2001. By 2003, the port had significantly increased its security measures while maintaining its astonishing speed of through-put.

A number of international organisations have also undertaken recent work in trade security and facilitation. The WCO, for example, in 2002 adopted a Resolution on Security and Facilitation, calling for closer international co-operation and for the mobilisation of all the links in the supply chain and the encouragement of partnerships already existing in the field of international trade. This co-operation depends on an extensive exchange of information between all the players, public

<sup>16</sup> *Trade Facilitation: New Zealand’s National Experience*, WTO G/C/W/449.

<sup>17</sup> Carl, H. (2003), “Proposal for Standards Development in support of Trade Facilitation and Security: A Collaborative Approach” in *Sharing the Gains of Globalisation in the New Security Environment: The Challenges to Trade Facilitation*, UN 2003, ECE/TRADE/330.

and private, involved in international supply chains. To take forward the development and implementation of the resolution, the WCO Task Force on Security and Facilitation was set up.

Several new measures safeguarding security in trade, including the following, are likely to have a distinct impact<sup>18</sup>:

- shipping companies will see their costs and liabilities increase;
- ports will need to undertake a port security assessment and prepare a port security plan. Failure to do so could lead to vessels calling at these ports being barred from US ports;
- ports will need to expand their container inspection areas and national customs may need to invest in costly container scanning systems.

While all countries are likely to be affected, it is expected that the costs will be felt disproportionately by developing countries as they do not have the necessary infrastructure to handle risk assessment and advance cargo information. Their new investments will be proportionally much higher than in developed countries.

## **E-Commerce**

Owing to the proliferation of the internet, e-commerce—the buying and selling of goods on the internet—is increasing at an exponential rate. According to Forrester Research, e-commerce will amount to a total turnover value of US\$6.6 trillion in 2004<sup>19</sup> and keep on growing exceedingly fast. So far, e-commerce is mainly used in the countries of the Organisation for Economic Co-operation and Development (OECD), headed by the United States of America and followed at a distance by Western Europe and the Asia Pacific region. Contrary to popular belief, it is particularly business to business rather than business to consumer traffic (such as Amazon, eBay) that makes up the largest part of total trade.

In an environment increasingly characterised by rapid technological advancements, trade facilitation can make a substantial contribution to promoting these positive developments by providing meaningful rules and disciplines that apply to digital trade; ensuring that trade barriers do not retard its evolution and growth; eliminating existing barriers; and developing rules that ensure that new barriers will not be imposed.

A noteworthy initiative in this area is the joint effort by UN/CEFACT and the Organisation for the Advancement of Structured Information Standards (OASIS) to develop Electronic Business Standards using eXtensible Markup Language (ebXML). A wide range of different message types, protocols and messaging mechanisms resulted in many disparate web-enabled solutions. EbXML provides a standard of specifications that enables enterprises of any size and in any geographical location to conduct business over the Internet. Using ebXML, companies now have a standard method to exchange business messages, conduct trading relationships, communicate data in common terms and define and register business processes<sup>20</sup>.

Developing countries have been relatively absent from the active e-commerce market, one of the main reasons being that many of them lack the basic requirements for e-commerce trading. E-commerce can provide opportunities for developing countries to increase their exports and achieve more growth. Knowing that most trading in the future will be conducted electronically, developing countries cannot ignore these trends and would profit from investing more effort into facilitating this mode of trading. E-commerce can help SMEs expose their products cheaply to new markets. At the same time, it could reduce government procurement costs, as well as help them to

<sup>18</sup> UNECA (2004), *Economic Report on Africa*, p. 171, [www.uneca.org/era2004](http://www.uneca.org/era2004).

<sup>19</sup> <http://www.epaynews.com/statistics/transactions.html#29>

<sup>20</sup> <http://www.ebxml.org/geninfo.htm>

reduce import bills and increase export returns. This will only happen, however, if individuals, governments and the private sector collaborate to create the right environment for e-commerce to thrive<sup>21</sup>.

## **The Benefits of Trade Facilitation**

Trade facilitation in its broader sense delivers benefits to governments and traders throughout the world. It is a method of reducing costs of operating customs regimes and increasing competitiveness while at the same time attracting importers and investment. The following are some examples of the benefits from the implementation of the appropriate facilitation measures for governments and traders<sup>22</sup>.

