Trade Facilitation

Prepared by
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Overview of the session

• Trade Facilitation (TF)?
• Part 1: WTO TF Negotiations and related Research
  – Introduction
  – Related ARTNeT research & findings
• Part 2: TF Beyond WTO Negotiations
  – Broader views of trade facilitation
    • Business facilitation
Trade Facilitation?
What is Trade Facilitation?

• No agreed upon definition

• “The plumbing of international trade” (Staples, 1998)

• “Any measure, or set of measures, that aims to increase the cost-effectiveness of international trade transactions”. [http://www.gfptt.org/Entities/TopicProfile.aspx](http://www.gfptt.org/Entities/TopicProfile.aspx)

• “the simplification and harmonization of international trade procedures.”, where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.” (based on WTO documents)
Economic Benefits

• Trade facilitation costs = 1 to 15% of landed cost of imported good
  – even if only 1%, OECD estimates total gains from TF improvements to world economy of US$40 billion

• 1 day less in delivery times = 0.5% of landed cost of goods (Hummels, 2001)

• Each additional day of delay prior to shipment reduces trade by more than 1 % (Djankov et al., 2006)
Trade Gains from TF (broad definition)

Figure 3. Trade Gains from Capacity Building in Trade Facilitation

Effects of TF on GDP (narrow WTO definition)

Source: Peter Walkenhorst, OECD
Part 1 – WTO Trade Facilitation Negotiations and Related ARTNeT Research
Introduction

• **Singapore Ministerial Declaration 1996**
  – Article 21: “We further agree to direct the Council for Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area.”
Main problems identified (for traders)

- Excessive documentation requirements
- Burdensome border-crossing procedures
- Lack of automation and scarce use of IT
- Lacking transparency and predictability
- Lack of cooperation and coordination
- Corruption
- Lacking human and financial resources and infrastructure
Frequency of Irregular Payments to Secure Trade Permits
(1=common; 7=never occurs)

Source: Global Competitiveness Report, various years and Florian Alburo, June 2005
WTO TF Negotiations

• …8 years after the Singapore Ministerial Declaration, WTO members agreed to start negotiating on trade facilitation

• Part of the single undertaking of the Doha Round
• Trade Facilitation Negotiating Group
• Proposal-based negotiations
  • More than 140 proposals/contribution papers/notes so far; no established format

• Modalities of negotiations
  – July Package (WT/L/579) and its Annex D
July Package, Annex D (1 Aug. 04)

- TF 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…”
- TF negotiations also aim at “enhancing technical assistance and support for capacity building in this area,”
- and at developing “provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues”.
- The results “shall take fully into account the principle of special and differential treatment for developing and least-developed countries”, which would not be obliged “to undertake investments in infrastructure projects beyond their means”.

GATT Articles V, VIII and X

- Art. V  Freedom of Transit
- Art. VIII Fees & Formalities connected with Importation & Exportation
- Art. X Publication and Administration of Trade Regulations

-- See Annex I for details --
Issues with current GATT Articles

- Lack of clarity and precision
- Difficult (often impossible?) to enforce
- Not effective in ensuring/improving transparency and predictability
- Absence of requirements for cooperation among various stakeholders
WTO members’ proposals to the NGTF

• Compiled in TN/TF/W/43 series
  – 14 main areas; **28 groups of measures** (some have sub categories (45))
  – Mainly GATT Articles V, VIII and X
  – Cross-cutting submissions
    • Needs and Priorities, TA/CB, Multiple areas
  – Latest analytical compilation dated Aug. 06

• Now, simple list of documents in  TN/TF/W/106 series
  – Over 100 proposals to date
WTO Proposals related to Article X (transparency)* - Areas covered

- Publication and Availability of Information
- Time Period between Publication and Implementation
- Consultation and Comment on New/Amended Rules
- Advance Rulings
- Appeal Procedures
- Measures to Enhance Impartiality and Non-Discrimination

