Trade Facilitation

MAKING TRADE MORE EFFICIENT

BEN CZAPNIK AND MOHAMMAD SAEED, INTERNATIONAL TRADE CENTRE

Many factors affect the competitiveness of firms in international markets. These factors include production costs related to machinery, inputs, labour, and finance. They also include trade and transport costs such as tariffs, freight, and fees for logistics service providers.

Trade facilitation is commonly understood as the transparency and efficiency of international trade procedures to reduce the time and cost of international trade transactions. It is a broad concept that can apply to the 'whole of the supply chain'. After all, logistics efficiency can be just as significant for a firm's competitiveness as its productive efficiency.

However, trade logistics can only be as efficient as its 'weakest link'. It only takes one inefficient logistics service provider or border regulatory agency to slow down the delivery or release of a consignment. Trade facilitation must be viewed comprehensively from the producer's premises to the retailer's shelf.

In recent years, trade and transport costs have become an increasingly high profile topic in trade policy circles. Whereas it was once considered a highly technical area best left to customs specialists at the border, trade facilitation is now regarded as a core element in trade and development strategies.

The main reason for this change in perception is the realisation that the costs associated with trading goods—border procedures, documentary requirements, delays, and logistics costs—have a significant effect on trade. As the costs associated with other types of trade policy—especially tariffs—continue to decline, the hidden costs associated with trade now create the biggest burden for traders.

As the Director-General of the World Trade Organization (WTO), Roberto Azevedo, recently noted (*Wall Street Journal*, 2015):

> Trade costs in developing countries are, on average, the equivalent of a 219% import tariff. For each dollar it costs to make a product, it costs a further $2.19 to bring it to developing-countries consumers. For high-income countries, this cost is closer to $1.34—still a substantial surcharge. Cutting trade costs would therefore have a dramatic effect around the world: A reduction of 1% would support a 3% to 4% increase in trade growth.

Entering into international agreements or national strategies to reduce trade costs can sometimes appear less relevant than agreements to remove tariffs. Whereas tariffs are set by parliaments and are therefore ripe for political debate in capitals, trade costs appear to be a function of how laws are administered by border agencies or even by the performance of logistics service providers (operating as private companies or state-owned enterprises). Historically, this has been viewed as an issue for customs and border agency officials rather than for trade policymakers and negotiators.

However, trade costs are an important matter which directly impacts on the ability of countries to use trade as an engine of growth and development, especially through integration into regional and global value chains. According to the WTO's World Trade Report, full implementation of the WTO's Trade Facilitation Agreement (TFA) would reduce trade costs by an average of 14.3 percent worldwide and by up to 23.1 percent in some countries. This would make a significant contribution to growth of world exports and gross domestic product (GDP).

In many respects, the European Union (EU) and Asia stand out as models of how to facilitate trade. The EU is the world's leading trade bloc with respect to eliminating barriers to trade within its common market. Asia has shown that reducing trade costs can lead directly to integration into value chains which ultimately produce a significant development dividend.

Several Asian countries have used this approach to trade their way from low- to high-income economy status. For example, Korea increased its per capita GDP from $100 in 1963 to around $23,000 in 2014 by integrating into regional and global markets. Other Asian countries are following in their footsteps and looking to trade their way out of poverty. It is no surprise that Asia is often pointed to as a shining example of how regional value chains can and should operate. Apple, an iconic brand known for its widespread value chains, sources inputs from over 300 production facilities in China and dozens of facilities from many other countries in Southeast Asia.

The conceptual debate—that trade costs matter and deserve political attention—seems to have been won. The World Customs Organization has recognised the importance of making borders more efficient, at least since the Kyoto Convention entered into force in 1974. The Revised Kyoto Convention, which entered into force in 2006, sought to build on this progress by finding ways to further improve border clearance procedures, especially with respect to transparency, simplification, and standardisation.

The negotiation of the TFA has provided a further shot in the arm for stakeholders looking to reduce trade costs. The TFA reinforces many key concepts already established under the Revised Kyoto Convention. However, the TFA builds on this by creating a legally enforceable binding agreement which extends obligations to all border agencies (not just customs) and creates a critical role for the private sector. Considering the WTO's near-universal membership, this will also extend good border management practices to dozens of new countries.