### Government Benefits:

- increased effectiveness of control methods;
- more effective and efficient deployment of resources;
- correct revenue yields;
- improved trader compliance;
- accelerated economic development;
- encouragement of foreign investment.

### Trader Benefits:

- cutting costs and reducing delays;
- faster customs clearance and release through predictable official intervention;
- simple commercial framework for doing both domestic and international trade;
- enhanced competitiveness.

In 1999 APEC estimated that trade facilitation based on the Manila Action Plan Agenda had increased APEC regional welfare by US\$46 billion and that further trade facilitation measures would increase regional welfare by another US\$64 billion<sup>23</sup>. In terms of total costs, an UNCTAD estimate<sup>24</sup> puts the “transaction” costs of international transactions at 7–10 percent of the cost of international trade. The European Union uses a 2–10 percent cost estimate for “compliance with procedural requirements”<sup>25</sup>. It is important to note that these costs thus often exceed import tariffs and as opposed to tariffs, are dead-weight losses for the economy with no redistributive effects.

Some countries, particularly developing countries, may have some concern that trade facilitation measures will reduce customs or fiscal revenue. In fact, trade facilitation and in particular customs reform are generally seen to directly improve tax returns by enabling effective collection of imports duties. High duties combined with complicated and untransparent customs procedures generate an untrustworthy environment of systematic tax evasion, fraud and under-collection. Reformed customs procedures reduce levels of evasion, fraud and collusion with customs officials and thus generate obvious profits for public revenue. For example, computerisation and the use of EDI by Customs have increased efficiency and duty collection. UNCTAD reports, for example, that the successful introduction of the ASYCUDA system in Sri Lanka led to a US\$100 million dollar rise in revenue<sup>26</sup>.

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<sup>21</sup> ESCWA (2001), Trade Facilitation and E-Commerce in the ESCWA region, New York: United Nations, E/ESCWA/ED/2001/2

<sup>22</sup> UNECE (2002), op. cit.

<sup>23</sup> APEC (1999), Assessing APEC Trade Liberalisation and Facilitation – 1999 update, Singapore: APEC Secretariat.

<sup>24</sup> In the preamble to the Columbus Ministerial Declaration on Trade Efficiency, <http://www.un.org/Conferences/trade94/columbus.html>.

<sup>25</sup> Institute of International Trade of Ireland, A Review of Trade Facilitation for Ireland, [www.irishexporters.ie/trade\\_facilitation\\_report.pdf](http://www.irishexporters.ie/trade_facilitation_report.pdf).

<sup>26</sup> OECD (2001), op. cit.

The potential for savings and gains will obviously vary from country to country, depending on the existing costs and levels of (in)efficiency. The OECD emphasised that trade facilitation measures usually benefit small and medium-sized enterprises more than large businesses, since the large businesses have the scale and resources to deal with difficulties in trade and customs procedures. Presumably, since the size of businesses is generally smaller in developing countries, and since those businesses usually have fewer resources than those in advanced countries, global trade facilitation measures should help the developing country businesses even more than those located in advanced countries

Similarly, the potential for improvement is greater for developing countries, since most developing countries have not yet incorporated many of the trade facilitation measures operating in advanced countries. Implementing trade facilitation measures in developing countries further helps to attract vital foreign direct investment and the accompanying technological transfers. The limiting effects on corruption, which is generally perceived to be higher in developing countries<sup>27</sup>, and the evident increase in tariff revenue, which is often a major source of government revenue in these countries, are further reasons trade facilitation is particularly important for developing countries.

### **Trade Facilitation Challenges in Developing Countries**

Developing countries, and especially smaller, island and landlocked countries thus stand to gain the most from implementing a broad scale of trade facilitation measures. Obviously, facilitating trade procedures will not solve all the problems these countries face. However, trade facilitation should lead to more efficient participation in international trade as well as attracting foreign direct investment and the associated transfer of knowledge and skills. These issues are aspects that are at the core of the economic development needs of many developing countries.

