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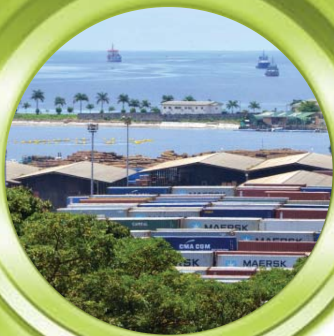

TRADE FACILITATION AND DEVELOPMENT

Driving trade competitiveness, border agency effectiveness and strengthened governance

Transport and Trade Facilitation
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Trade facilitation and development

Driving trade competitiveness, border agency effectiveness and strengthened governance

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Table of contents

List of figures

Trade facilitation and development

Executive summary

Trade facilitation reforms improve a country's trade competitiveness and the effectiveness of border agencies. In addition, they can directly help advance development goals such as strengthening governance and formalizing the informal sector.

The present study identifies policies to help reap the full development-related benefits from trade facilitation reforms. UNCTAD research and experience with technical assistance programmes has shown that such reforms should be comprehensive and ambitious and advance the trade and development objectives of countries. Trade facilitation should be linked to investments in transport infrastructure, information and communications technologies and broader trade-supporting services. Since many trade facilitation challenges and solutions are regional, their implementation should be included in regional integration schemes.

Given the linkages between trade facilitation reforms and implementation capacities, development partners need to ensure that their support does not leave out the most vulnerable economies, and should make full use of the promises and possibilities for technical and financial assistance provided for by the Agreement on Trade Facilitation of the World Trade Organization (WTO), reached in Bali, Indonesia in 2013.

Introduction

As trade has become more liberalized through lower tariffs and quotas, the focus of policymakers has shifted to other impediments to the cross-border movement of goods, particularly to those of an administrative and logistical nature. Transport connectivity, the quality of logistics services and border management all play growing roles as determinants of international trade flows. Trade facilitation in particular has been identified as a tool for increased and smoother trade between countries.

It was against this background that WTO included the topic of trade facilitation in its negotiating agenda in 2004. After 10 years of negotiations, the Agreement on Trade Facilitation was reached and in November 2014, a Protocol of Amendment to insert the Agreement into annex 1A of the WTO Agreement was adopted.

UNCTAD has promoted trade facilitation reforms for many decades, dating to its mandate from the first session of the United Nations Conference on Trade and Development (UNCTAD I) in 1964. The organization's extensive work in this area resulted in the adoption of the Ministerial Declaration on Trade Efficiency in Columbus, United States of America, in 1994, which was, in turn, instrumental for the inclusion of trade facilitation in the agenda of the first WTO Ministerial Conference, held in Singapore in 1996. UNCTAD was thus among those who took the first steps that led to the conclusion of the Agreement on Trade Facilitation.

Today, UNCTAD continues to support broad and ambitious trade facilitation reforms. This support is driven by the following three main motivations:

- Trade facilitation implementation is good for trade. It is particularly relevant for the participation of developing countries in global value chains, trade in manufactured goods and regional integration. Small and medium-sized enterprises, especially, as well as perishable, time-sensitive and intermediate goods sectors in the least developed countries and in landlocked developing countries, benefit from reduced transaction costs and times. The last mile – land transit for landlocked country trade or the journey between a port or airport and the premises of small and medium-sized enterprises – remains in many developing countries the area where trade facilitation can make a difference for small businesses.

- Many specific trade facilitation measures help ensure revenue collection and the enforcement of health, safety and other relevant regulations. A frequent misconception is that there exists a balance or trade-off between trade facilitation on the one hand and risks to public interest on the other. Yet trade facilitation and the protection of the public from lost revenues or health hazards are not competing policy objectives. On the contrary, a large number of specific trade facilitation measures clearly help both the ease of doing business and the fight against undervaluation, counterfeit trade and smuggling. Well-designed trade facilitation measures improve the effectiveness of control agencies. As such, they not only reduce the need for physical inspections, but also increase the likelihood of detecting fraud.
- Trade facilitation reforms are positive steps towards human, enterprise and institutional development. They help small traders, who are often women, enter the formal sector, make economic activities more transparent and accountable, promote good governance, generate better quality employment, strengthen information technology capabilities and generally help modernize societies by bringing benefits related to administrative efficiency. Many trade facilitation measures directly help informal businesses better participate in foreign trade, thus supporting target 8.3 of the Sustainable Development Goals on the formalization and growth of micro, small and medium-sized enterprises.

Important challenges remain. The full benefits of the Agreement on Trade Facilitation can only be realized if the least developed countries and developing countries are in a position to actually implement the measures in the Agreement. The least developed countries require more technical assistance than other developing countries. They also tend to have lower trade volumes; their return on investment for trade facilitation reforms may therefore be lower than for countries with more trade. The least developed countries also often have less absorption capacity for comprehensive technical assistance programmes, such as the institutional reforms required to implement some of the more complex trade facilitation measures.

The challenge for UNCTAD and other development partners is to design implementation-related assistance in a manner which ensures that aid and efforts reach all the countries that need them. This must be a coordinated effort by all bilateral and multilateral development partners, and UNCTAD continues to play an important role in supporting member States in such endeavours.

In the present study, trade facilitation is mainly reviewed in the context of development objectives. The discussion and literature review is combined with a quantitative analysis of the first 73 notifications made by developing countries concerning their trade facilitation implementation capacities in the context of the Agreement on Trade Facilitation. The study examines the potential impact that trade facilitation reforms can have on trade competitiveness (chapter 1), revenue collection and public policy objectives (chapter 2) and human and institutional development, including a number of the Sustainable Development Goals (chapter 3). The implementation of trade facilitation reforms is discussed in chapter 4, and the concluding chapter presents policy implications and considerations for the way forward.

1. Trade competitiveness

Barriers to trade become barriers to development (Kituyi, 2014). Global trade involves certain transport-related and other transaction costs that are unavoidable yet are, in practice, often higher than necessary due to unnecessarily bureaucratic trade procedures and documentation requirements. Higher trade costs are a direct hindrance to trade, and numerous studies have estimated the positive impact that the Agreement on Trade Facilitation may have on global trade and income through its impact on lowering trade costs (Organization for Economic Cooperation and Development (OECD), 2015; World Economic Forum, 2014; WTO, 2015a).

More trade does not automatically contribute to growth or poverty reduction; a topic that has been amply discussed (Rodrik, 2011; UNCTAD, 2014a; UNCTAD, 2015a). More trade – through liberalization, trade facilitation, non-tariff measures or investments in transport infrastructure – does not necessarily on its own achieve development objectives. However, if and when trade is part of a development strategy, speed, transparency and reliability become ever more important in today's trade and logistics environment.

As trade has become more liberalized, other obstacles to trade have gained in importance. Facilitating trade is good for trade; some reasons why are discussed in this chapter.

Specific trends in trade and logistics

In today's trade logistics context, implementing trade facilitation reforms has become more important than ever. The standardization, harmonization and simplification of trade procedures make trade easier, thus reducing the costs of trade. The inclusion of trade facilitation in the WTO agenda is a reflection of a number of specific trends in international trade and logistics. The following five trends show the increasing role that trade facilitation plays in increasing trade competitiveness.

1. Trade in manufactured goods

Globally, there is more trade in manufactured goods, including imports and exports from developing countries, which are no longer merely providers of raw materials, but increasingly import raw materials and intermediate goods to produce manufactured goods for export. Based on data on port traffic, for example, UNCTAD (2015b) estimates that the share of developing countries in the volume of seaborne imports has more than tripled since 1970.

A trade facilitation measure such as advance rulings (article 3 of the Agreement on Trade Facilitation) is more important for manufactured goods than for raw materials. For example, when a smart watch was first taken across a border and a customs officer had to decide whether it was jewellery or a watch, computer or toy, the importer would have appreciated having a binding advance ruling at hand.

