



Economic and Social  
Council

Distr.  
GENERAL

TRADE/2002/21  
21 March 2002

ORIGINAL: ENGLISH

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**ECONOMIC COMMISSION FOR EUROPE**

COMMITTEE FOR TRADE, INDUSTRY AND  
ENTERPRISE DEVELOPMENT  
Sixth session, 28 and 31 May 2002  
Item 20 of the provisional agenda

**TRADE FACILITATION IN A GLOBAL TRADE ENVIRONMENT**

Note by the secretariat

This document has been prepared as background material for the International Forum on Trade Facilitation, organized by the Committee for Trade, Industry and Enterprise Development (CTIED) and the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) on 29 and 30 May 2002 in Geneva. It is for **discussion and information**.

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## **Executive Summary**

Trade facilitation is a diverse and challenging issue with huge potential benefits for both business and Governments on the national, regional and international levels. It cuts across a wide range of areas such as government regulations and controls, business efficiency, transportation, information and communication technologies (ICT) and the financial sector. It is at once a political, economic, business, administrative, technical and technological issue, and each of these factors needs to be considered by a country or region in developing a trade facilitation strategy.

Trade facilitation can have a dynamic effect on competitiveness and market integration and is arguably more important than tariff reduction as a trade development issue. Further, the use of modern transport inventory techniques, such as just-in-time, the increasing use of air cargo, and the emergence of global supply chains and e-commerce have all made transparency and speed at international borders essential in order to compete effectively in the global economy. It is therefore necessary to ensure that trade facilitation is well integrated into national and regional trade policy and economic development plans.

Although work on trade facilitation has been ongoing for over half a century at UNECE and other trade related organizations, the inclusion of the issue in the WTO Doha Ministerial Declaration and the increased international focus on security has brought the subject into sharper political focus. It is, therefore, now more important than ever to define the major issues.

A number of exercises have been undertaken over the past few years to identify the priority issues in trade facilitation. These include the WTO Symposium on Trade Facilitation, consultations with Member States, discussions and deliberations in various national, regional and international bodies associated with trade, and various submissions by individual countries and country groupings.

The priority requirements for trade facilitation appear to have changed in recent years. What is required today is a dual-track approach that focuses on harmonizing and implementing existing standards, and developing the next generation of rules and standards to facilitate the emerging new economy, characterized by e-commerce and global supply chains. This calls for both a changed approach by the various organizations dealing with trade facilitation and a greater commitment and support from individual Governments and the business community. Bodies such as UN/CEFACT have a valuable role to play in these developments.

One of the central recommendations of this paper is that government and business leaders adopt trade facilitation as a key trade and economic development tool. Political and business leaders will have to be sensitized to the strategic importance, nature, impact and benefit of trade facilitation. Organizations concerned with trade facilitation development should therefore consider strengthening their promotional and awareness campaigns specifically targeted at this audience.

Clear trade facilitation agendas and action plans should be prepared at the national, regional and international levels. The establishment of the international agenda could be undertaken by United Nations agencies within the framework of their efforts to finance development (as detailed in the Monterrey Consensus). The long-term objective would be to establish an internationally integrated trade facilitation structure and supporting network, based on agreed international standards and instruments. The international action plan would serve to guide national governments in developing trade facilitation plans.

National trade facilitation agendas should be developed in close consultation with the business community. Organizations such as the national trade facilitation committees and/or PRO organizations could play a leading role in this regard. At the regional level, the European Commission and regional trade organizations such as APEC have been very active. The regional commissions of the United Nations should also take a strong role in this area, especially given their close links to national Governments at the expert level.

Undertaking the required infrastructural changes to implement deep trade facilitation measures requires strong political will. To develop that political will requires a clear understanding of the needs and benefits and also the capacities of local institutions to successfully implement the required changes.

Central to all the suggestions in this paper is the need to coordinate the activities of the various bodies that deal with developing and implementing trade facilitation. Although there are already good working relations between these organizations, a more formal, joint management approach to the coordination of work could be considered, such as in the form of a Memorandum of Understanding (MOU). This could be modelled on the successful MoU established to coordinate the development of electronic business standards.