Regretfully, some trade facilitation initiatives undertaken in developing countries so far have shown limited success, although Mauritius is one example of remarkable results. The importance of continuing efforts is broadly acknowledged. As Gakuna put it succinctly: “it is recognised by developing countries that trade facilitation and efficiency is not only the wave of the future but a necessity of the present”. He adds however “that the developing countries are at present significantly handicapped in the race towards trade facilitation, mainly due to resource constraints and physical, social and trade infrastructure related inadequacies, given their stage of development”<sup>28</sup>.

Some developing countries feel that the current approach taken in the WTO “to bridge the trade facilitation gap between developed and developing countries is not fair, desirable or in the best interests of either the developing countries or the development-oriented trading system promised at Doha. (This) approach would ignore the reality of their resource constraints and crowd out their own welfare and development priorities”<sup>29</sup>. They stress the need to implement trade facilitation measures “according to their own capacities, interests, priorities, resources and time lines”<sup>30</sup>.

Under any scenario, tackling the challenges of opening up the economies of developing countries to international trade and improving their competitiveness requires a comprehensive and coordinated approach that needs to include not only trade facilitation measures but also improvements in transport infrastructure and services. It is important to recognise “backward linkages” as in developing countries, and particularly in the least developed countries, it is the combination of weaknesses in these different areas that lead to the high additional costs that so

<sup>27</sup> <http://www.transparency.org>.

<sup>28</sup> Gakuna, P. (2003), “Trade Facilitation: the Need for Capacity Development” in Cosgrove-Sacks, C. and M. Apostolov (eds.), *Trade Facilitation: the Challenges for Growth and Development*.

<sup>29</sup> Puri, H. (2003), “How and under what Conditions can Developing Countries be Enabled to Receive a Better Share of the Benefit of Trade Facilitation?” in UNECE (2003) op. cit.

<sup>30</sup> Ibid.

negatively affect the competitiveness of these countries' (potential) exports in foreign markets and the consumer prices of imported products. Developing countries could initially focus on applying trade facilitation instruments to their export process, in order to assist in the development of their export trade.

Implementing trade facilitation should help to overcome problems such as a lack of adequate skilled labour, insufficient use of information technology, corruption, poor security and lack of co-operation and coordination among and between countries and agencies. A simple but telling example of where trade facilitation can easily help decrease costs, is the variation in technical standards for vehicles between the three main regional economic communities in Africa, the Central African Economic and Monetary Community (CEMAC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS)<sup>31</sup>. If current regulations were to be enforced, a 22 metre truck from Nigeria (in accordance with the rules of ECOWAS) would not be allowed in neighbouring Cameroon, a member state of CEMAC that has set the maximum truck length at 18 metres. It would have to offload at the border and have its goods transferred to a vehicle that does meet the approved standards. Harmonising regulations between the economic communities on this issue and related matters could cut costs dramatically.

However, improvements in basic infrastructure and in the provision of efficient and competitive services in the areas of roads, railways and ports are necessary to decrease the high transport costs that further undermine the competitiveness of developing countries' export products, and increase consumer prices of imports. The developing countries in Africa and in Sub-Saharan Africa in particular, have the highest transport cost rates in the world<sup>32</sup>. The burden of high transport costs is greatest in land-locked African countries<sup>33</sup>, with a conservative estimate between 30 and 40 percent of the value of imports compared to an average of 5 percent in industrial countries<sup>34</sup>. Again, improving infrastructure and services would require large investments for which finances are often not available.

Despite slow progress in general, there are definite positive developments in selected areas and countries. UNCTAD's ASYCUDA customs clearing software system has been installed or is being implemented in over 80 countries and regions including in several least developed countries such as Bangladesh, Malawi, the Maldives, Vanuatu, Uganda and Zambia. Examples of specific progress are the attempts by India to automate its customs through the use of Electronic Data Interchange (EDI) and the use of risk assessment methods<sup>35</sup>; and the success of Jamaica in dealing with smuggling and corruption<sup>36</sup>.

In the case of India, since 1996, EDI has been introduced in more than 23 locations in India. Although there continues to be a large part of manual declarations, in 11 of these locations EDI declarations made up more than 80 percent of the total (2002/03). A major drawback with the current system is that each EDI location is a stand-alone structure. Each time the EDI facility has to be extended to a new customs location, additional costs are incurred. To deal with this issue, customs are gradually moving towards a central architecture. The Customs Gateway Project has been set up to facilitate connectivity between EDI centres and with trading partners. The Gateway will also enable remote filing of customs declarations.