2. Globalized production processes

Trade is increasingly part of global value chains. Businesses trade more and more in intermediate goods, with a growing share of intracompany trade. With regard to logistics expenditures, companies increasingly spend on transport and reduce expenditures on inventory holdings. This is because deliveries are often just in time and waiting times at borders need to be minimized and predictable.

Improvements in global logistics networks, including reductions in transport and communications costs and innovations in managerial procedures, have allowed countries to specialize in tasks rather than final products. Firms operate global supply chains, and value is added in different countries before reaching the final market (World Economic Forum, 2012).

In this context, any trade facilitation measure that helps in understanding and speeding up processes, such as pre-arrival processing or publication of average release times, is increasingly important for a country's participation in global value chains.

3. Regional integration

Most countries are part of regional integration schemes, and intraregional trade is growing faster than global trade in most regions. The number of regional trade agreements continues to rise, as does the number of such agreements incorporating trade facilitation measures. From the perspective of trade facilitation, more regional trade agreements can lead to a spaghetti bowl of such agreements, which require more certificates of origin in order to benefit from preferential tariffs. Obtaining and submitting certificates of origin, in turn, requires more paperwork and potential waiting times.

Regional integration crucially depends on the facilitation of cross-border transit and trade. At the same time, many cross-border operations depend on cooperation between neighbouring countries. The Agreement on Trade Facilitation specifically includes articles on inter-agency collaboration and customs cooperation and allows for regional collaboration in setting up enquiry points. The Agreement also makes specific reference to transit in a number of articles, including article 11 (freedom of transit). Transit is also included in the obligation to publish relevant information (article 1) and provide traders with an opportunity to comment on proposed new regulations before they enter into force (article 2).

The benefits of such measures not only accrue from making transit and trade easier, but also from the regional collaboration efforts that are necessary for their implementation. One of the advantages of the multilateral Agreement on Trade Facilitation is that it can help regional integration without requiring a spaghetti bowl of regional trade agreements.

4. Trade diversification

In parallel with growing intraregional trade, there is also a diversification in trading partners. The more that businesses wish to sell and source abroad, the more they benefit from trade facilitation measures such as making information available through the Internet and the use of international standards. While advanced economies may have their own consular offices or commercial representations abroad, traders in developing countries may increasingly depend on access to information through the Internet.

The Agreement on Trade Facilitation helps in the following three ways: measures such as making information available through the Internet (article 1.2) help businesses to obtain information globally; article 10.3 stipulates that countries should use international standards; and the Agreement in itself helps to standardize terminologies and expectations with regard to border procedures. The Agreement thus directly contributes to the global harmonization of procedures.

5. Potential of new technologies

The four abovementioned trends illustrate the growing demand for trade facilitation; such facilitation also benefits from new tools available due to technological advances. Measures such as customs automation, electronic documents and single window are all easier to implement today than when trade facilitation negotiations started at WTO a decade ago. Traders that invest in the latest technologies expect their counterparts in control agencies to also make use of them.

One technology deserves special mention: the container. Recent studies have shown that the introduction of containerization has had a greater impact on trade growth than trade liberalization (Bernhofen et al., 2012). Incorporating a country's position in the container shipping network significantly improves trade models. Yet the benefits of containerization are lost if a lack of trade facilitation, through the breaking of seals or reloading of content, interrupts their movement.

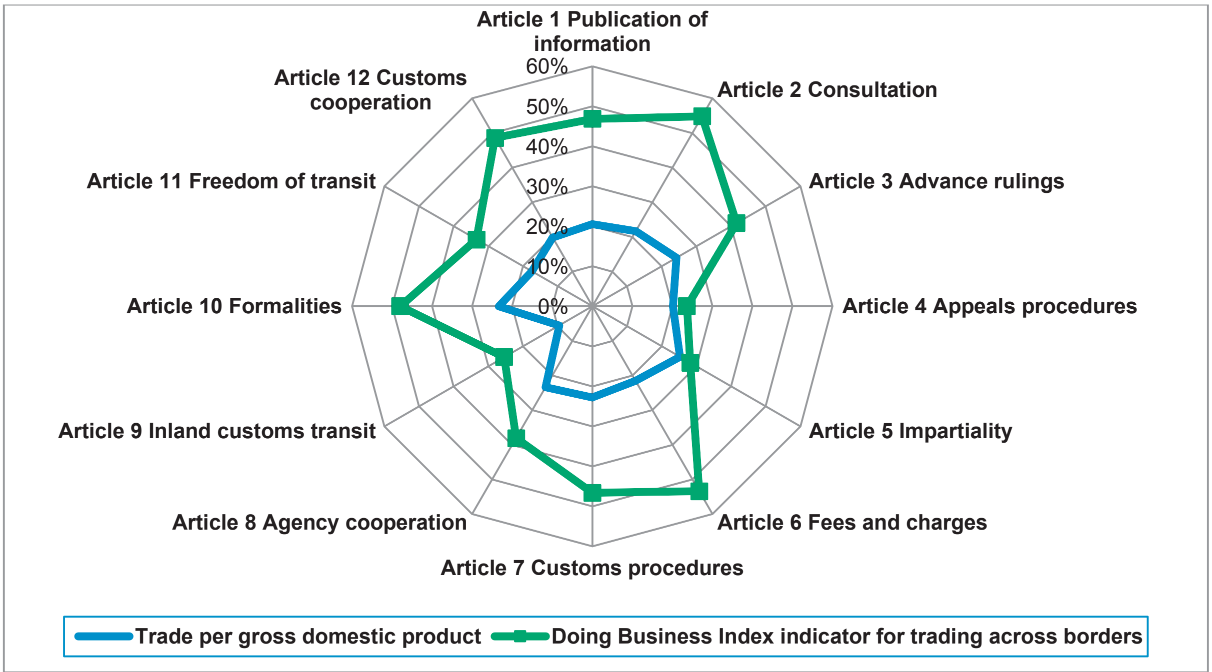
Which measures matter most?

Since early 2014, WTO members have been notifying to WTO their trade facilitation measures under category A, which contains "provisions that a developing country member or a least developed country member designates for implementation upon entry into force of this Agreement, or in the case of a least developed country member within one year after entry into force" (WTO, 2014). By mid-November 2015, a total of 73 developing countries (including several of the least developed countries) had notified their category A provisions to the WTO secretariat (WTO, 2015b).

The Agreement on Trade Facilitation covers a range of different trade facilitation measures, grouped into 12 articles in section I. Notifications under category A indicate a country's self-declared capability and readiness to implement these measures without assistance upon entry into force of the Agreement. Given that the date of entry into force is not yet known, in practice this has meant that countries have mostly notified a measure as category A whenever the measure is already being implemented.

An analysis of the number of category A measures notified by country shows that a close correlation exists between the implementation levels of different articles of the Agreement and indicators for trade efficiency and trade. While a statistical correlation does not in itself prove any causality, the data, as shown in figure 1, suggest that implementing article 2 and article 6 has a stronger bearing on a country's Doing Business Index indicator for trading across borders than, for example, article 4.

Figure 1: Agreement on Trade Facilitation implementation: Correlation between trade and the Doing Business Index indicator for trading across borders



Source: UNCTAD secretariat calculations, based on individual category A notifications (WTO, 2015b), Doing Business Index indicator for trading across borders and UNCTAD estimates of trade in goods per gross domestic product (GDP) in 2014. The values on the axes represent the partial correlation coefficient, which varies between -1 and +1 (in this figure all correlations are positive, and only values between 0 and +1 are shown). A value of +1 implies that the two variables move together at 100 per cent, while a correlation coefficient of 0 implies that the two variables are not correlated.