All countries should have at least a minimum standard of trade facilitation implementation in order for the concept of a globally integrated trade facilitation structure to have meaning. While it is generally accepted that some countries will require technical assistance to achieve a satisfactory level of trade facilitation, the magnitude of these requirements may not be fully appreciated. Estimates should be made of the extent and cost of the related technical requirements and the relevant donor agencies should take this issue on board as a priority trade development issue and allocate appropriate funds. Such technical assistance should be long term, integrated and results oriented, based on the agreed national trade facilitation agenda.

It is also important that a significantly enhanced effort on trade facilitation research be undertaken. This is necessary to guide and inform the trade facilitation development and implementation work. Research is also required to develop concrete and well-balanced arguments regarding the business and other benefits of trade facilitation in order to assist in the promotion and awareness campaign mentioned above.

The issue of trade facilitation and security should be addressed as a priority. This is primarily a matter of sensitizing leading political and government officials to the potential of trade facilitation instruments for not only handling existing threats but also improving the existing security situation if properly implemented. It will take a coordinated and concentrated effort on the part of all trade facilitation related organizations.

In conclusion, it is essential that the full potential of trade facilitation to enhance the economic performance of business and countries be realized. Trade facilitation can help reduce the burdens of bureaucracy for companies, broaden market access, increase the participation of small and medium enterprises in international trade, reduce corruption and help all countries obtain benefits from global trade development. This is a worthy challenge for United Nations organizations, which are, after all, primarily focused on the use of trade as a tool for economic and social development.

## **I. Introduction**

1. The purpose of this paper is to provide an overview of the current issues and priorities for action facing the field of trade facilitation. It is based on a review of the work undertaken by the main international organisations involved in trade facilitation and on the related work and experience of the United Nations Economic Commission for Europe (UNECE) over the past 40 years.

2. The paper was prepared for discussion at the International Forum on Trade Facilitation, which is being organised by UNECE in May 2002.

## **II. First Principles**

3. The work of the United Nations in international trade is undertaken in the context of the United Nations Charter, signed on 26 June 1945 in San Francisco. The Charter enshrines the basic United Nations principles of promoting social progress, better standards of life, full employment, and economic development, and states that the United Nations should provide solutions to international economic and social problems.<sup>1</sup>

4. In the context of the Charter, trade is essentially seen as a tool of peace and economic development for the eradication of poverty and enhancement of the freedom, equality and dignity of mankind. This is the guiding principle, the foundation and the subtext of the work undertaken by the United Nations in the area of trade. The focus is not, therefore, on the development of international trade for its own sake but rather on the development of international trade in the context of its potential to promote economic growth and development, and hence the alleviation of poverty.

5. Consequently, the United Nations' focus is to ensure that globalization should be fully inclusive and equitable and that it should become a positive force for all the world's people.<sup>2</sup> The United Nations is in a unique position to undertake this challenge. It is the only body of its kind with universal membership and comprehensive scope for sharing information, conducting negotiations, developing norms, voicing expectations and pursuing common plans of action.

6. The work of the United Nations in trade facilitation clearly supports this mandate. Our role is to ensure that international trade is carried out as efficiently as possible, with full regard to the public interest and security, and that the tools and techniques of trade facilitation are made available to all countries so that all may benefit equitably from its implementation.

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<sup>1</sup> Charter of the United Nations, [www.un.org/aboutun/charter/preamble.htm](http://www.un.org/aboutun/charter/preamble.htm)

<sup>2</sup> UN (2000), We the Peoples ... The Role of the United Nations in the 21<sup>st</sup> Century, Millennium Report of the Secretary General of the United Nations, Kofi Annan

### III. Trade Facilitation in a Global Trading Environment

7. Trade facilitation is a diverse and challenging issue with huge potential benefits for both business and Governments on the national, regional and international levels. It cuts across a wide range of areas such as government regulations and controls, business efficiency, transportation, information and communication technologies (ICT), and the financial sector. It is at once a political, economic, business, administrative, technical and technological issue and all of these factors combine in the development of the trade facilitation strategy in a particular country or region.

8. Although traditionally considered a technical issue, trade facilitation has emerged in recent years as a key factor in trade and economic development policy, as it can have a dynamic effect on competitiveness and market integration and is arguably more important than tariff reduction as a trade development policy issue. For example, average tariff reductions under the Uruguay Round were approximately 2% of total trade value, whereas potential gains from trade facilitation are estimated in the range of 2 - 3%.<sup>3</sup> Given the substantial tariff reductions that have already been achieved under GATT and the Uruguay Round, the potential for additional gains from trade facilitation have come under increased focus.