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<sup>31</sup> UNECA (2004), op cit.

<sup>32</sup> Ibid.

<sup>33</sup> Examples of African landlocked countries are Botswana, Malawi, Lesotho, Swaziland, Uganda and Zambia. For an in-depth discussion of the specific problems facing landlocked countries, see: Annovazzi-Jakab, L. (2003), "Landlocked Countries: Opportunities, Challenges, Recommendations" in Cosgrove-Sacks, C. and M. Apostovol (eds.), op. cit.

<sup>34</sup> Henderson et al. (2001), "Geography and Development", Journal of Economic Geography, 1, pp. 81-106.

<sup>35</sup> As set out in: Taneja, N. (2004), *Trade Facilitation in the WTO: Implications for India*, India Council for Research on International Economic Relations, Working Paper 128.

<sup>36</sup> As set out in: Staples (2002) op. cit.

Indian customs authorities are also progressing towards the usage of modern risk assessment methods. In 2003, a risk management module for import consignments was tested at the inland container depot at Tughlakabad. The computerised module that was used assesses import consignments through 21 risk factors, identifying sensitive consignments and indicating the rest for immediate release. This model will be gradually implemented in all Customs Houses in India.

In the case of Jamaica, in the early 1990s, the customs administration was considered inefficient; administrative practices were poor and corruption was allegedly widespread. Illegal trade in narcotics had led to a regime of strict cargo control. Although the restrictions were well-intentioned, exporters complained that the regime simply added costs and augmented delays. Clearance of exports required 23 steps, taking a minimum of two or three days for a ship to complete all clearance procedures. Particularly damaging was the uncertainty created by the procedures; a delay of a day could result in an exporter missing a scheduled vessel, leading to possible cancellation of the letter of credit and in the case of time-sensitive goods such as apparel, to loss of contracts. Moreover, in the case of fresh produce, such as fruit and vegetables, delays could lead to the deterioration of such cargo.

In 1993 the Jamaican government decided to take a top-down approach to the issue of export clearance. Targets determined by the top management of the Ministry of Finance and Customs were established for export clearance. The emphasis was on collecting statistics on national trade movements and on ensuring that goods were exported that were on the list of controlled items. Outside technical assistance was then sought to draft an action plan to achieve these two objectives with minimum costs and delays. By 1995, the reforms that were instituted as a result of this rethinking had reduced clearance time for export consignments to 10–20 minutes. This was mainly due to three changes: the implementation of a single-point clearance mechanism; the introduction of selective inspection based on risk assessment instead of discretionary physical inspection of consignments; and the introduction of a binding, comprehensive manual of procedures setting out all customs rights and responsibilities in export clearance.

### **Technical Assistance and Capacity Building: Co-operation and Coherence**

For developing countries to continue to make progress in the realisation of trade facilitation in the broadest sense, a whole range of reforms would have to be implemented throughout national trading systems to deal with the lack of adequate skilled labour, poor infrastructure, insufficient use of information technology, possible corruption, poor security etc. While governments of developing countries need to provide firm resolve to implement the reforms, support from the developed world is crucial for the necessary inputs. These include financing, technical support and capacity building. “Such assistance should not be interpreted as a relation of give-and-take, rather it should be viewed as an action to the benefit of all parties, since trade facilitation in developing countries will benefit all businesses in their markets, including those from the developed countries”<sup>37</sup>.

Many international organisations have been co-operating with developing countries in specific areas of financial aid, technical assistance and training. The Commonwealth Fund for Technical Co-operation, for example, provides for technical co-operation between Commonwealth countries through the provision of experts to fill specific development needs, promote knowledge networks, programmes of training and advisory services provided by in-house experts. A recent example of their work is the technical assistance provided to the government of St Vincent and the Grenadines to improve the information system at its main E T Joshua Airport in Arnos Vale.

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<sup>37</sup> Zhenyu, S. (2003), “Capacity Building for Trade Facilitation” in Cosgrove-Sacks, C. and M. Apostovol (eds.), op. cit.