In terms of individual provisions and country groups, an analysis by OECD suggests that in low-income countries, the harmonization and simplification of documents has the strongest impact on increasing trade flows. In middle-income countries, the streamlining of procedures is estimated to be the most significant aspect of trade facilitation that enhances trade flows. These results are especially valid for manufactured goods (OECD, 2012; OECD, 2015).

The World Customs Organization (WCO, 2014) notes the specific transparency and predictability enhancing provisions in articles 1–4 of the Agreement on Trade Facilitation. These measures, among others, are particularly beneficial to the business sector. Other provisions target the reduction of formalities and documentation requirements, such as the measures in article 10, and are estimated to bring about significant cost reductions in border procedures. Referring to OECD estimates, WCO states that cost reduction would be about 14 per cent in low-income countries, 15 per cent in lower middle-income countries and 13 per cent in upper middle-income countries. While some measures may be more important than others in terms of policy priorities, in implementing individual measures, care must be taken to keep in mind necessary sequencing or synergies (see chapter 4 on implementation).

Small and medium-sized enterprises

There is debate on whether trade facilitation provisions improve the performances of small and medium-sized enterprises, as large firms are more likely to take part in global value chains and such chains benefit more from trade facilitation reforms than other forms of trade. Goods traded in global value chains are more sensitive to improvements in logistics performance than other types of goods. The link between logistics performance and trade in global value chains products is about 50 per cent stronger than for other goods (Hoekman and Shepherd, 2013). Small and medium-sized enterprises account for more than 95 per cent of firms in most economies and a significant share of employment. However, they only account for a small share of international trade (WTO, 2015a). At the same time, small and medium-sized enterprises have more difficulties overcoming bureaucratic hurdles to international trade than multinational firms. From this perspective, they are more likely to benefit from trade facilitation measures that improve the transparency and ease of cross-border operations.

In view of the above, small and medium-sized enterprises may particularly benefit from reduced transaction costs and times. In contrast to large multinational corporations – which often have their own resources to develop solutions to operational bottlenecks across the globe – small and medium-sized enterprises depend on solutions provided by public administrations. By reducing trade costs, trade facilitation provisions can promote the entry of small and medium-sized enterprises into export markets, particularly trade taking place in global value chains, by allowing them to specialize in tasks and new types of inputs, thereby diversifying their exports. In an analysis of 118 developing countries, an increase of 3 per cent in the number of products exported was shown to result from a reduction of 10 per cent in costs associated with aspects of trade facilitation (Hoekman and Shepherd, 2013). Estimates of the impact of trade facilitation on exports at the firm level suggest that small firms especially benefit from the soft aspects of trade facilitation – such as cross-border management, information and communications technology and risk assessment – while large firms reap greater benefits from infrastructure investments and road quality upgrades (WTO, 2015a).

To ensure that small and medium-sized enterprises truly benefit from trade facilitation reforms, accompanying measures related to private sector development, export promotion and awareness raising may be necessary. UNCTAD collaborates in this area with the International Trade Centre.

Trade facilitation, trade and economic growth: A brief literature review

Trade facilitation can contribute to reducing the wedge between export and import prices. In reducing trade costs, prices for consumers and firms that import inputs for production decrease and, in turn, real disposable incomes and/or profits increase. Empirical evidence suggests that the extra cost of delays, bureaucratic inefficiency and, in some instances, corruption can add as much as 15 per cent to the price of goods, undermining the competitiveness of goods between countries. National income effects from improved trade facilitation can be up to two or three times as great as those that would result from removing all tariffs on manufactured goods globally (Hoekman and Shepherd, 2013).

Customs procedures and transportation costs and delays are among the largest factors preventing developing countries from integrating into global value chains. Empirically, it has been shown that trade facilitation reforms can help a country’s inclusion in global value chains, its integration into global logistics networks, its productivity growth and employment levels and the diversification of its exports. All of these factors lead to an increase in foreign investment (World Economic Forum, 2014).

An immediate and full implementation of the Agreement on Trade Facilitation provisions has been estimated to lead to an increase in average economic growth in developing countries by almost 0.9 per cent annually, and in developed countries, 0.25 per cent in additional growth in GDP (WTO, 2015a). In both groups of countries, a rapid implementation of the provisions would be more beneficial than implementation at a slower pace over several years.

Distance, logistics performance, connectivity and border management are major determinants of trade costs, more so than tariffs. Trade costs are both exogenous (based on matters largely outside a country's control, for example remoteness) and endogenous (linked primarily to national policies). Endogenous costs are higher in developing countries than developed countries, and influence their participation in global value chains and affect regional integration. The estimated reduction in trade costs following full implementation of the trade facilitation provisions in the Agreement is estimated to range from 9 to 23 per cent. Given that the least developed countries and developing countries begin with the highest levels of deficiencies, they may obtain the greatest levels of improvement. Full implementation of the Agreement provisions has been estimated to have a greater impact on trade costs than reducing all tariffs to 0 per cent, if the minimum estimate of a reduction in trade costs (9 per cent) is compared with the current average most-favoured nation tariff (9 per cent) of WTO members (WTO, 2015a).

Countries incur different trade costs depending on their degree of industrialization, level of development and income, geographical location, cross-border procedures, logistics and connectivity. Empirical evidence suggests that in developing countries in 2010, trade costs for manufactured products were equivalent to applying a 219 per cent ad valorem tariff on international trade, implying that for each US$1 of cost to manufacture a product, another US$2.19 was added in the form of trade costs; whereas in high-income countries, for the same product, only US$1.34 was added (WTO, 2015a).

Trade costs in developing countries are estimated to be on average 1.8 times higher than in developed countries. The highest trade costs are incurred by African countries, at over 260 ad valorem tariff equivalents, with an additional 40 per cent in trade costs incurred by remote and landlocked countries. In fact, the 10 countries with the highest trade costs are either in Africa or are small island developing States, while the 10 countries with the lowest trade costs are in Western North America and Europe (WTO, 2015a). The region expected to benefit the most from implementation of the Agreement on Trade Facilitation provisions is Africa, with an estimated 16.5 per cent reduction in costs. By income group, the least developed countries are expected to achieve the greatest reduction, of about 17 per cent (WTO, 2015a).

2. Revenue collection and protection of public interest

A frequent misconception is that there is a balance or trade-off between trade facilitation and risks to public interest. Yet trade facilitation and the protection of the public from lost revenues or health hazards are not competing policy objectives. On the contrary, a large number of specific trade facilitation measures clearly help both the ease of doing business and the fight against undervaluation, counterfeit trade, smuggling and the entry into the market of substandard products. Trade facilitation measures such as advance rulings, authorized economic operators, risk management and post-clearance audits not only reduce the need for physical inspections, but also increase the likelihood of detecting fraud. Customs performance is of particular importance for countries whose revenues rely on duty and tax collection at borders, as in many of the least developed countries and developing countries. By investing in modern operations, customs and other control authorities can reduce operating costs, become more efficient and strengthen their capacities to confront the increasingly complex environment in which international trade takes place.

Revenue collection

Customs authorities are responsible for the collection of duties and a number of other taxes at borders. A survey of 34 of the least developed countries by WCO in 2014 showed that duties and other taxes collected at borders accounted for 45 per cent of government tax revenue, of which 19 per cent were customs duties (WTO, 2015a). This dependency represents a major concern for developing countries along with the concern that other needs may not be met and that there may be negative impacts in other areas, such as health and education. According to WCO, customs revenue constitutes a substantial portion of government tax revenues, although import tariff rates have been cut around the world. One of the main customs-related challenges is detecting and avoiding fraud, which has an impact on revenue collection, and can include misinvoicing (under and overvaluation), voluntary misclassification, smuggling and misdeclarations of transit or origin. One estimate suggests that the fraudulent misinvoicing of trade transactions is the largest component of illicit financial flows from developing countries, accounting for 77.8 per cent of all illicit flows (Global Financial Integrity, 2014). The Agreement on Trade Facilitation provides specific provisions aimed at avoiding or recovering revenue loss, including article 7.5 (post-clearance audit) and articles 12.2–12.12 (exchange of information and verification).