9. Another major reason for the emergence of trade facilitation as a key economic policy issue is the changing nature of trade. It is no longer only access to world markets that is at stake but getting the goods to the market on time without major delays or cost increases due to legal, administrative, Customs or technical barriers. The large increase in trade flows through the use of modern transport inventory techniques, such as just-in-time and the increasing use of air cargo, have made transparency and speed at international borders essential in order to achieve the potential benefits of international and regional trade agreements<sup>4</sup>. This is a real challenge for all countries but even more so for countries distant from major markets, particularly the developing or remote landlocked countries<sup>5</sup>.

10. For example, global supply chains require an enabling environment that facilitates the free movement of goods and services across borders, while still taking into account the necessary regulatory and statutory instruments. This includes acceptance of the need for speed and agility in product production and flow of goods across borders; an open attitude to information sharing; the need for appropriate legislation to cover the acceptance of digital signatures and certificates; the development of a corporate culture that looks at and takes responsibility for the entire supply chain (as opposed to only one's individual component); and a keen focus on satisfying (and anticipating) the needs and preferences of clients.

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<sup>3</sup> OECD (2001), Business benefits of Trade Facilitation (TD/TC/WP/2001/21)

<sup>4</sup> Canadian Department of Foreign Affairs and International Trade, Consultations with Canadians, 1999 - WTO and FTAA Consultations

<sup>5</sup> UNECE (2002), Landlocked countries, opportunities, challenges recommendations (TRADE/2002/23)

11. Similarly, global e-commerce offers tremendous potential for economic development but it demands a rapid delivery system for products and services, commensurate with the concept of "instant" e-business. It is certainly self-defeating for e-business to operate in an environment where the business can be transacted at the touch of a button while the goods languish for days at the border! In this context, therefore, the potential for growth in e-business will be highly dependent on the availability of efficient transport and trade related procedures and processes.

12. It is, therefore, essential to ensure that trade facilitation is well integrated into national and regional trade policy and development plans. This point is particularly important in the regional context given the very strong growth of regional trade blocks in recent years<sup>6</sup> and the potential for open regional trade development to be a building block for further global liberalization<sup>7</sup>. The Asia Pacific Economic Cooperation (APEC) has already adopted trade facilitation as a major element of their trade and economic development policy<sup>8</sup>. Similarly, this is also a key feature of and the European Union (EU) trade development. This refocusing on trade facilitation as a policy rather than a technical issue has important implications for the overall approach to the issues discussed throughout the paper.

13. Some of the earliest efforts in the development of trade facilitation undertaken by Sweden and Finland were, in fact, motivated by an understanding of the need to access European markets through better functioning of the entire trade process, including moving goods across borders from seller to buyer and monitoring their progress to final destination.

14. Trade facilitation and electronic business are vital factors in the development of world trade and, therefore, central to the remit of the United Nations Economic Commission for Europe (UNECE). Work in the trade facilitation area has been ongoing at UNECE and various other United Nations and international agencies for over 40 years, resulting in the development of over 200 trade facilitation instruments as listed in the UNECE/UNCTAD *Compendium of Trade Facilitation Recommendations*.<sup>9</sup> UNECE itself has developed over 30 trade facilitation recommendations and the only international standard for electronic business, UN/EDIFACT.

15. To achieve improved worldwide coordination of these areas, the UNECE, which acts as the focal point within the United Nations on these matters, has established the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT). UN/CEFACT has adopted an integrated approach in this regard, focusing on the interdependency of trade facilitation and electronic business tools. UN/CEFACT is built upon the three pillars of trade processes and procedures; information; and technology. It seeks to provide simple, transparent and effective processes and standards for global

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<sup>6</sup> Legrain, Philippe, The not-so global economy, Prospect, November 2001

<sup>7</sup> Bergsten, C. Fred, Open Regionalism, Institute for International Economics, 1997

<sup>8</sup> Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000

<sup>9</sup> UNECE/UNCTAD (2002) Compendium of Trade Facilitation Recommendations

commerce. In order to realize this goal, UN/CEFACT works to exploit advances in information technology and adopt new approaches to trade facilitation based on simplification and harmonization of business and governmental processes.

