

# UN Cluster on Trade and Productive Capacity: Multi-partner Trust Fund

## Trade Facilitation

### Thematic note

*(Version as of 19 July 2016)*

---

## 1. Trade Facilitation Reforms Contribute to the SDGs

As trade has become more liberalized through lower tariffs and quotas, the focus of policy makers has shifted to include other impediments to the cross-border movement of goods, and particularly those of an administrative and logistical nature. Transport connectivity, the quality of logistical services, border management and regulatory requirements all play a growing role as determinants of international trade flows. Trade Facilitation (TF), in particular, has been identified as a tool for increased and smoother trade between countries.

The United Nations have promoted Trade Facilitation reforms for many decades. An important turning point was the UN conference on trade efficiency, which resulted in the adoption of the 1994 Columbus Ministerial Declaration on Trade Efficiency. This declaration, in turn, was instrumental for the inclusion of Trade Facilitation in the WTO agenda at the Singapore Ministerial Conference in 1996. Subsequently, the WTO included Trade Facilitation in its negotiating agenda in 2004. After ten years of negotiations, the Trade Facilitation Agreement (TFA) was agreed during the Ministerial Conference in 2013, as part of the Bali Package, and has been inserted as Annex 1 in the Protocol of Amendment adopted in November 2014.

Today, the United Nations continues to support broad and ambitious Trade Facilitation reforms. This support is driven by three main motivations.

- First, 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 enterprises (SMEs) and perishable, time sensitive and intermediate goods sectors in least developed and landlocked developing countries benefit the most from reduced transaction costs and times. Land transit for landlocked countries trade, or the journey between the port/ airport and the SME premises, remains in many developing countries the area where Trade Facilitation can make the biggest difference for small businesses.
- Secondly, many specific Trade Facilitation measures help ensure revenue collection and the enforcement of health, safety and other regulations that support public welfare. 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 TF measures clearly help both: a) the ease of doing business, and b) the fight against under-valuation, counterfeit trade or smuggling. Well-designed TF measures improve the effectiveness of control agencies; as such they not only reduce the need for physical inspections; they also increase the likelihood of detecting fraud.
- Thirdly, 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 IT capabilities, and generally help modernize societies by bringing benefits in terms of administrative efficiency. Many Trade Facilitation measures directly help informal businesses to better participate in foreign trade, thus supporting the Sustainable Development Goal (SDG) target 8.3 on the “formalization and growth of micro-, small- and medium-sized enterprises”.

## 2. Trade-led Growth Strategies need Trade Facilitation

Barriers to trade become barriers to development (Kituyi, 2013). Global trade involves certain transport and transaction costs that are unavoidable; yet, in practice, they are often higher than necessary due to unnecessarily bureaucratic trade procedures and documentary requirements. Higher trade costs are a direct hindrance to trade, and numerous studies have estimated the positive impact that the WTO TFA will have on global trade and income through its creation of lower trade costs (e.g. WTO 2015a, WEF 2014b, OECD 2015).

In the context of today’s trade logistics, implementing Trade Facilitation reforms has become more important than ever. The standardization, harmonization and simplification of trade procedures makes trade easier, thus reducing the costs to trade.

### *Trade in manufactured goods*

Globally, there is more trade in manufactured goods today, including by developing countries. These countries are no longer just providers of raw materials, but increasingly import raw materials and intermediate goods, so as to produce manufactured goods for export. Based on data on port traffic, for example, UNCTAD estimates that the share of developing countries in the volume of seaborne imports has more than tripled since 1970 (UNCTAD 2015c). A Trade Facilitation measure such as “advance ruling” (Article 3 of the TFA) is more important for manufactured goods than for raw materials. When the first “smart watch” arrived at the border and a Customs officer had to decide if this was a computer, jewellery, a toy, a component of a telephone, or (perhaps) a watch, the importer would certainly have benefited from a binding advance ruling.

### *Globalized production processes*

Trade is increasingly part of Global Value Chains (GVCs). Businesses trade more and more in intermediate goods, with a growing share of intra-company trade. Within logistics expenditures, companies spend increasingly on transport, reducing their expenditures on inventory holdings. Deliveries are often JIT (Just In Time) and waiting times at the border need to be minimized and predictable. Improvements in global logistical networks, including reductions in transport and communication 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).

Customs procedures, transportation costs and delays are among the largest factors holding developing countries back from integrating into GVCs. Empirically, TF reforms increase a country’s inclusion in GVCs, its integration into global logistic networks, productivity growth, employment, and the diversification of exports. All of these have then, consequently, led to increases in foreign investment (World Economic Forum, 2014).

In this context, any Trade Facilitation measure that helps to improve and speed up processes, such as pre-arrival processing or the publication of average release times, is increasingly important for a country's participation in global value chains.