With the changing global trade environment, the role of customs administrations has become more complex. Multimodal transportation and just-in-time distribution impact freight logistics and put pressure on supply chains. For customs to operate efficiently in handling workloads and minimizing delays, automation and the use of information and communications technologies have become important tools. They enable a more reliable revenue collection system and a more accurate and transparent regulatory framework, consequently facilitating trade (McLinden, 2005).

An increase or decrease in customs revenue is not due to a single factor but is rather based on a variety of factors that may play substantial roles, such as stakeholder compliance, tariff and revenue structures, trade patterns, regulatory frameworks and the degree of implementation of Agreement on Trade Facilitation provisions. Measures to reduce corruption, increase transparency and implement automation processes are intrinsically related. Outdated, inefficient practices and burdensome processes discourage stakeholders from complying with regulations and laws, consequently leaving room for corruption. For example, customs reforms undertaken in the Plurinational State of Bolivia, Morocco, Mozambique, Peru, the Philippines, Turkey and Uganda have covered the following components of customs administration: organizational structure; legal framework; strategic management; information technology; and system and procedures. The customs reform and modernization in Peru, for example, over a five-year period, reduced cargo clearance time from 15–30 days to 1–2 days and quadrupled revenue collection (McLinden, 2005). Other examples are as follows:

- In Canada, with post-clearance controls, customs authorities collected US$128 million in fiscal year 2010, (WCO, 2014)
- In Japan, with post-clearance controls, customs authorities collected US$300 million in fiscal year 2012, equivalent to 1 per cent of the annual customs revenue (WCO, 2014)
- In Taiwan Province of China, customs authorities recovered more than US$26 million revenue from evaded duties in fiscal year 2010–2011 (WTO, 2015a)

In Cameroon, customs revenues represent 27 per cent of national revenues. Aiming to reduce corruption that had been a longstanding barrier to performance, in 2007, customs authorities launched a reform and modernization initiative that began with implementation of the UNCTAD Automated System for Customs Data, supported by WCO and the World Bank (Cantens et al., 2010). This System allows the processing of each consignment to be tracked and criteria relevant to reforms to be measured. Its introduction was not simple, nor was it immediately effective. An initial reluctance by a number of customs officials to use the System caused losses and raised doubts about its efficiency, while the simplification of procedures raised concerns among officials whose tasks were no longer relevant, engendering criticism and opposition. However, the monitoring of frontline operations produced prompt results, as officials noted that managers could directly supervise the quality of work through the System. Indicators (related to activity, performance, control and risk management) were put in place to measure economic activity, including the time taken to process files, the effectiveness of controls and compliance with customs law and practices. The automation of processes brought about gains in customs revenue by January 2007, at about 15 per cent higher than in January 2006 (Cantens et al., 2010).

Lack of transparency regarding trade regulations increases the likelihood of errors in declarations, leading to additional delays and discouraging legitimate trade. The time spent in clearing customs procedures has a negative correlation with trade-related corruption. Global import revenue losses due to customs-related corruption are estimated to amount to US$2 billion (WTO, 2015a). Customs cooperation under article 12 of the Agreement on Trade Facilitation can help detect discrepancies between declarations and the invoiced values of imports.

Safety, security, health and other public policy objectives

The changing security paradigm has also contributed to reshaping the need for practical trade facilitation measures. Border security agencies are adopting strategies that result in border control processes being undertaken beyond a State’s borders. Individual nodes along a supply chain become extensions of the border network and, unless proactively and efficiently planned and executed, can frustrate the objective of facilitating trade. Put differently, many specific trade facilitation measures such as pre-arrival processing, electronic submissions and customs cooperation can effectively achieve both lower levels of risk and faster border procedures. Recent trade facilitation assessments show that, often, control agencies other than customs are less prepared to implement Agreement on Trade Facilitation provisions. Ministries of health and agriculture, and standards bureaux, for example, often lack the necessary information technology capacities to make full use of measures such as pre-arrival processing, risk assessment and automated processes.

The implementation of trade facilitation measures can help facilitate the control of incoming products and conformity with standards and sanitary and phytosanitary measures. The Agreement includes provisions that may have positive effects on increasing compliance by traders by simplifying customs procedures and strengthening controls. Article 6.3 (penalty disciplines) and article 7.7 (trade facilitation measures for authorized operators), among others, allow customs authorities to perform duties more efficiently and in a less costly manner, while traders have merchandise released in a shorter time. This has a positive impact on the likelihood of duties being paid and helps reduce informal trade.

3. Human and institutional development

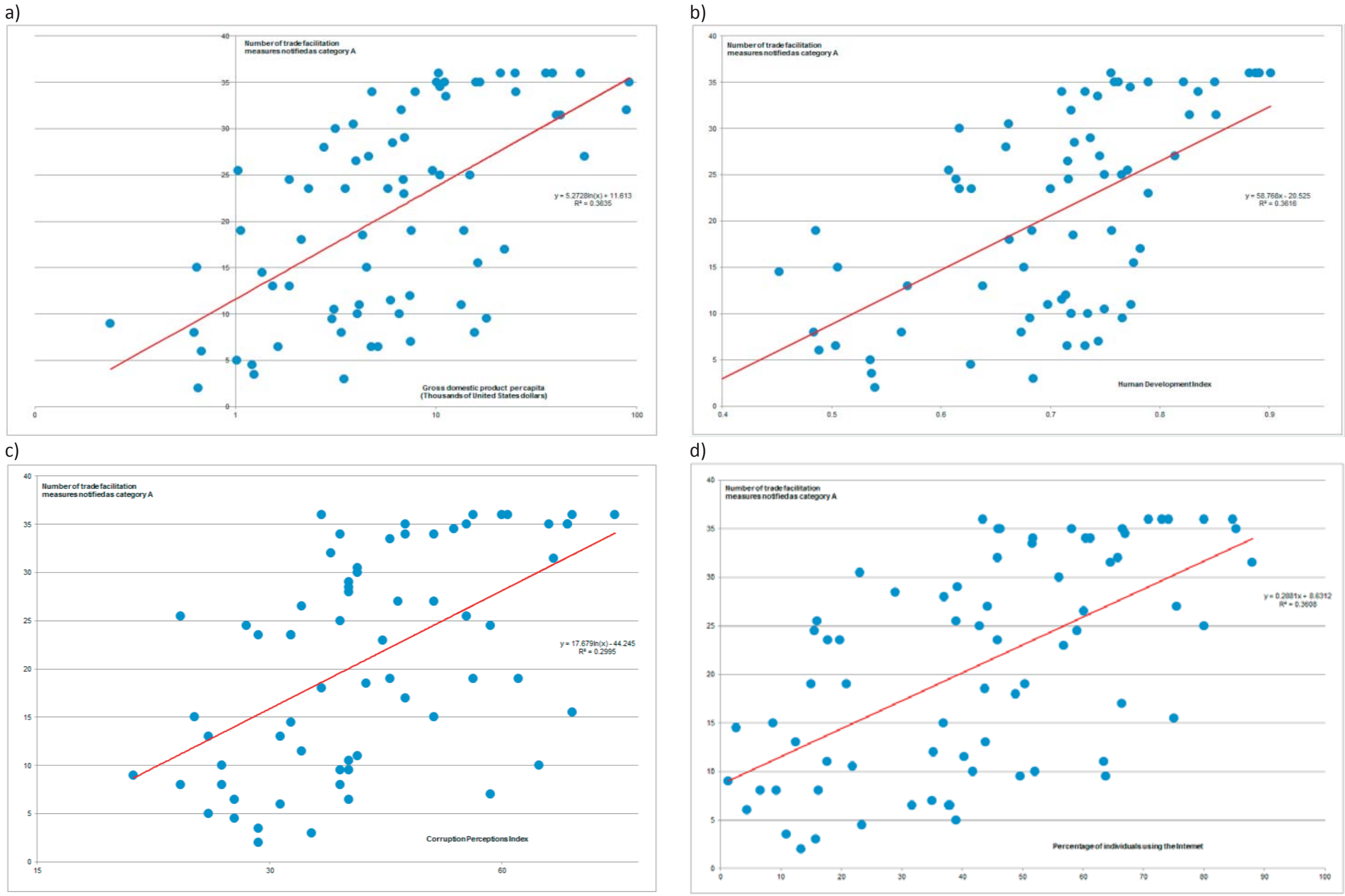
Implementing trade facilitation reforms entails a number of direct benefits for a country's human and institutional development through associated investments in capacity-building and public sector reforms. Specific measures involving transparency, capacity-building and institutional modernization have a direct bearing on the achievement of a number of Sustainable Development Goals.