The WTO also creates an important framework for the provision of technical assistance to developing countries to implement the TFA. The TFA is unlike other WTO agreements in terms of its architecture and approach to technical assistance. This reflects the fact that the biggest obstacles to trade facilitation reform are often a lack of resources rather than a lack of political will. Further, the implementation of trade facilitation reforms in a given country creates positive externalities for that country, but it also provides benefits to all of its trading partners. In this sense, an economic argument can be made for sharing the costs of TFA reform rather than leaving it to implementing countries to fully self-fund their reforms.

While there may now be a political consensus on the importance of reducing trade costs, implementation will not necessarily be easy. Unlike tariffs, trade costs cannot simply be identified and eliminated. Some costs are necessary and unavoidable, and traders will always face certain costs associated with transporting their goods and managing border procedures.

Any discussion around trade costs must therefore focus on identifying those trade costs which are inefficient and seeking to eliminate those costs, for example, by minimising the costs of logistics or the time goods spend at borders. This is a movable feast. What is today considered best practice—such as the electronic submission of documents in advance by traders—may have seemed impossible two decades ago. Decades from now, depending on how border management evolves, today's best practice may be considered redundant and inefficient.

While identifying inefficient trade costs will always be context and country specific, the TFA provides helpful guidance in three important ways. First, it contains specific provisions on what governments should do to increase efficiency. For example, the agreement requires government to issue advance rulings and create schemes to facilitate border clearance for authorised operators. In certain instances, it identifies best practice, such as Internet publication for laws, and encourages governments to comply. These measures build on the General Agreement on Tariffs and Trade to reflect our current understanding of how customs should operate.

Second, in recognition of the fact that best practice may evolve over time, the TFA requires its members to continuously review their border management techniques to identify ways to create efficiencies. The TFA does not create rules on how many documents a trader should have to fill in, but it does require governments to constantly review their documentation requirements with a view to making them less burdensome. The same principle applies to formalities and procedures. The TFA further encourages governments to comply with international standards (which are constantly evolving) in order to improve efficiency.

The third way in which the TFA seeks to eliminate inefficient trade costs is by requiring governments to engage with the private sector with respect to the regulatory and administrative regime for border clearance. Border agencies should regularly consult with traders and governments and establish an inclusive committee to address trade facilitation matters. Governments should give the private sector a chance to comment on proposed reforms and provide advance notice of regulatory or administrative changes. This does not mean that governments must accept all private sector proposals—and there may be legitimate policy reasons behind certain trade costs—but no one is better placed to identify and signal trade inefficiencies than those actors who are moving goods across borders day in, day out. Considering their views can only help the policymaking process.

The TFA is a legally binding agreement; however, its provisions leave much discretion with governments to decide how to implement each measure. Certain provisions of the TFA have been diluted by linking these with the availability of resources or by making these ‘best efforts’ obligations. In the context of ASEM (Asia–Europe Meeting) connectivity, an ambitious starting point would be to agree that all TFA measures should be implemented, regardless of any qualifying language in the TFA which softens the legal commitment. ASEM could even seek to agree on minimum standards which go beyond the TFA, for example, by requiring that all ASEM countries use an integrated electronic platform as the basis for their single window.

While the TFA provides a useful framework for undertaking reform of border clearance, in many cases, it provides the bare minimum standard. In this sense, policymakers in Europe and Asia should consider ways in which their approach to trade facilitation can go further than the multilateral agreement. This chapter will explore three additional themes as a basis for deeper integration on trade facilitation in the European and Asian context—regional integration, the cost and quality of services logistics, and the treatment of agricultural goods (especially perishable goods).

Regional Integration

Regional integration plays an important role in supporting trade facilitation. There are two key areas where regional integration can support a TFA-plus agenda and enhance the benefits which flow from trade facilitation reform. First, regional integration projects can reduce border procedures and inefficiencies affecting trade in goods in a way which goes much further than mere implementation of the TFA. The most extreme example is the case of fully integrated customs unions (like the EU) where all internal borders related to the movement of goods are essentially dismantled.