### *Trade diversification*

In parallel to growing intra-regional trade, a diversification of trading partners can be observed in current trading patterns. The more businesses want to sell and source abroad, the more they benefit from TF measures such as Internet publication of trade requirements or the use of international standards. While rich economies may have their own consular offices or commercial representations abroad, traders in smaller and less developed countries depend even more on access to information through the Internet.

### *Trade facilitation and economic growth*

Trade Facilitation can contribute to reducing the wedge between export and import prices. By reducing trade costs, the prices to consumers and also to firms that import inputs for production will decrease. This, in turn, increases real disposable incomes and/or profits. Empirical evidence suggests that the extra cost of delays, red tape inefficiency and, in some cases, corruption can add as much as 15 per cent to the price of goods, undermining the competitiveness of goods from countries. It has been pointed out that national income effects from improved Trade Facilitation can be up to twice or three times as large as those would that result from removing all tariffs globally on manufactured goods (Hoekman and Shepherd, 2013).

It has been estimated that an immediate and full implementation of the TFA's provisions would lead to an increase in the average economic growth in developing countries of almost 0.9 per cent annually, whereas for developed countries this would lead to 0.25 per cent of additional growth in GDP. For both groups, a quick implementation of the provisions would be more beneficial than if it is done at a slower pace over several years (WTO 2015).

Trade costs in developing countries are estimated to be on average 1.8 times higher than in developed countries. The highest trade costs per continent are faced by African countries, at over 260 ad valorem tariff equivalents, with an additional 40 per cent trade costs incurred by remote and landlocked countries. In fact, the ten countries with the highest trade costs are either African or Small Island Developing States (SIDS), while the ten countries with the lowest trade costs are all located in Western Europe or North America (WTO 2015a, UNCTAD 2015c). The trade enhancing impact of Trade Facilitation reforms vary by region and product. Globally, trade costs can be reduced by around 14 per cent, ranging from 10 per cent for agricultural products to 18 per cent for manufactured goods (Hoekman and Shepherd, 2013). Africa is the region that will benefit the most from TFA implementation, with an estimated 16.5 per cent cost reduction. According to income groups, LDCs can be expected to achieve the biggest reduction, about 17 per cent (WTO 2015a).

## **3. Implementing Trade Facilitation reforms**

### *Implementation capacity*

The capacity to implement Trade Facilitation reforms is closely linked to a country's level of development. Implementation costs come from different sources: institutional and organizational

costs, human resources and training costs, regulatory and legislative costs, diagnostic and needs assessment costs, awareness-raising and change-management costs, equipment and infrastructure costs, operational and maintenance costs, and even political resistance costs.

Setting up an enquiry point, training Customs officers, automating procedures, or drafting a new regulation requires an initial investment. Applying different methodologies, the OECD, World Bank and UNCTAD have come to 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 roughly between 5 and 15 million US\$ to achieve compliance with the TFA. At the same time, care needs to be taken when interpreting these figures. They only present estimates as regards an order of magnitude; the amount varies significantly by the size of the country, ambition, current level of implementation and several other factors; these estimates were made only with a view to nothing greater than compliance, while, in reality, most countries would usually aim at more ambitious, and thus also more costly, reforms.

### *Mainstreaming trade facilitation*

Trade Facilitation should be an important component of national development plans. Depending on a country's development strategy, some measures should be given a higher priority than others. It will also be important to keep 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 and which can be built upon to support trade facilitation. In other cases, regional programmes to promote transit may involve transport markets and infrastructure that need to be complemented by trade facilitation measures.

### *Assisting Customs and Trade compliance*

The role of national Customs Authorities is changing. In addition to helping Governments deal with national and international policies associated with revenue collection and fight fraud and corruption, these entities are becoming more and more active in border protection and management. Customs' presence at border posts (air, land and sea) allows the control of importation/exportation of prohibited and restricted goods. In such an environment, reform and modernization are imperative to Customs entities in order to adapt and better respond to the challenges the face. Automation is an essential part of the modernization of any Customs office. Thus UNCTAD's Automated System for Customs Data (ASYCUDA) provides for above outlined needs, besides being the repository of statistical information on foreign trade transactions essential for economic planning and encouraging international trade. The recognition of the impact that ASYCUDA Projects have on user countries is reflected by the numerous requests for collaboration and partnership received from International Organizations such as ITC, UPU, UNESCO and WTO, or trade associations such IATA and DCTA to facilitate the compliance of their standards and tracking of illicit trade.