The implementation of trade facilitation measures as reflected in category A notifications is statistically more correlated with development indicators such as GDP per capita than with trade. That is, the likelihood that a developing country is implementing trade facilitation reforms has more to do with its capacity to implement such reforms than with a motivation to increase the volume of foreign trade.

Human, institutional and enterprise development

Statistically, there exists a close correlation between the implementation of different articles of the Agreement on Trade Facilitation and indicators of development such as GDP per capita and the Human Development Index of the United Nations Development Programme (figure 2). In practice, the underlying causalities move in both directions; more developed countries find it easier to implement reforms, while the implementation of measures has a direct bearing on a country's human and institutional capacity development.

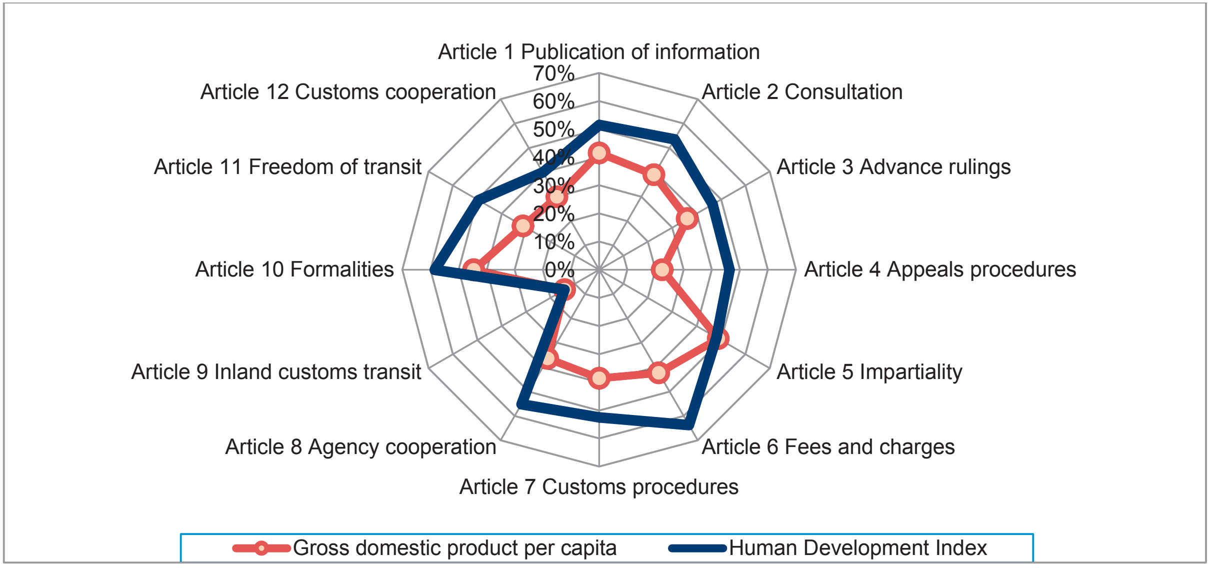
Figure 2: Correlation between category A notifications and (a) gross domestic product per capita, (b) Human Development Index, (c) Corruption Perceptions Index and (d) Internet usage



Source: UNCTAD secretariat calculations, based on the Human Development Index, individual category A notifications (WTO, 2015b), International Telecommunication Union data on Internet use, the Transparency International Corruption Perceptions Index and UNCTAD estimates of GDP per capita in 2014.

Figure 3 depicts in detail the partial correlation between GDP per capita and the Human Development Index and category A notifications of the Agreement on Trade Facilitation articles. Overall, the correlation of most articles is higher with the broader measure of the Human Development Index than with GDP per capita. The highest correlation is with article 10.

Figure 3: Agreement on Trade Facilitation implementation: Correlation between gross domestic product per capita and the Human Development Index



Source: UNCTAD secretariat calculations, based on the Human Development Index, individual category A notifications (WTO, 2015b) and UNCTAD estimates of GDP per capita in 2014. The values on the axes represent the partial correlation coefficient, which varies between -1 and +1 (in this figure all correlations are positive, and only values between 0 and +1 are shown). A value of +1 implies that the two variables move together at 100 per cent, while a correlation coefficient of 0 implies that the two variables are not correlated.

Trade facilitation reforms themselves are positive steps towards human, enterprise and institutional development. For example, trade facilitation measures such as inter-agency coordination, the right of appeal and enquiry points may form part of general national reforms not only in the context of international trade, but within broader public sector modernization programmes. By making trade easier and more transparent, specific trade facilitation reforms effectively help small traders enter the formal sector, make economic activities more accountable, promote good governance, strengthen information technology capabilities and generally help modernize societies.

Articles 1–5 of the Agreement on Trade Facilitation provide for crucial steps in promoting transparency. Implementation of the provisions in these articles – such as in articles 1 and 2 – may also bring about important benefits in terms of administrative efficiency. Global standards in trade and transport can help to transfer good practices and technologies to developing countries. This directly contributes to development, as it enhances electronic governance, improves information technology connectivity and streamlines processes to save time and financial costs.

A major transformation in administrative culture is expected, conveyed by the mandatory provisions of the Agreement on Trade Facilitation. In the field of publication and transparency, some of the reforms to be made in many of the least developed countries and developing countries may induce new ways of doing business. Such reforms are often linked to information technology and intelligent systems; they are likely to result in new working methods in public offices as these need to adapt to a world of easily available information. New skills, knowledge and mindsets are also required. Public sector competencies need to evolve from control to monitoring and regulatory functions, using intelligence activities and good governance practices to ensure, for instance, safety and security standards and the operation of transparent and non-distorted trade and transport markets.

Similarly, mandatory provisions in articles 6–10 of the Agreement on Trade Facilitation, focusing on customs procedures and documentation, should lead to a shift from physical controls at border crossings, entailing delays and interference in the movement of goods, to information treatment, resulting in higher levels of security and smoother flows of commerce. Such customs rules incorporate some of the best customs practices recommended by WCO, which have already been adopted and implemented by the countries most advanced in administrative reforms.

Trade facilitation and the Sustainable Development Goals

Many measures in the Agreement on Trade Facilitation have a direct link to the recently adopted Sustainable Development Goals (UNCTAD, 2015b). For example, article 1 covers the publication and availability of information on import, export and transit procedures; a country that complies with article 1 may thus be closer to achieving target 16.10 of the Goals, which, inter alia, aims at ensuring public access to information. Another example is article 5, which, inter alia, requires Governments to publish certain announcements in a non-discriminatory and easily accessible manner; this is more easily achieved if traders have access to the Internet, as stipulated in target 9.c of the Goals. In addition, article 6 includes the requirement to avoid conflicts of interest in the assessment and collection of penalties and duties, which can help achieve target 16.5 (substantially reduce corruption and bribery in all their forms). Finally, by making trade easier and less opaque, many trade facilitation measures directly encourage informal businesses to declare transactions and participate in formal foreign trade, thus supporting target 8.3 of the Goals on the formalization and growth of micro, small and medium-sized enterprises.