*Areas A to F in W/43 Ver.5 table
WTO Proposals on Article VIII (Fees and Formalities)* - Areas covered

- Fees and Charges Connected w/ Import/Export
- Formalities Connected w/ Import/Export
- Consularization
- Border Agency Coordination
- Release and Clearance of Goods
- Tariff Classification

*Areas F to L in W/43 Ver.5 table
WTO Proposals related to Article V (Freedom of Transit)* - Areas covered

- Matters Relating to Goods Transit
  - Strengthened non-discrimination
  - Disciplines on Fees and Charges
  - Disciplines on Transit Formalities and Documentation Requirements
  - Improved Coordination and Cooperation
  - Operationalization and Clarification of Terms

*Area L in W/43 Ver.5 table
ARTNeT Trade Facilitation Research Effort

- 2004: Many developing countries reluctant to a WTO trade facilitation agreement, mainly because of implementation cost & capacity concerns
  - Most TF research has focused on macro-level benefits and analysis

- → 2005: Launch of ARTNeT Study on the Need for and Cost of implementation of selected trade facilitation measures relevant to GATT articles V, VIII and X
ARTNeT Trade Facilitation Research Effort

• OECD conducted “implementation cost” surveys in late 2004, with additional studies planned in Cambodia, Thailand and the Philippines in 2005

• ARTNeT decided to conduct country case studies in:
  • Bangladesh (CPD, Bangladesh)
  • China (CAITEC, China)
  • India (RIS, India)
  • Indonesia (CSIS, Indonesia)
  • Nepal (IPRAD, Nepal)
Research Steps

• **Assessment** of current level of implementation of trade facilitation measures related to article V, VIII, and X
  – Based on a short version of WCO Self-Assessment checklists (developed by the WTO)

• **Need and priorities** of the private sector
  – Based on a survey/interview instrument developed by the ARTNeT team

• **Cost** (for the government) of implementing selected measures
  – Based on the OECD survey and other instruments
Findings from case studies

• Many of the TF measures discussed at the WTO have been PARTIALLY implemented (or there are plans for their introduction)
  – Regional initiatives have been a driver
Findings from case studies

• Private sector perspective:
  – Customs regulations and procedures result in significant costs to business (Bangladesh: 65% agree w/ statement)
  – Major difficulties faced are attributed to domestic regulations/procedures (up to 90% in some countries)
  – Improvements in export and import procedures/facilitation are reported in all countries, but there is room for improvement
<table>
<thead>
<tr>
<th>Art. VIII &amp; X (Transparency and Fees &amp; Formalities)</th>
<th>Overall Average</th>
<th>Bangladesh</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant trade and customs procedures and regulations are publicly available and easily accessible</td>
<td>4.8</td>
<td>3.4</td>
<td>5.1</td>
<td>5.4</td>
<td>4.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Computerization and automation of customs and trade procedures have noticeably reduced average time of clearance</td>
<td>4.7</td>
<td>4.2</td>
<td>5.8</td>
<td>5.0</td>
<td>5.6</td>
<td>3</td>
</tr>
<tr>
<td>Penalties and fines for minor breaches of customs regulation (e.g., due to typing mistakes) are small and reasonable</td>
<td>4.4</td>
<td>3.3</td>
<td>5.6</td>
<td>4.3</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Information about changes in regulations and procedures are made available promptly and conveniently to the public</td>
<td>4.3</td>
<td>3.1</td>
<td>4.5</td>
<td>4.9</td>
<td>3.6</td>
<td>5.3</td>
</tr>
<tr>
<td>It is easy to submit required trade documentation to trade/customs authorities for approval</td>
<td>4.3</td>
<td>3.1</td>
<td>3.9</td>
<td>4.3</td>
<td>5.4</td>
<td>5</td>
</tr>
<tr>
<td>A formal and effective private sector consultation mechanism exists, which allows traders to comment on proposed changes to regulations and procedures before they are issued and implemented.</td>
<td>4.0</td>
<td>3.7</td>
<td>4.6</td>
<td>4.0</td>
<td>3.4</td>
<td>4.3</td>
</tr>
<tr>
<td>On average, fees and charges levied on export and import are reasonable (i.e., are limited to the cost of services rendered by the authorities)</td>
<td>4.0</td>
<td>3.4</td>
<td>4.3</td>
<td>4.0</td>
<td>3.3</td>
<td>5</td>
</tr>
<tr>
<td>An independent system to appeal trade and/or customs authorities' decisions is available and operates effectively</td>
<td>3.9</td>
<td>2.6</td>
<td>3.6</td>
<td>4.4</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>An effective advance ruling system is in place, which allows the importer, in advance of trade, to obtain binding rules in certain specific areas (e.g., tariff classification, customs valuation, etc.)</td>
<td>3.8</td>
<td>4.1</td>
<td>4.4</td>
<td>4.0</td>
<td>5.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Laws, regulations and judicial decisions are applied in a uniform, impartial, and reasonable manner</td>
<td>3.4</td>
<td>2.7</td>
<td>4.5</td>
<td>3.9</td>
<td>2.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Documentation requirements for import/export are NOT excessive and time consuming</td>
<td>3.3</td>
<td>1.9</td>
<td>2.9</td>
<td>3.3</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Irregular and arbitrary payments are NOT often required to expedite release of goods from customs</td>
<td>3.2</td>
<td>1.8</td>
<td>5.9</td>
<td>3.6</td>
<td>3.2</td>
<td>1.4</td>
</tr>
</tbody>
</table>
Findings from case studies