### *Empowering National Trade Facilitation Committees*

Trade Facilitation reforms usually involve a wide range of stakeholders, including the public and private sectors, users and providers of trade supporting services, Customs and trade promotion agencies. These different stakeholders are grouped in National Trade Facilitation Committees or

similar bodies, as per WTO TFA Article 23 and UN-CEFACT<sup>1</sup> recommendation #4. Support to the implementation of TF reforms should always involve and aim at strengthening the National TF Committees.

UNCTAD, in collaboration with the International Trade Center (ITC) and the United Nations Economic Commission for Europe (UNECE) and other agencies, provides intensive professional support programmes and materials for the Secretariats and the members of National Trade Facilitation Committees (NTFCs). The main objective is to help them implement, in a coordinated manner, trade facilitation reforms.

#### **4. Inter-agency Cooperation in Implementing Trade Facilitation reforms**

Trade Facilitation is a cross-cutting issue, involving a wide range of national players and topics. The aims of Trade Facilitation reforms are included in the mandates and activities of a large number of United Nations agencies and divisions and units within the agencies, including those working on trade, transport, logistics, Customs automation, regional integration, electronic commerce, and governance issues.

#### **5. What the CEB Cluster can do for Trade Facilitation Reforms**

Trade Facilitation includes transparency, standardization, harmonization and simplification of trade procedures. Transparency of trade procedures is key for building the necessary trust for importers and exporters to engage in international trade. International standards, harmonization of procedures and their simplification for example through streamlining and automation make trade easier and faster.

In all these areas the United Nations Agencies provide a wide range of services and solutions. In practice, United Nations agencies are already cooperating in numerous Trade Facilitation programmes, including, above all, UNCTAD, the UN regional commissions, ITC and UNIDO. The regional commissions contribute with their regional and technical knowledge and contacts, tracking implementation and challenges through their joint Global Survey on Trade Facilitation and Paperless Trade Implementation; UNECE in particular contributes norms, standards and recommendations through its support to the Global UN Centre for Trade Facilitation and Electronic Business (UN-CEFACT) with the participation from other UN Inter-Agency Cluster' member agencies such as UNCITRAL and UN-ESCAP. UNCITRAL is also active in contributing in legal standards which are recommended to establish an enabling legal environment for commercial and non-commercial transactions. UNCTAD leads a number of capacity building and research initiatives, as well as in Customs automation and trade portals, ITC supports SMEs and the private sector in general, and UNIDO contributes with aspects related to sanitary and phytosanitary and other standards. The WTO Trade Facilitation Facility assumes important coordinating functions, not only for the partners in the MTFDF, but also other international agencies involved in TF implementation.

---

<sup>1</sup> United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) supported by the United Nations Economic Commission for Europe (UNECE)

## 6. The Multi-Donor Trust Fund (MTDF) as a Complementary Tool to Systemic, Inter-agency support to Trade Facilitation Reforms

The MTDF is a key tool to implement joint trade facilitation programmes. It will complement already existing collaboration under different inter-agency MOUs, and programmes that may be implemented by the UN-Trade Facilitation Implementation Cooperation Initiative (TFI) in which UN agencies that have active trade facilitation programmes participate.

### References

(could be converted to footnotes, or endnotes, depending on the chosen final format; not all are currently used in the text and will need to be deleted in the final version)