For effective implementation of Agreement on Trade Facilitation provisions, WTO members are required to “establish and/or maintain a national committee on trade facilitation or designate an existing mechanism to facilitate both domestic coordination and implementation of the provisions” (WTO, 2014). Such a mechanism is crucial for ensuring political buy-in from relevant stakeholders from the public and private sectors, including users and providers of trade supporting services, all of whom are usually members of such national trade facilitation committees (UNCTAD, 2016a). This measure helps meet target 17.17 of the Sustainable Development Goals (encourage and promote effective public, public–private and civil society partnerships, building on the experience and resourcing strategies of partnerships). The simplification of procedures and standardization of fees and charges applicable to trade foster more predictable, higher levels of revenue collection for customs. Their implementation also allows for the removal of inefficiencies and bureaucratic impediments. Trade facilitation measures thus also help achieve target 1.a (ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions).

The following list of articles of the Agreement on Trade Facilitation identifies further linkages with the Sustainable Development Goals.

Article 1

Compliance with the provisions on the publication and availability of information provides, inter alia, a more transparent and predictable trading environment, encourages stakeholder partnerships and enhances communications between traders, government agencies and the private sector through the improvement of access to the Internet and other related information and communications technology infrastructure. More specifically, compliance with article 1.2 (information available through the Internet) helps achieve target 9.c (significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020) and target 16.10.

Article 2

The opportunity to comment on new legislation and regulations before they enter into force and to hold consultations with traders builds trust in public administrations, increases transparency and improves governance. Compliance with this article helps achieve target 16.7 (ensure responsive, inclusive, participatory and representative decision-making at all levels) and target 16.b (promote and enforce non-discriminatory laws and policies for sustainable development).

Article 3

Advance rulings create a more transparent and reliable global trading system, encourage the least developed countries and developing countries to take part in the system and build capacities to better negotiate in multilateral settings, strengthen international cooperation for closer integration and allow for a more enriched aid for trade agenda. Compliance with this article supports target 17.10 (promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under WTO, including through the conclusion of negotiations under its Doha Development Agenda) and target 17.14 (enhance policy coherence for sustainable development).

Article 4

Procedures for appeal or review build effective, accountable and transparent national institutions and improve trust in the multilateral trading system. Clear and transparent appeal procedures should be available to all traders, both large and small. Compliance with this article helps achieve target 16.3 (promote the rule of law at the national and international levels and ensure equal access to justice for all).

Article 5

Measures to enhance impartiality, non-discrimination and transparency help build strong national institutions, promote policy coordination and coherence and contribute to good governance, thereby helping reduce corruption and encourage private sector involvement. Compliance with this article can help achieve target 16.5 and is related to article 1 and target 9.c.

Article 6

Disciplines on fees and charges imposed on or in connection with importation, exportation and penalties include a requirement to avoid conflicts of interest in the assessment and collection of penalties and duties, thereby making public resources more effective and efficient, which can help build trust with the business sector and foster closer regional integration, ultimately promoting a sound and reliable trading system. Compliance with this article can help achieve target 17.1 (strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection).

Article 7

The timely release and clearance of goods contributes, inter alia, to the modernization of the trade and transport sector, which can thereby be encouraged to invest in measures such as electronic submissions of declarations that reduce the time goods spend at borders. Compliance with this article can help achieve target 8.2 (achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors).

Article 8

Border agency cooperation strengthens the capacities of institutions and fosters inter-institutional cooperation, while freeing up public resources that may be allocated to strengthening regulatory and public planning functions. Compliance with this measure helps achieve target 16.6 (develop effective, accountable and transparent institutions at all levels) and is also intrinsically linked to the achievement of target 16.5.

Article 9

The movement of goods for import under customs control gives incentives to the business sector, encouraging greater intraregional trade and cooperation among all involved institutions. One global challenge is inefficient import procedures; their simplification leads to more efficient and better-targeted controls while maximizing time and resources and improving transport services. Compliance with this article helps achieve target 9.1 (develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all).

Article 10

Formalities connected with importation, exportation and transit are essential for the integration of informal trade into the formal economy. If informal cross-border traders have the necessary information beforehand, it makes it easier for them to comply with legal operations. Moreover, the simplification of international trade procedures encourages small and medium-sized enterprises to begin foreign trade operations. This is particularly important for the least developed countries and developing countries, where trade is largely carried out by small-scale traders, who may encounter border management bottlenecks in trading their products, which lead to lessened gains for the traders and gains that are not recorded in national revenue accounts. Compliance with this article helps achieve target 8.1 (sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent GDP growth per annum in the least developed countries) and target 17.11 (significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020). In addition, simplifying trade operations helps promote national and foreign investments, which in turn can spill over to fostering more and better employment. This promotes, inter alia, target 8.3 on the formalization and growth of micro, small and medium-sized enterprises.

Article 11

Improving the efficiency of transit operations requires close coordination among a multitude of agencies on both sides of a border. The least developed countries and developing countries, including landlocked developing countries, benefit from reducing bureaucratic tasks related to transit. Although the Agreement does not require investments in infrastructure, the objective of facilitating international transit helps the achievement of target 9.a (facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States). Transit requires collaborative efforts between landlocked least developed countries and transit countries, and win-win scenarios should be pursued. In particular, the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 pursues the achievement of such developments in the context of the Sustainable Development Goals.

Article 12

Customs cooperation is essential to make export and import procedures and formalities easier. Customs administrations of trading partners should cooperate to mitigate fraud and illegal trade. Implementation of this article helps achieve target 16.a (strengthen relevant national institutions, including through international cooperation, for building capacities at all levels, in particular in developing countries, for preventing violence and combating terrorism and crime) and also contributes to the achievement of target 16.5.

Section II of the Agreement on Trade Facilitation includes a new approach to special and differential treatment and a commitment by the international community to support the implementation of Agreement measures with technical and financial assistance. This is in line with target 10.b (encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes).

Finally, article 23.2 in section III provides for the establishment of a national committee on trade facilitation, which is a crucial mechanism for ensuring the effective implementation of the Agreement provisions, and can also help facilitate domestic coordination between relevant stakeholders from the public and private sectors, thereby helping to achieve target 17.17.

Particular challenges for the least developed countries

The expected benefits of the Agreement on Trade Facilitation can only be realized if the least developed countries and developing countries are in a position to actually implement the measures in the Agreement. This issue was behind the negotiations of the provisions in section II, which deals with special and differential treatment for developing country and least developed country members. In 2004, when members agreed on Annex D of the decision adopted by the WTO General Council on the Doha Development Agenda work programme, they also incorporated new thinking into the mandate to start negotiating on trade facilitation. They decided to link, for the first time, the obligation to comply with actual capacity for compliance, placing a particular emphasis on assistance for capacity-building as a condition of implementation. In practice, this innovative approach has translated into the establishment of three categories of provisions corresponding to the implementation capacities of the least developed countries and developing countries. The third category of provisions (category C) is particularly significant, and involves provisions for which a developing country or least developed country member requires technical and financial assistance and a transitional period to fully acquire compliance capacity.

Having anticipated the above, in 2012 and 2013, UNCTAD carried out technical assistance activities to develop national trade facilitation implementation plans with 29 developing countries, in order to help them prepare for notifications under these three categories and identify their needs in terms of technical and capacity-building assistance. Analyses of these plans confirmed that the least developed countries need more assistance in this area than middle-income developing countries. While the largest group of developing countries that are not least developed countries are already compliant with 41–60 per cent of the Agreement on Trade Facilitation provisions, more than 60 per cent of least developed countries are compliant with only 21–40 per cent of the measures (UNCTAD, 2014b).