• Needs and priorities of private sector:
  – TF measures that often come at the top of the list:
    • Timely and comprehensive publication and dissemination of trade rules and regulations
    • Measures to enhance coordination among government agencies
    • Measures to improve the integrity of government officials
    • Computerization and automation of trade procedures
  – Some variation across countries
Findings from case studies

Table III.2 - Private Sector Priority Ranking of Selected Trade Facilitation Measures

<table>
<thead>
<tr>
<th>Trade Facilitation Measures</th>
<th>Overall Ranking</th>
<th>Bangladesh Ranking</th>
<th>China Ranking</th>
<th>India Ranking</th>
<th>Indonesia Ranking</th>
<th>Nepal Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elimination of bribery and other corrupt practices of officials involved in the clearance and release of imported goods</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Improvement of coordination between relevant agencies, particularly on document requirement, e.g., through the establishment of a single window for one-time submission and collection of all trade documents</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Timely and comprehensive publication and dissemination of trade rules and regulations (e.g., through the Internet)</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Computerization and automation of trade procedures, e.g., online submission and approval of customs declarations, cargo manifests, including electronic payment of fees and customs duties</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Harmonization and standardization of documentation requirements based on international standards</td>
<td>5</td>
<td>4</td>
<td></td>
<td>8</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Reduction and simplification of the documentation requirements for import and export procedures</td>
<td>6</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>
## Findings from case studies

### Table III.3 – Most Problematic Areas in Conducting Trade

<table>
<thead>
<tr>
<th>Area</th>
<th>Overall Ranking</th>
<th>Bangladesh Ranking</th>
<th>China Ranking</th>
<th>India Ranking</th>
<th>Indonesia Ranking</th>
<th>Nepal Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs valuation</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Inspection and release of goods</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Tariff classification</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Technical or sanitary requirements</td>
<td>4</td>
<td>7</td>
<td>1</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Payment of fees and penalties</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>n.a.</td>
</tr>
<tr>
<td>Obtaining an import license</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>n.a.</td>
</tr>
<tr>
<td>Submission of documents for clearance</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>7</td>
<td>n.a.</td>
</tr>
<tr>
<td>Identification of origin of the goods</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>n.a.</td>
</tr>
</tbody>
</table>
Findings from case studies: Implementation Costs