**(a) Trade Facilitation, Doha and the WTO**

16. Although work on trade facilitation has been ongoing for over half a century, the inclusion of the issue in the Doha Ministerial Declaration has brought the subject into sharper political focus and it is now more important than ever to define the major issues.

17. Trade facilitation was added to the World Trade Organization (WTO) agenda at its Singapore Ministerial meeting (December 1996). Under the mandate approved at that time, it was agreed that the Council for Trade in Goods “*carries out explanatory and analytical work, taking into account the work for other relevant organisations, on the simplification of trade procedures, in order to assess the scope for WTO rules in this area.*”<sup>10</sup> Further to that mandate, considerable analytical work, based on proposals from a wide range of WTO Members, was carried out. Other international organizations were also associated with the work, and the WTO organized two important symposia, one in 1998 focusing on the overall priorities of the international business community, and the second in 2001 focusing on the technical assistance and capacity building needs of developing countries in trade facilitation.

18. The issue was again discussed at the Doha Ministerial meeting in November 2001. The Doha Ministerial Declaration established that negotiations on trade facilitation would take place after the Fifth Session of the Ministerial Conference in 2003 in Mexico. The text of the Declaration is as follows:

*27. Recognizing the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that session on modalities of negotiations. In the period until the Fifth Session, the Council for Trade in Goods shall review and as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of members, in particular developing and least-developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area.*<sup>11</sup>

19. The overall approach to trade facilitation within the WTO will continue to be subject to deliberations among Members. There have been varied views expressed on this point in the past, with some countries arguing for the binding rules-based approach of the kind familiar in existing WTO Agreements,<sup>12</sup> while others suggesting the development of a set of guiding principles or other types of non-binding forms of procedure as a first step in the process of establishing trade facilitation within the

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<sup>10</sup> WTO Website, [www.wto.org](http://www.wto.org)

<sup>11</sup> WTO Website, [www.wto.org](http://www.wto.org)

<sup>12</sup> Europa, EU Proposals to the WTO Concerning Trade Facilitation December 2000, [www.europa.int/comm/trade/miti/tradefac/conswoag\\_trfac.htm](http://www.europa.int/comm/trade/miti/tradefac/conswoag_trfac.htm)

WTO. To what extent those pre-Doha positions have been altered following the Fourth Ministerial Conference remains to be seen. The major challenges lie in implementation and the associated problems of expertise, financial resources, and government commitment to reform.<sup>13</sup> There is universal agreement that this task will require the provision of significant technical assistance to developing and transition economies for the development of trade facilitation policies and capacities.

#### **IV. Benefits of Trade Facilitation**

20. The benefits from trade facilitation can be particularly important for developing economies, where the removal of trade inefficiencies may be many times more beneficial to industries than the reduction or removal of tariff barriers. In addition, trade facilitation can be especially important for small and medium sized companies for whom the costs of compliance with procedures are proportionately higher. Trade facilitation is also an increasingly important factor in attracting foreign investment, especially supply chain related investment, where the existence of an efficient trading process is essential.

21. Much progress has been made over the past decades in implementing trade facilitation measures and supporting technologies in both developed and developing economies. However, the task has difficult and complex. Trade facilitation attempts to coordinate complex public and private business relations and interactions on a global level. Achieving this goal at even a national level is often elusive. For example, consider how difficult it can be to get national organizations to agree to a particular data standard or procedure and one begins to understand the magnitude of the task of attempting this at the global level. Added to this are the vastly different conditions in individual countries and regions and the pressing need in some developing economies for institutional development and micro-economic reforms<sup>14</sup>. Consequently, one must consider the constraints when assessing the potential for implementing trade facilitation and in particular more advanced trade facilitation measures such as global risk management strategies. One has to examine both the benefits of introducing new systems and approaches and the potential costs of not applying such methods.

22. Trade facilitation and electronic business is not only about cost savings but equally, and perhaps more importantly, is the business development aspect of trade facilitation techniques. Increasing revenues through electronic business and through the use of the Internet World Wide Web and associated standards like ebXML will bring new business opportunities and revenue streams that are linked to modern business and transport solutions. These opportunities are worth trillions of dollars.

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<sup>13</sup> Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000

<sup>14</sup> UNECE (2001), Regional Perspectives on Globalization: An opportunity for catching up or a risk of falling behind in the development process, statement by Danuta Hubner.