Broadly speaking, compared with other developing countries, the least developed countries face four particular challenges. The least developed countries:

- Require more trade facilitation-related technical assistance
- Tend to have lower trade volumes, whereby the return on investment for trade facilitation reforms may be lower than for countries with more trade. However, as they start from a low base, even low-cost trade facilitation measures may have significant positive impacts
- Often have less absorption capacity for comprehensive technical assistance programmes, such as some of the institutional reforms required to implement some of the more complex trade facilitation measures
- Tend to have a lower share of aid assigned to trade facilitation, as there are many competing demands for investment in health, education and infrastructure

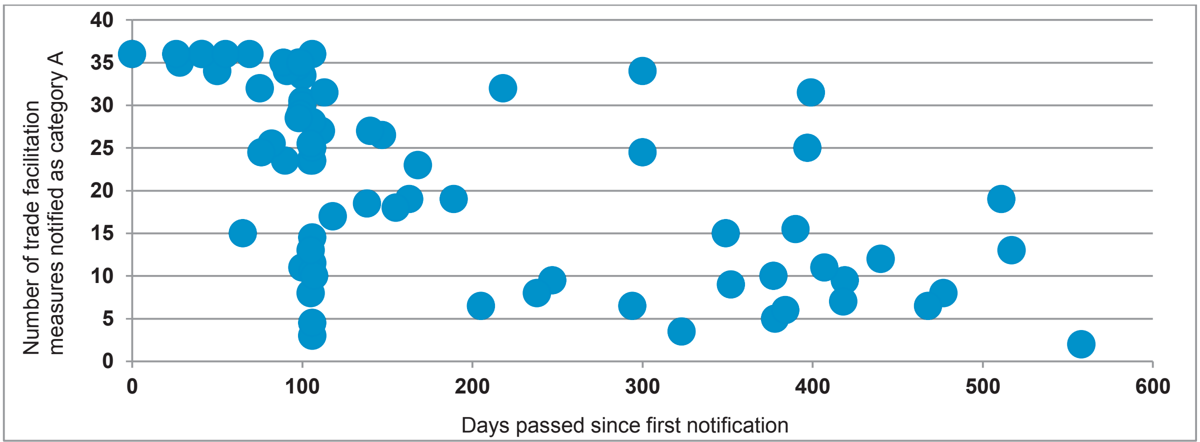
4. Implementing trade facilitation

The capacity to implement trade facilitation reforms is closely linked to a country's level of development. The costs and difficulties of implementing trade facilitation measures were a concern for negotiators prior to the Agreement on Trade Facilitation. Implementation costs come from different sources, including institutions and organizations, human resources and training, regulations and legislations, diagnostics and needs assessments, awareness raising and change management, equipment and infrastructure, operations and maintenance and even political resistance.

Timeline of notifications

The first WTO members that notified category A measures were largely advanced developing economies, such as Colombia, Hong Kong (China), Mauritius and Singapore. Countries that notified first are also those that have notified a higher number of measures as category A. Countries that notified later are on average less advanced in the implementation of trade facilitation (figure 4). This trend is not surprising given that the preparation of notifications itself requires a thorough assessment. Such assessments are undertaken through WTO self-assessments, UNCTAD trade facilitation implementation plans and other forms of gap analysis. Experience with such assessments confirms the linkages between the level of development of a country and its capacity to prepare for notifications to WTO. A country with a lower level of development not only has fewer category A measures, but also finds it more difficult to identify and notify under the categories.

Figure 4: Trade facilitation provisions notified as category A, by time passed since first notification



Source: UNCTAD secretariat calculations, based on individual category A notifications (WTO, 2015b). The first notification of category A measures was made by Hong Kong (China) in April 2014. As at mid-November 2015, Nepal was the latest WTO member to notify of category A measures.

Cost of implementation

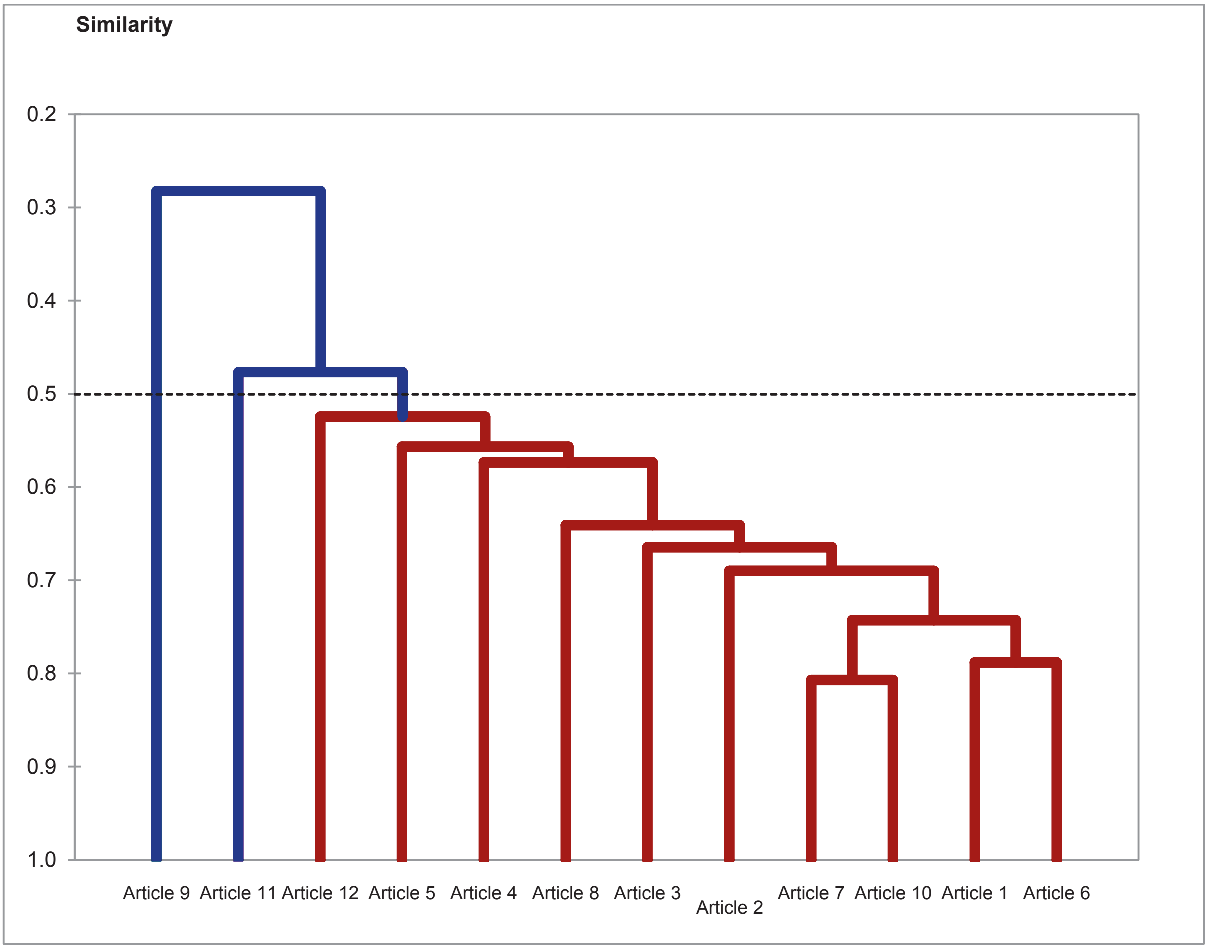
Setting up an enquiry point, training customs officers, automating procedures or drafting new regulation requires an initial investment. Applying different methodologies, OECD, UNCTAD and the World Bank have reached similar results concerning the order of magnitude of the required resources. Depending on a range of factors, the average developing country may need to invest between US$5 million–US$15 million to achieve compliance with the Agreement on Trade Facilitation. Care should be taken when interpreting these figures as they present estimates of an order of magnitude; the amount varies significantly by country size, ambition, current level of implementation and several other factors, and estimates are made only with a view to compliance, while in practice most countries aim at more ambitious, and thus also more costly, reforms.