- Costs associated with off-the-job training of officials and other stakeholders and those associated with ICT (hardware and software) are most problematic.
- Hard to dissociate some of the basic infrastructure costs from trade facilitation as some key measures do require such investments (e.g., risk management; rapid clearance).
- Studies mostly unsuccessful in costing specific TF measures.
Experts Survey on implementation cost of selected trade facilitation measures

- Main objective: to provide unbiased qualitative estimates of the costs and time required for implementing selected TF measures being discussed at the WTO

<table>
<thead>
<tr>
<th>TF measure: Alignment of trade documents according to the UN Layout Key for trade documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>regulatory/legislative costs</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>VS</td>
</tr>
</tbody>
</table>

Comments: Translation into English will likely be the most costly aspect of this measure for many countries, and may require creation of positions for a small team of translators beyond the initial startup phase. Development and hosting of the web site could be done by WTO or one of the relevant international organizations.
Experts’ Qualitative Assessment of the Relative Cost, Benefits and Time Needed for Implementing Selected Trade Facilitation Measures

[Bar chart showing the qualitative assessment of various trade facilitation measures, including Alignment, Online pub., SNFPs, NTFCs, and more, with axes for Costs / Savings (Very high, High, Medium, Low, Very low) and Time for implementation in LDCs (in years).]
ARTNeT TF Research Effort: Some implications for the WTO Negotiations

• If priorities are based on the perceived need of the private sector and the expected cost of implementation for the Government, basic package of TF measures might include:
  • Timely and consistent publication of trade rules and regulations (online)
  • simplification/standardization/harmonization of trade documents
  • Independent and effective national systems of appeal
ARTNeT TF Research Effort: Some implications for the WTO Negotiations

- S&D: only needed to shield countries against dispute settlement until they can implement TFMs
  - Country needs vary across TFMs
    - need more time flexibility for TFMs with high political costs; grants for the TFMs requiring infrastructure investment

- TF is mostly about improving internal systems
- Importance of TF related issues not covered by the negotiations
WTO Trade Facilitation Negotiation - State of Play

- Emergence of a mechanism
  - Step 0: signature of agreement
  - Step 1: capacity self-assessment by members
  - Step 2: each member notify trade facilitation measures (TFMs) that
    - Require more time
    - Require more time and CB/TA
  - Step 3: Entry into force of the agreement
    - May include “immediate” implementation of some simple TFMs

- Creation of a Trade Facilitation Committee (TFC)
  - TFC will manage mechanism/implementation of TFMs
  - TFC may also work on developing further agreements
  - TFC will oversee a TF TA/CB (sub-) committee, composed of members/experts/international org.
Part 2: Trade Facilitation beyond the WTO negotiations
Trade facilitation beyond the on-going scope of WTO negotiations

- No agreed upon definition of TF
- “The plumbing of international trade” (Staples, 1998)
- “the simplification and harmonization of international trade procedures.”, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.” (based on WTO documents)

- “Any measure, or set of measures, that aims to increase the cost-effectiveness of international trade transactions”.

http://www.gfptt.org/Entities/TopicProfile.aspx
INTERNATIONAL TRADE
TRANSACTION PROCESS

BUY

SHIP

PAY

Prepare For Export

Export

Transport

Prepare For Import

Import

INvolves

Commercial Procedures

• Establish Contract
• Order Goods
• Advise On Delivery
• Request Payment

Transport Procedures

• Establish Transport Contract
• Collect, Transport and Deliver Goods
• Provide Waybills, Goods Receipts Status reports

Regulatory Procedures

• Obtain Import/Export Licences etc
• Provide Customs Declarations
• Provide Cargo Declaration
• Apply Trade Security Procedures
• Clear Goods for Export/Import

Financial Procedures

• Credit Rating
• Provide Insurance
• Provide Credit
• Execute Payment
• Issue Statements
Figure V. The three flows of international trade