- B., H. B. (2013). Who profits from trade facilitation initiatives? Florence: European University Institute. Retrieved September 2015, from [http://cadmus.eui.eu/bitstream/handle/1814/27519/RSCAS\\_2013\\_49.pdf?sequence=1](http://cadmus.eui.eu/bitstream/handle/1814/27519/RSCAS_2013_49.pdf?sequence=1)
- Bernhofen, Daniel, Zouheir El-Sahli and Richard Kneller (s013). "Estimating the Effects of the Container Revolution on World Trade", Lund University, Working Paper 2013:4, February 2013
- Bilangna S., et Djeuwo M. (2013). The figures culture in Cameroon Customs. Reform by numbers, 17-35. World Bank. Retrieved October 2015.
- Cantens, Thomas; Gaël Raballand and Samson Bilangna. (2010, September). Reforming Customs by measuring performance: a Cameroon case study. World Customs Journal, 4, 2, 55-74. [http://www.akmal.gov.my/files/periodic/wco/wcj\\_volume\\_4\\_number\\_2.pdf#page=61](http://www.akmal.gov.my/files/periodic/wco/wcj_volume_4_number_2.pdf#page=61)
- Global Financial Integrity. (2014). Illicit financial flows from developing countries: 2003-2012. Global Financial Integrity . Retrieved October 2015, from <http://www.gfintegrity.org/wp-content/uploads/2014/12/Illicit-Financial-Flows-from-Developing-Countries-2003-2012.pdf>
- Gordhan, Pravin (2007, March). Customs in the 21st Century. World Customs Journal , pp. 57-62.
- Hoekman B. and B Shepherd (2013). Who profits from trade facilitation initiatives? Florence: European University Institute. Retrieved September 2015, from [http://cadmus.eui.eu/bitstream/handle/1814/27519/RSCAS\\_2013\\_49.pdf?sequence=1](http://cadmus.eui.eu/bitstream/handle/1814/27519/RSCAS_2013_49.pdf?sequence=1)
- Kituyi, M (2013). Trade Facilitation: trade competitiveness and the development dimension. Trade Forum . Geneva: International Trade Forum Magazine. Retrieved September 2015, from <http://www.tradeforum.org/article/Trade-facilitation-Trade-competitiveness-and-the-development-dimension/>
- McLinden, Gerard (2005). Integrity in Customs. Customs Modernization Handbook, World Bank , 67-89.
- Milner, C. M. (2008). Trade Facilitation in developing countries. CREDIT, The University of Nottingham . ECONSTOR. Retrieved August 2015, from <http://hdl.handle.net/10419/65454>
- Moisé E. and S Sorescu (2012). Trade Facilitation Indicators: the potential impact of trade facilitation on developing countries. OECD. Retrieved September 2015, from [http://www.oecd.org/dac/aft/TradeFacilitationIndicators\\_ImpactDevelopingCountries.pdf](http://www.oecd.org/dac/aft/TradeFacilitationIndicators_ImpactDevelopingCountries.pdf)
- OECD (2015), Trade Facilitation Indicators Simulator, Paris, 2015 <http://sim.oecd.org/Default.ashx?lang=En&ds=TFI>
- Rodric, Dani (2012): The Globalization Paradox. W. W. Norton & Company

- UNCTAD. (2014a). The new frontier of competitiveness in developing countries. Implementing trade facilitation. Geneva: UNCTAD. [http://unctad.org/en/PublicationsLibrary/dtltlb2013d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/dtltlb2013d2_en.pdf)
- UNCTAD (2014b). Trade and Development Report 2014: Global governance and policy space for development. Geneva: UNCTAD. <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=981>
- UNCTAD (2015a). ASYCUDA Newsletter. Geneva: UNCTAD. [http://unctad.org/en/PublicationsLibrary/webdtlasycuda2015d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/webdtlasycuda2015d1_en.pdf)
- UNCTAD (2015b). Facilitating the Participation of Landlocked Developing Countries in Commodity Value Chains. Geneva: UNCTAD. <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1434>
- UNCTAD (2015c). Review of Maritime Transport 2015. Geneva: UNCTAD. <http://unctad.org/RMT>
- UNCTAD (2016a). Empowerment Programme for National Trade Facilitation Bodies. Geneva: UNCTAD. <http://unctad.org/en/DTL/TLB/Pages/Empowerment-Programme-for-National-Trade-Facilitation-Bodies.aspx>
- UNCTAD (2016b). National Trade Facilitation Repository on-line. <http://unctad.org/en/DTL/TLB/Pages/TF/Committees/default.aspx>
- WCO (2014). Revenue and the WTO Agreement on Trade Facilitation. Brussels: WCO. Retrieved October 2015, from [http://www.wcoomd.org/en/events/upcoming-events/~media/WCO/Public/Global/PDF/Events/2014/Revenue\\_conference/Revenue%20Impact%20paper.ashx](http://www.wcoomd.org/en/events/upcoming-events/~media/WCO/Public/Global/PDF/Events/2014/Revenue_conference/Revenue%20Impact%20paper.ashx)
- Widdowson, David . (2007). The changing role of customs: evolution or revolution? World Customs Journal. Retrieved September 2015, from [http://www.worldcustomsjournal.org/media/wcj/-2007/1/WCJ\\_Volume\\_1\\_Number\\_1.pdf#page=39](http://www.worldcustomsjournal.org/media/wcj/-2007/1/WCJ_Volume_1_Number_1.pdf#page=39)
- World Economic Forum. (2012). The Global enabling trade report. Reducing supply chain barriers. Geneva: World Economic Forum. Retrieved September 2015, from [http://www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade\\_Report.pdf](http://www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade_Report.pdf)
- World Economic Forum. (2014). The Global enabling trade report. Geneva: World Economic Forum. Retrieved September 2015, from [http://www3.weforum.org/docs/WEF\\_GlobalEnablingTrade\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf)
- WTO. (2015a). The World Trade Report. Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement. Geneva: WTO. Retrieved October 2015, from [https://www.wto.org/english/res\\_e/booksp\\_e/world\\_trade\\_report15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf)
- WTO. (2015b). Trade Facilitation Agreement Facility: <http://www.tfafacility.org/trade-facilitation-agreement-facility>