This brings significant benefits to producers who are trading within the customs union as they no longer have to deal with procedures, documents, or delays at the border. It also brings benefits to exporters from outside the region because, as soon as they deal with all border requirements to bring their goods into the customs union, their goods may circulate freely between different partner states. In this trading environment, it is no surprise that Europe has enjoyed high levels of intra-regional trade in recent decades (up to 70 percent according to the WTO).

Asia also has a strong record on regional integration, especially for the trade in intermediate parts, and its intra-regional trade stands at 50 percent. However, Asian integration has taken the somewhat less ambitious approach of using free trade agreements rather than fully integrated customs unions. Unlike the EU which has removed internal borders, free trade agreements rely on liberalisation but goods are still controlled at the border. Therefore, Asia's success story with respect to regional integration has focused on finding ways to make those border procedures and other business costs as efficient as possible. It is no surprise that 18 of the top 20 countries for Doing Business (according to the World Bank) are ASEM countries.

Second, unlike the TFA which deals exclusively with trade in goods, regional integration can focus on other regulatory issues which can potentially hamper intra-regional trade, including with respect to people, transport, and infrastructure. Let's imagine a sealed container travelling by truck from a landlocked country (in Europe, Asia, or Africa) to a port in a neighbouring country. Even if the release and clearance of the goods are handled quickly (in accordance with best practices under the Revised Kyoto Convention and TFA), a range of other regulatory barriers could potentially slow down the movement of those goods.

In particular, there may be problems with the truck. Does it comply with the standards in both countries (regarding axle-load limits, emissions standards, etc.)? Is the vehicle insured in both countries for any accidents? Or does it require separate insurance policies in each country? Is there a road-user charge which has to be paid? Are there cabotage rules which will result in the truck returning empty to the landlocked country (which essentially doubles the transport cost for the exporter)? In addition to the actual obligation to comply with standards and take out insurance, there may also be procedural inefficiencies in terms of providing documentary proof to relevant authorities for all of these issues.

Further, the free movement of people is critical. When the truck driver arrives at the border, will he be allowed to enter the neighbouring country and, if so, under what conditions? Will a visa or work permit be required? Will the neighbouring country recognise his driver's licence and his qualification to drive a truck? What documents will he be required to produce and to which agencies?

In theory, you may have a container of goods which is ready to go and which is being held up by delays related to the vehicle or driver. The TFA has little to say about regulation of these matters, but they are the types of issues which need to be dealt with in any 'deep integration' project. The EU has complemented its approach to the free circulation of goods with measures to support the circulation of people and to harmonise the regulation of transport. Asia has also made progress under its free trade approach, but there is room for further cooperation with respect to those regulations that go beyond goods.

While the TFA is a multilateral agreement which cannot go as far as a 'deep integration' initiative, it does explicitly address the role of regional integration in at least two important respects. First, it recognises the role of countries working together to implement particular measures at a regional level. For example, Article 1.3.2 of the TFA specifically recognises the potential role of 'common enquiry points at the regional level'. Article 24 sets out, more broadly, that members 'may adopt regional approaches to assist in the implementation of their obligations'.

Second, the TFA recognises the importance of regional efforts in the context of technical assistance and capacity building. For example, Article 21 dealing with the provision of technical assistance states that 'Members shall endeavour to include activities to address regional and sub-regional challenges and promote regional and sub-regional integration'. There is certainly scope for some Asian developing countries, including landlocked least-developed countries, to take a regional approach to their requests for technical assistance.

Logistics Services

As far as the WTO is concerned, the TFA is a multilateral agreement dealing with goods trade. The agreement builds on certain provisions of the General Agreement on Tariffs and Trade (Articles V, VIII, and X) and seeks to improve efficiencies with respect to trade in goods. The TFA does not apply to trade in services. For example, laws and regulations affecting trade in services are not covered by the TFA's transparency provisions (though they may be covered by the less ambitious transparency provisions of other WTO agreements).

However, trade facilitation is invariably interlinked with services insofar as goods cannot move across borders without access to efficient logistics services providers. These logistics include international and domestic transport, warehousing, storage, freight forwarding, and financial services.