Country of the buyer

- Buyer
- Shipper
- Banks
- Customs
- Other government agencies

Goods flow

Country of the seller

- Buyer
- Shipper
- Banks
- Customs
- Other government agencies

Trade documents flow

Financial flow

Trade facilitation: making international trade transactions more efficient

Figure I. An extended trade efficiency model

- Customs
- Transport
- Banking and insurance
- Trade facilitation
- Business information
- Governance
- Human resource development
- Telecommunications
TF is not new: selected International organizations and tools

- The United Nations
  - UN/CEFACT (UNECE), UNCTAD
    - ASYCUDA, TF recommendations…
- The World Customs Organization
  - HS, Revised Kyoto Convention, WCO Data Model
- The World Bank
  - Financing of TF related projects and research
- The WTO
  - SPS, TBT, Customs Valuation, Import Licensing agreements
- At the regional level: APEC, ADB, ESCAP…

One good starting point: the Global Facilitation Partnership for Trade and Transport (GFPTT)

www.gfptt.org
<table>
<thead>
<tr>
<th>Article/Agreement</th>
<th>Subject</th>
</tr>
</thead>
<tbody>
<tr>
<td>GATT 1994, Article V</td>
<td>Freedom of transit</td>
</tr>
<tr>
<td>GATT 1994, Article VII</td>
<td>Valuation for customs purposes</td>
</tr>
<tr>
<td>GATT 1994, Article VIII</td>
<td>Fees and formalities connected with imports and exports</td>
</tr>
<tr>
<td>GATT 1994, Article IX</td>
<td>Marks of origin</td>
</tr>
<tr>
<td>GATT 1994, Article X</td>
<td>Publications and administration of trade regulations</td>
</tr>
<tr>
<td>Agreement on Implementation of Article VII of the GATT 1994</td>
<td>Customs valuation</td>
</tr>
<tr>
<td>Agreement on Rules of Origin</td>
<td>Rules of origin</td>
</tr>
<tr>
<td>Agreement on Import Licensing Procedures</td>
<td>Import licensing</td>
</tr>
<tr>
<td>Agreement on Pre-shipment Inspection</td>
<td>Pre-shipment inspection procedures</td>
</tr>
<tr>
<td>Agreement on Technical Barriers to Trade</td>
<td>Rules related to technical standards</td>
</tr>
<tr>
<td>Agreement on the Application of Sanitary and Phytosanitary Measures</td>
<td>Rules related to application of SPS measures</td>
</tr>
<tr>
<td>General Agreement on Trade in Services</td>
<td>Rules related to facilitation trade in services</td>
</tr>
</tbody>
</table>

Source: Compiled based on World Trade Organization, G/L/244, 1998.
Trade Facilitation and Trade Costs

Figure VIII. Estimated trade costs in industrialized countries

- Trade costs
  - Transport costs (21%)
    - Freight costs (11%)
    - Transit costs (9%)
  - Border-related trade barriers (44%)
    - Policy barriers (tariff and NTBs) (8%)
    - Language barrier (7%)
  - Retail and wholesale distribution costs (55%)
    - Currency barrier (14%)
    - Information costs barrier (6%)
    - Security barrier (3%)

Export of chilled and frozen tuna from South Australia to markets in Japan

Chilled
- Packaging and cold storage
- Road freight to port
- Cold storage and loading
- Customs clearance in Australia
- Sea freight to Japan

Frozen
- Road freight to airport
- Loading and processing on ship
- Customs clearance in Japan
- Air freight to Japan
### Table 2. Subregional rankings of selected Asia-Pacific countries in terms of ease of trading and other ease of doing business indicators (fiscal year 2007)