**(a) Measuring the benefits**

23. Although it is clear that trade facilitation results in direct benefits to both Governments and the business community, there has been little empirical work undertaken to date to measure the extent of such benefits. The business benefits of trade facilitation are equivalent to the savings in transaction costs plus the significantly increased business opportunities resulting from the introduction of trade facilitation measures. These include reductions in the following:

- Compliance costs (producing and transmitting required documents)
- Service charges (banking, insurance, cargo handling, transport, etc)
- Time-costs (processing time, procedural time)
- Business opportunities cost (lost business or business not considered)
- The “hassle” factor associated with dealing with a complex and time-consuming trade process
- Personal opportunity cost (time lost in waiting at customs, taking documents from one agency to another, etc), which is particularly severe for SMEs
- Costs related to unpredictability and corruption

24. APEC estimated that trade facilitation measures already committed would add 0.25% to real gross domestic product (GDP) (or about US\$46 billion in 1997 prices) by 2001 compared to gains of 0.16% of real GDP from trade liberalization (tariff removal) measures.<sup>15</sup>

25. The implementation of the trade facilitation network in Singapore that allows traders to make an electronic declaration of imports and exports direct from their own computer, generated savings worth approximately 1% of Singapore's GDP and 0.4% of total external trade. The system became self-financing within three years of operation.<sup>16</sup> Mauritius implemented a similar system, which also gave very positive results, and is profit making. Chilean customs estimated that the introduction of their Electronic Data Interchange (EDI) systems resulted in business savings of over US\$ 1 million per month, for a system cost of US\$ 5 million.<sup>17</sup>

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<sup>15</sup> Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000

<sup>16</sup> World Bank, Information Technology and National Trade Facilitation, Making the most of Global Trade, Technical paper Number 316. See also Harvard Business School Case #9-191-009, Singapore Tradenet: A Tale of One City (1990)

<sup>17</sup> WTO (2000), Trade Facilitation: Chile's experience with the modernization of Customs administrations Based on the use of information technology (G/C/W/239)

26. A recent study undertaken by the Organisation for Economic Co-operation and Development (OECD)<sup>18</sup> (summarized in the annex) laments both the out datedness and the lack of rigour in the currently available estimates of the value of trade facilitation, and points to the need for further empirical research on the matter. From the various studies reviewed the author concludes that the range of estimates for transaction costs is 2 to 15% of trade transaction value.

27. On the basis of the estimates described in the report it can be said that trade facilitation measures could result in a saving of between 2 to 3% of total trade value. The potential for such savings will obviously vary from country to country, depending on the existing costs and levels of inefficiency.

28. The World Bank is currently conducting research into this important question under an APEC project. Results from this analysis are expected to be available later in 2002.

### **(b) Trade facilitation and economic growth**

29. Why are some countries richer than others? What are the factors for economic growth? How can growth be sustained? These questions have occupied the minds of economists and politicians for many years and a full discussion of the subject falls outside the scope of this paper. However, it is clear that trade facilitation plays an important role in economic growth and thus, it is crucial for policy makers and political decision-makers alike to understand and make full use of this tool for economic development.

30. The output of an economy is a function of factors such as labour, physical capital and human capital, as well as the productivity with which these factors are combined to produce goods and services. However, these factors do not by themselves explain growth and it has been suggested that other deeper determinants are instrumental for growth. In this regard, Rodrik (2002) identifies: 1. geography, 2. trade and 3. institutions.

31. Economists have long considered the geographical position of a country and proximity to markets as important factors in the development process.<sup>19</sup> Frequently, the case is made that trade (integration in the world economy) translates into higher growth and that high quality institutions are causal to trade development. It has also been suggested that a two-way interaction exists between trade and institutions. Better institutions foster trade and trade supports the development of higher quality institutions.<sup>20</sup>

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<sup>18</sup> OECD (2001), Business benefits of Trade Facilitation (TD/TC/WP/2001/21)

<sup>19</sup> Smith, Adam. *An inquiry into the Nature and the causes of the Wealth of Nations*, Chicago University Press, 1776 (1976); and Sachs, Jeffrey D., Mellinger Andrew D., Gallup John L., *The Geography of Poverty and Wealth*, Center for International Development at Harvard University, in Scientific American Magazine, March 2001

<sup>20</sup> Rodrik, Dani, Institutions, integration and geography: In search of the deep determinants of growth, 2002

32. Clearly, these determinants play a relatively stronger role the more a country is disadvantaged by its geographical position. A country not located close to major markets encounters high transport costs and the role of institutions becomes relatively more important.

