CHAPTER 16
TRADE FACILITATION

The World Trade Organization (WTO, 2002a) defines trade facilitation as 'the simplification and harmonization of international trade procedures'. And it defines these procedures as the 'activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade' (WTO, 2002a). This definition covers a wide range of activities, such as transport formalities, import and export procedures (for example, customs or licensing procedures) and payments, insurance and other financial requirements. Trade facilitation has not historically been a subject of discussion for negotiation in the multilateral trade regime, as a brief history shows (box 16.1).

Of all the issues proposed for new negotiations, trade facilitation is perhaps the least contentious. Many of the implied reforms, such as modernizing facilities and building institutional capacity, are viewed as advantageous by both industrial and developing countries. But implementing trade facilitation reforms can be complex, time consuming and expensive for developing countries. If the trade facilitation agenda is implemented under binding WTO agreements, without taking into consideration the special needs of developing countries and especially those of the least developed among them, it could increase the vulnerability of these countries. It could also impose high implementation and opportunity costs in developing countries, which could be detrimental to human development given the countries' scarce financial and human resources and multiple competing priorities.

POTENTIAL FOR INCREASED VULNERABILITY

Introducing new trade facilitation systems could increase vulnerability and lead to unexpected costs for developing countries if the systems are adopted without full recognition of their institutional, management and other complexities. Pakistan illustrates the potential problems faced by many developing countries, not only the least developed ones. Its switch to preshipment inspections in 1995–97 in the absence of a well-developed information system and full documentation on the Pakistani economy led to substantial under- and overvaluation by traders. With the problems remaining unchecked, revenue collection fell significantly, forcing the

BOX 16.1 TRADE FACILITATION: A BRIEF HISTORY

Trade facilitation issues have traditionally been addressed in forums outside the General Agreement on Tariffs and Trade (GATT) and the trading regime. Historically, the most important forum has been the World Customs Organization (WCO). The International Convention on the Simplification and Harmonizing of Customs Procedures (Kyoto Convention), held in 1973 by the WCO, set out best practice in customs procedures and established the concept that such procedures should be internationally standardized and harmonized. The WCO's harmonized system, adopted at the International Convention on the Harmonized Commodity Description and Coding System in 1988, is an international product naming system that today probably represents the most widely adopted common standards on customs. The WCO Declaration of the Customs Cooperation Council Concerning Integrity in Customs (Arusha Convention) of 1993 is the reference point for addressing issues of corruption in customs as well as in other procedures. The United Nations Conference on Trade and Development (UNCTAD), in its 1994 Columbus Declaration, adopted 19 WCO conventions.

While the 1947 GATT referred to the basic guidelines for trade facilitation, all work in this area until 1996 was carried out by such organizations as the WCO, UNCTAD and the United Nations Economic Commission for Europe. But in December 1996, at the insistence of industrial countries, the World Trade Organization (WTO) ministerial meeting in Singapore included in its declaration a direction to the Council for Trade in Goods 'to undertake exploratory and analytical work, drawing on the work of other relevant organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area' (WTO, 2002a). International business, the principal proponent of these measures, cites new realities of global economic integration to justify the need for rapid progress in this area. It argues that with the now much lower tariffs after the Uruguay Round, the losses that businesses suffer as a result of delays at borders, opaque and often redundant documentation requirements and the lack of automation of government-mandated trade procedures often exceed their costs from tariffs.

The Council for Trade in Goods has been working on these issues since 1996 despite concern and even opposition from many developing countries. It is framing issues for discussion with a view to adding them to the future trade negotiation agenda. At the WTO Ministerial Conference in Doha in 2001 many industrial countries called for 'immediate binding rules' to advance trade facilitation issues. This call faced stiff resistance. An intense dialogue led to a compromise clause in the ministerial declaration (article 27, p 10) stating that

> 'negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations. In the period until the Fifth Session, the Council for Trade in Goods shall review and as appropriate, clarify and improve relevant aspects of articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of Members, in particular developing and least-developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area'.

country to abandon the experiment. A big part of the problem was Pakistan's lack of capacity to quickly establish the automated control and information systems needed to support the new trade facilitation system. The result was less effective physical and administrative controls and regulation and a smaller revenue base, increasing the strain on Pakistan's budgetary resources (Pirzada, 2002). The potential for such vulnerability is particularly great in the current trade regime because of the elimination of non-tariff barriers and the reduction in tariffs. These changes leave countries with far fewer policy instruments to deal with such situations.