<table>
<thead>
<tr>
<th>East and South-East Asian economies</th>
<th>Ease of doing business ranking</th>
<th>Trading across borders</th>
<th>Starting a business</th>
<th>Dealing with licences</th>
<th>Employing workers</th>
<th>Registering property</th>
<th>Getting credit</th>
<th>Protecting investors</th>
<th>Paying taxes</th>
<th>Enforcing contracts</th>
<th>Closing a business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>1 [1]</td>
<td>1 [1]</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>2 [4]</td>
<td>2 [3]</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4 [24]</td>
<td>4 [21]</td>
<td>5(+)</td>
<td>10</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>3</td>
<td>4(+)</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Taiwan Province of China</td>
<td>6 [50]</td>
<td>5 [29]</td>
<td>8</td>
<td>12</td>
<td>13</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10 [123]</td>
<td>6 [41]</td>
<td>14(-)</td>
<td>8(+)</td>
<td>14</td>
<td>12</td>
<td>9(+)</td>
<td>6(+)</td>
<td>10</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>8 [83]</td>
<td>7 [42]</td>
<td>10</td>
<td>14(+)</td>
<td>9</td>
<td>5</td>
<td>10(+)</td>
<td>10</td>
<td>14</td>
<td>4</td>
<td>7(+)</td>
</tr>
<tr>
<td>Thailand</td>
<td>3 [15]</td>
<td>8(+) [50]</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>5</td>
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Note: (+) and (-) denotes positive or negative reforms in 2006/07; ranks in [] are global rankings out of 178 economies.
Figure VI. Time and documentary requirements for imports and exports in South Asian countries (fiscal year 2007)

Source: Doing Business Database.
Figure VII. Time and documentary requirements for imports and exports in East Asian countries (fiscal year 2007)

Source: Doing Business Database.
Concluding Remarks

Need for more research

• on institutional mechanisms to facilitate identification of TF needs and monitoring of implementation of TFM\s at both national and regional level
• linkages between trade and transit agreements
• on Impact / Implementation issues of specific TF measures or processes
• On recognition or harmonization of standards (e.g., mutual recognition agreements)
• Interactions between transaction cost components

Please visit www.artnetontrade.org for easy access to the trade literature
Trade Facilitation? Ask traders what their problems are...

Figure II. Most problematic areas in conducting trade in selected developing countries in Asia and the Pacific*

- Identification of origin of the goods
- Submission of documents for clearance
- Obtaining an import licence
- Payment of fees and penalties
- Technical or sanitary requirements
- Tariff classification
- Inspection and release of goods
- Customs valuation

* Based on exploratory private sector surveys in Bangladesh, China, Fiji, India, Indonesia and Nepal conducted in 2005.
The Bottlenecks are not always where we think they are...

Changes in Time Required: Japan (Sea Cargoes)
Source: Customs and Tariff Bureau, MOF, Japan and Florian Alburo, June 2005]

<table>
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<tr>
<th>Year</th>
<th>Arrival of Cargo to Delivery to Customs Area</th>
<th>Delivery to Customs Area to Filing Declaration</th>
<th>Filing Declaration to Release of Goods (permission)</th>
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(Hours)
Annex 1 – Main obligations/provisions of GATT Article X, VIII, and V
GATT Article X – Transparency
main obligations (1)

- Requirement to
  - Promptly publish all trade regulations in such a manner as to enable governments and traders to become acquainted with them

- No enforcement of a measure of general application prior to its official publication
GATT Article X – Transparency
main obligations (2)

- Uniform, impartial and reasonable administration of trade regulations

- Maintain or institute, as soon as practicable, tribunals or procedures for the prompt review and correction of administrative action relating to customs matters
  - Tribunals/procedures must be independent from enforcement agencies
GATT Article VIII – Fees & Formalities

main obligations (1)

- All fees and charges imposed on or in connection with importation or exportation (other than imp./exp. duties and taxes within the purview of Article III) must
  - be limited in amount to the approximate cost of services rendered
  - not represent an indirect protection to domestic products
  - not represent a taxation of imports or exports for fiscal purposes
No imposition of substantial penalties for minor breaches of customs regulations or procedural requirements;