Subsequent maintenance costs may be offset by cost savings from more efficient operations. Also, if necessary, it is possible to charge for services such as advance rulings or use of a single window. In total, the human and monetary benefits of implementing Agreement on Trade Facilitation provisions outweigh the costs. Trade facilitation reforms tend to have a high return on investment. Cost and time savings are not only gained by traders and operators in the private sector but also in the public sector. Many specific trade facilitation measures, such as pre-arrival processing, risk assessment, electronic submission and automation, help reduce the time needed to process trade transactions. Beyond implementation of the Agreement provisions, investment in transport, transit and trade facilitation may be more costly. There are up-front and set-up costs to be borne, especially when investing in infrastructure. Despite the high costs that may be incurred with hard infrastructure, studies suggest that the cost–benefit balance tends to be strongly positive (Hoekman and Shepherd, 2013). The positive return on investments in infrastructure projects can be significantly enhanced if they are complemented by investments in less costly soft trade facilitation reforms.

Sequencing of and linkages between trade facilitation measures

An analysis of category A notifications shows that some measures are more often implemented together (figure 5). This may be expected, given that many measures are technically linked. For example, measures under article 7 and article 10 both require comprehensive customs modernization; notifications concerning these articles are often made together. Article 1 and article 6 are also often implemented together. By contrast, the implementation of article 9, article 11 and article 12 is more independent of the implementation of other articles.

Figure 5: Dendrogram of category A notifications, by Agreement on Trade Facilitation article



Source: UNCTAD secretariat calculations, based on individual category A notifications (WTO, 2015b). The vertical axis shows the partial correlation, which varies between -1 and +1 (in this figure all correlations are positive, and only values between +0.2 and +1.0 are shown).

Trade facilitation should be an important component of national development plans. Depending on a country's development strategy, some measures are given a higher priority than others. The data from the notifications may give some indication of which measures may be more likely candidates to be part of the same trade facilitation implementation programme. It is also important to bear in mind ongoing and planned programmes. For example, many countries are already in the process of public sector reform programmes, which may also entail enquiry points and other means to enhance transparency. In other instances, regional programmes to promote transit may involve transport markets and infrastructure, as well as aspects of article 11 of the Agreement.

Opportunities under sections II and III of the Agreement on Trade Facilitation

The special and differential treatment provisions in section II of the Agreement on Trade Facilitation provide a unique opportunity to take a country's development into consideration when planning for implementation of the Agreement provisions. Developing countries have an opportunity to notify specific trade facilitation measures as category B (to be implemented later) or category C (requiring financial or technical assistance).

Section III of the Agreement contains other important provisions, in particular with regard to the establishment of national committees on trade facilitation to ensure the effective implementation of all of the provisions through enhanced cooperation among stakeholders. Understanding the various linkages between trade facilitation and development as discussed in the present study may help developing countries reap the full benefits and seize the opportunities under all three sections of the Agreement on Trade Facilitation.

5. Conclusions and way forward

The relationship between trade facilitation and development is dynamic. Countries with more capacities, higher trade volumes and greater financial resources are in a better position to invest in reforms that make trade faster, easier and more transparent. At the same time, if a developing country invests in programmes that modernize customs administrations and trade procedures, it may reap the benefits of greater trade, revenue collection and institutional development. There are several potential virtuous circles.

Dynamic nature of trade facilitation and development

Countries that trade more may find it easier to attract financial resources to invest in trade facilitation, as large trade volumes help achieve a high rate of return on trade-related investments. Countries that invest in trade facilitation can thus help their trade to grow further (chapter 1).

Countries that have more financial resources at their disposal are in a better position to invest in trade facilitation. Countries that invest in trade facilitation may find that many of the reforms help increase their revenue collection (chapter 2).

Countries that have stronger human and institutional capacities to implement trade facilitation reforms may advance faster with implementation of the Agreement on Trade Facilitation if they wish to do so. Countries that attach a high priority to trade facilitation reforms, for example in the context of national development strategies and donor relations, may find that the reforms help them develop stronger human and institutional capacities (chapter 3).

The challenge for policymakers is to initiate such virtuous circles, whereby investments in trade facilitation reforms help generate greater trade, revenue and capacity development.

Way forward

In order to advance the trade facilitation agenda, and keeping in mind the close linkages with development, the following policies may be pursued:

- Ensure a functioning national trade facilitation committee
- Build national implementation capacities
- Mainstream trade facilitation reforms in national development strategies, the building of productive capacities and donor relations

As discussed in the present study, trade facilitation measures are closely correlated with the level of development of a country as measured, for example, by its Human Development Index score or GDP per capita. As countries advance in their development, they also improve their trade facilitation implementation capabilities. It is unlikely that smaller and more vulnerable economies, including the least developed countries, have the capacity to move forward with trade facilitation implementation in the near future despite the clear benefits, unless strong technical assistance is provided. This is where UNCTAD and other development partners need to help (UNCTAD, 2014b; UNCTAD, 2015a; UNCTAD, 2016a; UNCTAD, 2016b).

UNCTAD technical assistance

UNCTAD has extensive expertise and experience in the area of trade facilitation, dating back to its mandate from UNCTAD I.[1] Over the past fifty years, the work of UNCTAD in trade facilitation has taken a variety of forms, constantly adjusting to the needs and priorities of its diverse membership.

UNCTAD support has ranged from helping countries assess their needs for trade facilitation reforms and develop institutional and technical tools for implementing such reforms, to facilitating trade through the Automated System for Customs Data, which is used by more than 90 countries. Another example is the UNCTAD special programme on trade facilitation and the Expert Working Group on Trade Efficiency, whose work led to the adoption of the Ministerial Declaration on Trade Efficiency in 1994. This declaration, in turn, was instrumental to the inclusion of trade facilitation in the agenda of the first WTO Ministerial Conference in 1996.

With the beginning of trade facilitation negotiations, support to developing countries in these negotiations became another major focus of UNCTAD trade facilitation-related activities and included analytical and policy publications, training and awareness-raising events in developing countries and at UNCTAD headquarters, as well as the implementation of technical assistance and capacity-building activities tailored to the needs of developing countries. Prior to the conclusion of the Agreement on Trade Facilitation, in 2012–2013, UNCTAD had agreed to lead efforts conducted in collaboration with other Annex D partners,[2] aimed at helping developing countries elaborate national implementation plans for the trade facilitation measures proposed in the WTO negotiations.

Today, the UNCTAD trade facilitation package includes support for implementation of the Agreement on Trade Facilitation, along with broader, more ambitious transport, transit and trade facilitation reforms. UNCTAD support is provided in close collaboration with other international organizations, including the International Trade Centre and United Nations Economic Commission for Europe. Specific UNCTAD products with regard to trade facilitation and related issues cover trade portals, customs automation, port training, shipping connectivity, non-tariff measures and transit.

[1] The Final Act of UNCTAD I recommended that UNCTAD "promote, within the United Nations family, arrangements [for] intergovernmental action for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to customs procedure, commercial travel, etc." (UNCTAD, 1964).

[2] Annex D of the decision adopted by the WTO General Council on the Doha Development Agenda work programme on 1 August 2004, defining relevant international organizations to be invited to provide technical assistance and capacity-building, including the International Monetary Fund, OECD, UNCTAD, WCO and the World Bank.

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