Logistics services are a $4-trillion-a-year industry and account for 10 percent of GDP worldwide. In addition to being a key sector in its own right, logistics play a key role as an enabler of other sectors and activities. Logistics services are particularly important for global value chains as any inefficiencies in the way inputs and finished goods cross borders are magnified when production is carried out in multiple countries. The speed and cost of logistics services are also highly important for industries relying on 'just-in-time' delivery and for trade in perishable goods.

The TFA does not address logistics services. This is not surprising as the TFA is a trade in goods agreement and, in any case, many countries consider logistics services to be a private sector activity. However, from the point of view of business, additional costs or delays linked to the inefficient provision of logistics services can be just as significant as those linked to areas where government is more directly involved, such as border procedures or infrastructure.

In any case, logistics services are not purely governed by the efficiency of private sector firms. Governments play a critical role in regulating the conditions of competition in logistics services sectors and liberalising, where appropriate, to allow the most efficient operators access to their markets. This is certainly an area where the ASEM could identify areas of cooperation which go beyond the scope of the TFA.

From a trade negotiations perspective, logistics fall primarily under the 'services' banner. Logistics services are tradable and countries with efficient firms have an interest in seeking market access elsewhere so their firms can increase their global market share. For certain types of logistics services, less efficient countries also have an interest in allowing efficient foreign firms to operate in their territory. Although they may face resistance from their own logistics service providers, efforts to protect inefficient incumbents would ultimately act as a tax on all industries which rely on trade. This would adversely affect the competitiveness of the country in international markets.

Historically, policymakers have not viewed logistics services as a unified and coherent sector. Under the WTO's W/120 classification system, most freight logistics services would be considered transport services. However, many core and non-core logistics services are randomly spread out in other sectors. Supply chain consulting has been scheduled by some countries under management consulting services. Similarly, inventory management, order processing, and testing and inspection have been scheduled as 'other business services'. Some commentators envisage negotiations which address supply chain–wide barriers or even the negotiation of an International Supply Chain Agreement which goes further than the TFA.

This is not just an issue affecting the negotiation of services commitments. This ad hoc approach to logistics services in FTA negotiations reflects the fact that governments have tended to regulate these services separately. Rather than looking at supply chains in a coherent manner (with a single government agency responsible for ensuring efficient regulation of supply chain services), each of the services which impact on trade costs has been regulated as its own domain.

Most discussions around logistics tend to focus on the movement of goods and this is where most of the logistics services value are captured. However, the scope is much broader and, in order to achieve efficient logistics, movement of goods is not the sole aim. It is also important for people, information, and payments to be able to move quickly and predictably. For example, the slow and unpredictable processing of payments can seriously impact the operation of firms, especially small and medium enterprises, by reducing their cash flow and undermining their ability to invest in further revenue-generating activities. All these services must be taken into account by governments if they want their industries to be able to trade as efficiently as possible.

It is no surprise that shipping hubs in Asia, such as Singapore and Hong Kong, also tend to be hubs for finance, law, consulting, air transport, and other logistics services. It is not possible to be a trans-shipment hub purely on the basis of transport infrastructure and efficient border procedures. There must be an enabling environment where all logistics services which contribute to trade facilitation can be obtained.

Policymakers are starting to recognise the importance of treating logistics services as a 'cluster' and this is being reflected in international trade negotiations such as the Trade in Services Agreement, the Doha Round, and the Trans-Pacific Partnership. For example, these negotiations have created a checklist of services that collectively form the logistics sector with a view to liberalising them under a 'cluster' approach.

While negotiations continue to follow traditional approaches to classification (such as the W/120 classification and CPC codes), parties are seeking dedicated negotiating sessions on logistics services with all relevant regulatory agencies and experts in the room. The true value of liberalisation for logistics services is achieved when all relevant sectors are dealt with as a cluster, rather than having certain sub-sectors liberalised on an ad hoc basis. When this happens, logistics services can be liberalised in an ambitious and coherent manner leading to real-world trade efficiencies.