Implementation and opportunity costs

Minimizing the incidence and complexity of import and export formalities and simplifying documentation requirements are widely expected to increase efficiency and lead to absolute gains. Yet there is little hard evidence on the economic benefits of trade facilitation for business or government or on the cost of implementing such measures in low-income developing countries.

Existing data on implementation costs are drawn largely from country experience and donor project costs. Among developing countries, most trade facilitation initiatives have taken place (or commenced) in relatively advanced economies, and no estimates exist for the costs of sustaining these initiatives. Projects to implement the WTO Agreement on Customs Valuation, which also includes broader customs reform, have been estimated to cost between US$1.6 million and US$16.2 million. For example, a six-year programme in Tunisia to computerize and simplify procedures cost an estimated US$16.2 million (Finger and Schuler, 2000). However, Bolivia implemented a broad customs reform programme that cost US$38.5 million (Gutiérrez, 2001).

But cost estimates for specific trade facilitation projects do not tell the whole story. To be effective, such projects need to be implemented as part of a much broader process of reform and innovation in managing trade, both in private enterprise and at the administrative level. Taken together, the trade facilitation measures and the range of prior reforms needed to make them effective can involve significant expenditures.

Given the scarce resources and competing claims on them in developing countries, implementing trade facilitation measures often can also lead to high opportunity costs, since they can be undertaken only at the expense of development projects with more direct human development benefits. This is likely to be particularly true for the poorest and least developed countries, especially in the context of limited aid and technical assistance.[1]

Moreover, the reported gains have been mixed, and WTO data on the experiences of low-income economies—such as Chile, Costa Rica and Hong Kong, China (SAR)—typically do not capture the development dilemmas faced by these economies nor, especially, the least developed ones (WTO, 1998b, 2000a, 2000c). Singapore implemented an electronic declaration system for traders that generated savings estimated at 1 per cent of GDP or 0.4 per cent of external trade, with an expectation that it would cover its costs in three years (Woo and Wilson, 2000). And Bolivia found that revenue collection rose by 25 per cent after it reformed its customs system (Bolivia, 2001). But the Philippines reported that its new trade facilitation system led to an initial increase in revenue collection of only 2 per cent, and the cost of sustaining the new system led to an immediate budget crisis and a cessation of funding for the system (Jereos, 2001). Thus the gains and other impacts will clearly differ among countries.

Both the evidence and the historical experience suggest that demand for trade facilitation measures will increase with economic growth and greater trade integration. This is only logical, because as countries grow richer they are able to voluntarily undertake trade facilitation measures and sustain them.

A way forward

Trade facilitation measures can play an important role in streamlining administrative procedures, increasing transparency and reducing delays and unnecessary paperwork. But future discussions on trade facilitation need to take into account developing countries' limited resources and capacity and their potential vulnerabilities. They also need to acknowledge the potentially significant opportunity costs for human development that can arise if such measures are implemented prematurely, without the institutional and other prerequisites in place.

The evidence and historical experience suggest that it would be best if the mandate for trade facilitation issues remains in the World Customs Organization (WCO), where it has historically been. Not only does the WCO have the experience needed, but the agreements reached in that forum will be voluntary and non-sanctionable, preserving the ability of governments to make policy choices most appropriate to their circumstances and resource constraints. This approach will make it possible to gradually streamline trade facilitation procedures without the risk of increasing developing country vulnerabilities or compromising human development priorities.

Note

1. For example, the European Union's total budget for customs modernization in ten Central and Eastern European countries between 1990–97 was only US$108 million, or roughly US$1.5 million a year. And customs modernization is only one part of trade facilitation.

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