In particular, no penalty for omission or mistake in customs documentation that is easily rectifiable and made without fraudulent intent or gross negligence beyond the necessary to serve as a warning.
Recognition of the need for

- reducing the number and diversity of fees and charges
- Minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements
GATT Article V – Freedom of transit
main obligations (1)

➢ Each Member shall grant freedom of transit
  - for goods (including baggage), vessels and other means of transport crossing its territory
  - via the routes most convenient for international transit
  - with no distinction based on (i) flag of vessel, (ii) origin, (iii) departure, (iv) entry, (v) exit, (vi) destination, or (vii) ownership of goods, vessels or other means of transport
GATT Article V – Freedom of transit main obligations (2)

*(Except in cases of failure to comply with applicable customs laws and regulations):*

- **Prohibition to**
  - Make such traffic in transit subject to any unnecessary delays or restrictions
  - Impose customs duties, transit duties or other charges imposed with respect of transit
- except (i) charges for transportation, or (ii) those commensurate with administrative expenses entailed by transit, or (iii) with the cost of services rendered
GATT Article V – Freedom of transit
main obligations (3)

- **All charges and regulations imposed on traffic in transit shall be**
  - **Reasonable**, having regard to the conditions of the traffic

- **MFN treatment for traffic in transit**
  - **With respect to all** (i) charges, (ii) regulations, and (iii) formalities
Annex 2 – Main obligations/provisions of GATT Article X, VIII, and V
Trade Facilitation and Regional Integration – Recent studies

- Comparative Analysis of Trade Facilitation in Selected Regional and Bilateral Trade Agreements (Institute of International Trade, U. of Adelaide, Australia), ARTNeT WP No. 17

- TF Measures in South Asia FTAs: An overview of Initiatives and Policy Approach (Sachin Chaturvedi, RIS, India); ARTNeT WP No. 28

- The impact of regional trade agreements and trade facilitation in the Middle East and North Africa Region (Allen Denis, World Bank) WP No. 3899
  - “Welfare gains triple when implementation of RTAs are complemented with TF measures”
The Asia-Pacific noodle bowl

Number of FTAs (in force) involving at least one country in Asia-Pacific (ESCAP) region

Source: based on ESCAP’s Asia-Pacific Trade Agreements Database: www.unescap.org/tid/aptiad/
Regional Trade Facilitation Initiatives: Defining Characteristics

• TF in ASEAN
  • General, aspirational
  • Some steady progress towards standardisation of information for customs purposes
    • Harmonization of tariff nomenclature (8 digit level)
    • ASEAN Single window initiative
    • ASEAN Framework Agreement on Mutual Recognition Agreements (MRAs)
Regional Trade Facilitation Initiatives: Defining Characteristics

- TF in Asia-Pacific Economic Cooperation
  - Non-binding commitments
  - Trade facilitation is a designated priority area
    - APEC Principles on Trade Facilitation (2001)
  - Emphasis on paperless trading and e-commerce
Regional Trade Facilitation Initiatives: Defining Characteristics

- TF in SAARC
  - Broad understanding of “trade facilitation”
  - Absence of specific, detailed trade facilitation principles or plans
  - Some move towards simplification and harmonisation of customs procedures and product standards
  - Standing Group on standards, quality control and measurements (1998)
Regional Trade Facilitation Initiatives: Defining Characteristics

• TF in PACER*
  • Initial primary focus on cooperation and trade facilitation
    • Current work programme in the areas of customs, quarantine, standards and conformance
    • Emphasis on technical assistance and capacity building

*Pacific Agreement on Closer Economic Relations
Singapore-Australia Free Trade Agreement

• Trade facilitation measures:
  • Chapter 4: Simplification of customs procedures
  • Chapter 5: Harmonisation of technical regulations
  • Chapter 11: Promotion of paperless trading