Perishable Goods

Agriculture is a key trade sector for both Europe and Asia. For example, agriculture represents around 25 percent of GDP and 60 percent of employment in Asia-Pacific's developing countries. Even in the EU where agriculture represents a much smaller percentage of GDP, Asia is a key market and takes in 37.4 percent of Europe's agri-food exports. It is also a sector that stands to gain considerably from trade facilitation reform. It is estimated that each day of delay reduces the value of traded goods by 1 percent. In the case of perishable goods, this is estimated at a staggering 6 percent of value. This is not too surprising as perishable goods inherently continue to lose value the longer it takes for these to reach the final consumer.

While many trade facilitation reforms focus on customs as the lead agency, trade in agriculture highlights the importance of including other key stakeholders, such as sanitary and phytosanitary (SPS) authorities. When governments establish their national trade facilitation committee or engage in border agency consultations, they should ensure that SPS authorities have a prominent role.

This is not just about extending a hand to other agencies to ensure that they are included; but it is about making sure that all agencies can coordinate closely, streamline processes, and still achieve their policy mandates. For example, when developing a single administrative document, SPS authorities may need to access information which other agencies would consider irrelevant, such as which area or region an agricultural product came from (not only the country of origin). These agencies should not just be tacked on in a modular fashion; they should be treated as an integral part of the reform process.

The SPS Agreement establishes some key principles to ensure that agricultural products are treated in a trade-facilitating way by border officials. For example, authorities should avoid undue delays in their SPS inspections. The SPS Agreement also contains other elements aimed at ensuring that imported agricultural products are not discriminated against (relative to imports) and that SPS assessments are science based.

In many developing countries, SPS regulations are often synonymous with helping exporters comply with the SPS requirements in target markets or with the application of measures for reasons of public health protection. An area which tends to drop off the radar is the importance of ensuring that the transaction costs associated with SPS requirements are minimised or, in other words, that trade facilitation principles are applied to SPS.

It is worth noting that the trade costs associated with SPS compliance do not only affect importers of agricultural products but may also act as a serious obstacle preventing exporters from reaching their target markets. In many developing countries, agriculture may be a priority or strategic sector and SPS obstacles affecting exporters would undermine national trade and development strategies.

For example, government agencies in some countries of export may insist on health certificates, radiation-free certificates, or other similar documents even where these are not required by the importing country. Considering that many governments invest heavily in gaining agricultural market access to foreign markets, it is unfortunate that they inadvertently undermine their agriculture exports through easily avoided bureaucracy.

This is an area where effective trade facilitation can make a major contribution. Several Asian countries have taken the lead globally in undertaking business process analysis studies of their import and export procedures for agricultural products in order to identify and eliminate unnecessary bottlenecks or improve inefficient procedures. This is a rigorous way of addressing the TFA obligation to review border formalities and documentary requirements.

Governments are also looking for ways to ensure that perishable goods are released as expeditiously as possible. In the case of revenue collection, customs may separate release from clearance subject to certain conditions (such as guarantees). This option is not necessarily available for SPS controls where goods cannot be released unless officials are satisfied that the goods do not pose a health risk. However, other mechanisms can be adopted, such as after-hours inspection and release and the provision of refrigeration facilities. Further, governments can take steps to clearly communicate changes in market access conditions—whether this is to have enhanced controls or inspections or to remove such measures—to ensure that traders can make commercial decisions which are appropriate for the regulatory environment.

The TFA has introduced a new paradigm for involving the private sector in domestic policy formulation, including through national trade facilitation committees. These consultation mechanisms should include traders, logistics service providers, and other stakeholders related to international trade. The private sector should be represented by a diversity of sectors and by different types of business, from small and medium enterprises to multinational firms. ASEM could complement the TFA approach to consultation by encouraging national trade facilitation committees to feed into private sector consultation mechanisms at the regional and ASEM levels.

Conclusion

In addition to making major contributions to the WTO's multilateral TFA, Asia and Europe provide examples of what best practice trade facilitation reforms can look like in a regional or national setting. In order to improve connectivity within and between these regions, ASEM could support a number of deep integration initiatives in the area of trade facilitation. Certain topics which should be at the top of the ASEM agenda include regional integration, logistics services, and agricultural trade in perishable goods. ASEM has the opportunity to use the TFA as a stepping stone to pursue a more ambitious agenda of connectivity. ASEM countries benefit from a vibrant and active private sector which contributes to the design and effective implementation of reform.

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