Many national organisations too have been active in the field. To name but one example, from Australia the Australian Customs Service (ACS) and AusAID have been active particularly in the Asia Pacific Region. The Australian Customs Service Technical Assistance Programme aims to assist less developed countries such as Fiji to modernise and reform their customs processes and procedures. Many of the programmes funded by AusAID are aimed at institutional strengthening or public sector capacity building<sup>38</sup>.

With various organisations providing support in different areas related to trade facilitation, it is important to go beyond a series of narrowly focused activities to embrace a more comprehensive and long-term approach. In order to limit costs and generate maximum benefits, international, regional and national aid organisations and developing countries together should coordinate their efforts to develop comprehensive strategies to address all areas of trade facilitation, in this way allowing developing countries to take full advantage of the many development opportunities provided by further integration into the global trading system.

An important recent initiative following this line is the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). The IF was set up in October 1997 by six multilateral institutions—the International Monetary Fund, the International Trade Centre, the United Nations Development Programme, The World Bank, UNCTAD, and the WTO—in response to the complexity of trade-related problems. Through this initiative, the organisations, each with their distinct area of competence, attempt to complement each other in the creation of a complete strategy to tackle trade related problems in developing countries, including those related to trade facilitation. Several least developed countries including Lesotho, Malawi, Mozambique and Zambia are participating in the IF initiative. While implementation of the IF still remains work in progress, the coordinated approach it seeks to set up would ideally be the key to a successful implementation of a complete, coherent and efficient trade facilitation strategy.

## **Conclusions**

Trade policy-makers throughout the world have much to gain from positively embracing the tools of trade facilitation. The analysis in this paper shows that the implementation of appropriate and efficient trade facilitation measures could help all countries in the world significantly cut costs related to the regulation, administration and enforcement of trade policies and make gains through increased efficiency. While the potential for savings and benefits will vary per country, for several reasons, it is particularly developing countries that could gain most from the adoption of a broad scale of trade facilitation measures including in the “new” areas such as security and e-commerce. Trade facilitation should lead to these countries’ more efficient participation in international trade as well as the attraction of FDI and the associated transfer of knowledge and skills.

Of course, the current WTO focus on trade facilitation is much more restrictive. In focusing on articles V, VIII and X of the GATT, there is a danger that the costs could be seen as bearing too heavily on least-advantaged countries. Hopefully, the arguments in this paper indicate that a broader approach to trade facilitation would generate a “win-win” strategy. It is in this spirit that the World Bank launched the Global Facilitation Partnership and the IF initiative was set up.

The fears of developing countries need to be understood by the champions of trade facilitation in the WTO negotiations. The developing countries would do well to communicate more effectively their specific concerns, especially their resource constraints, and explain more vociferously than they have done to date that investment in hardware, software and training for customs control and port management may not be fully in line with their current development priorities.

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<sup>38</sup> *Technical Assistance by Australia*, WTO G/C/W/263.

Those who place high priority on achieving a WTO trade facilitation agreement would do well to advocate that such principles as special and differential treatment and increased financing for technological support and capacity building could effectively resolve this dilemma. A graduated approach to trade facilitation could be in the interest of all parties. For example SITPRO has advocated a step-by-step approach climbing the “trade facilitation ladder” from commitments to transparency and non-discrimination through modernisation of customs towards full automation. Climbing up the ladder could be associated with faster release times for goods passing through customs controls assuming adequate capacity building. The developing countries, for their part, need to understand that an enabling environment for trade facilitation will almost certainly translate into a positive factor for attracting investment. More efficient ports, faster transit procedures and more transparent and effective systems of customs control could stimulate exports and would benefit all businesses in their markets, including domestic and South-South trade as well as helping to integrate their economies in global supply chains.

Most trade ministers from developing countries are fully aware of these advantages but they fear the imposition of the WTO Dispute Settlement Mechanism in this area. The challenge for the negotiators is to arrive at a compromise solution, which takes account of these legitimate fears while at the same time creating a truly facilitative environment. Any compromise will need to include adequate funding and support programmes, which would have real impact in order to deliver trade and investment gains for all.

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