• Defining characteristics:
  • Binding trade facilitation obligations, enforceable by dispute settlement
  • Cross-reference to pre-existing multilateral agreements and international standards
Trade Facilitation Provisions in FTAs: Issues

- Broad, aspirational provisions compared with precise, detailed provisions with achievable targets
- Binding v. non-binding provisions
- Rigid requirements compared with flexibility
- Sectoral v. across-the-board reforms
- Acceleration of domestic reform
- Overlap of reform in the context of different for a
- Special and differential treatments / technical assistance commitments
- Rules of origins simplification
Annex 3 – TF and Gravity Model

Extended Gravity Equation

\[ \ln (\text{Exports from country A to country B}) = a + \ln(\text{Distance}_{AB}) + \ln(\text{GDP}_A) + \ln(\text{GDP}_B) + \ln(\text{GDPC}_A) + \ln(\text{GDPC}_B) + TF \]

Where (for example, following Wilson et al. 2004)

\[ TF = \ln (\text{port efficiency index}) + \ln (\text{Customs index}) + \ln (\text{regulatory env. index}) + \ln (\text{service infrastr. Quality index}) \]
There is no explicit sector in the GTAP model capturing trade facilitation, nonetheless some work has commenced in this area. Following the approach pursued by Hertel, Walmsley and Itakura (2001), trade facilitation has been introduced into CGE (including GTAP) models via *technical progress* in trading activities. According to this approach, traded goods incur indirect trade transactions costs (otherwise referred to as “iceberg” costs) in proportion to how long their transit is. Longer transit periods are associated with higher costs and a melting down of the value of the good. High transit costs may result from cumbersome custom procedures, port congestion, poor intermodal transportation services etc. Furthermore, low trading volumes as well as distance may result in higher transport costs thus contributing to higher trade transactions cost. Hence, improvements to trade facilitation will help reduce transit times and associated costs, thereby, leading to a lower destination price of the traded goods. However, OECD (2003) argues that this “iceberg-type” representation of trade transactions costs (TTC) seems very appropriate for indirect cost components such as border clearance times, but does not capture directly incurred trade transactions costs such as resulting from costs for providing the necessary documentation. In recognition of these shortcomings, Fox et al (2003) and OECD (2003) have incorporated trade facilitation into the GTAP model by splitting trade transactions costs into two parts: the indirect TTC (iceberg costs) and a tax component, capturing the direct TTC.
This study adopts the Fox et al (2003) and OECD (2003) methodology in estimating the effects of trade facilitation. Nonetheless, given the lack of data, it still remains a challenge to be able to estimate what the trade transactions cost is for MENA countries. This study uses the results from Zarrouk (2003) survey, which suggest that inefficiencies in trade facilitation amount to some 10.6% of the value of traded goods. This amount is taken as the total trade transactions cost arising from inefficiencies. However, in order to adopt the above methodology we break this into an indirect (iceberg) and a direct TTC (tax component). To obtain the iceberg component we adopt Hummels (2001) estimate that each day saved in shipping time, in part due to faster customs clearance, is equivalent to a 0.5 percentage point reduction in ad valorem tariffs. The results of the Zarrouk (2003) survey suggest that average clearance from ports in MENA countries ranges between some two to ten days, hence the indirect cost component of the TTC is estimated to be 3%. The remaining 7.6% is attributed to the average direct cost component. Given the generally higher documentary requirements needed for agricultural goods it is assumed that the direct trade transactions cost for agricultural goods is twice that of nonagricultural goods. Hence the direct TTC for agricultural goods is about 12%, whereas that for non-agricultural trade is about 4% - **the direct TTC are incorporated into the analysis by using the “Altertax” option within GTAP to adjust the benchmark trade duties accordingly.** As discussed earlier, the indirect TTC are introduced as technical progress in importing - **Changes are made to the “ams” variable in the GTAP model.**