33. It is here that modern trade facilitation techniques can make a difference, by offsetting the disadvantage of high shipping costs, and by enhancing the development of institutions through the use of electronic means for business exchanges and automation.

34. A strong relationship has been found between shipping costs and economic growth.<sup>21</sup> Given that world prices are elastic (a trader can exert little impact on world prices) the higher the shipping costs, the more that firms will have to pay for imported goods, and the less they will receive for their exports. Thus, higher transport costs would have to be offset by lower wages or by reduced costs somewhere else in the production process, in order to allow firms to compete.

35. Tariffs have been reduced and the actual transportation costs show a downward trend due to containerization and other modern transport techniques including electronic data interchange (which in itself is a trade facilitation technique). As a result, procedure related costs are a relatively higher proportion of total shipping cost, and thus the possibility of reducing total cost through trade facilitation techniques is relatively more important than before.

36. Firms operating in countries where shipping costs are high are likely to pay lower wages and accept smaller returns on capital to compensate for these higher costs. In these countries, in addition to macroeconomic stability and relevant trade policy, trade facilitation techniques can make a difference by cutting red tape and rationalizing business and administrative procedures, thus lowering overall shipping costs.

37. New standards and techniques for electronic business, including the Internet World Wide Web, are already revolutionizing many institutions. Many of the world's customs services are computerized and electronic means of communication are being established with traders. In addition to customs services, other institutions and procedures benefit from automation. In the European Union, for example, the transit procedure is automated and discussions are under way for a "single window" procedure whereby traders only need to submit information about a consignment once. Further, the use of electronic means of information such as EDI and the new standards using the Internet World Wide Web will provide immense benefits to official administrations and institutions. This will affect all aspects of government, giving the opportunities for dramatically improved productivity.

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<sup>21</sup> Radelet, Stephen and Sachs, Jeffrey, Shipping costs, manufactured exports and economic growth, 1998

38. In conclusion, policy makers should pay more attention to the available tools that can be used to overcome development barriers associated with geography and in particular high transportation costs and should consider how these tools can be used to modernize institutions. In this respect, trade facilitation measures including electronic business standards can have a large impact as factors for reducing shipping costs as well as electronic business tools for the rationalization and development of institutions. Both factors of great relevance for economic growth.

## V. Trade Facilitation Basics

39. So, what exactly is trade facilitation? Several definitions have emerged over the years. UNECE considers trade facilitation to encompass the systematic rationalization of procedures and documentation for international trade, where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.<sup>22</sup> Trade facilitation has also been defined as the simplification and standardization of procedures and associated information flows required to move goods internationally from seller to buyer and to pass payment in the other direction<sup>23</sup>.

40. The mission statement of the UN/CEFACT presents the following vision of trade facilitation: "to support activities dedicated to improving the ability of business, trade and administrative organizations, from developed, developing and transitional economies, to exchange products and relevant services effectively. The principal focus is to facilitate international transactions, through the simplification and harmonisation of processes, procedures and information flows, and so contribute to the growth of global commerce."

41. In practical terms, trade facilitation focuses on creating efficiency and reducing costs across the entire trade transaction process, a process that involves a series of activities including:

- agreement of sale between the buyer and the seller;
- processing of the agreed commercial documentation;
- compliance with health, safety and other regulations and standards;
- fulfilment of the required Customs and any other documents and procedures at the time of border crossing;
- the efficient movement of the goods from the seller's to the buyer's premises;
- compliance of goods with the buyer's requirements;
- payment for the goods
- disposal of goods and end products.

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<sup>22</sup> UN/CEFACT Recommendation 18

<sup>23</sup> This definition was provided by the former Director General of the IECC, Mr. John Raven, in a communication to the OECD Secretariat on 18 May 2001.

42. The number of parties involved will depend largely on the level of regulation and the integration and automation of a particular country's trade system. It is estimated that an average trade transaction goes through 27 to 30 parties, including regulatory authorities, brokers, vendors, banks, carriers, and freight forwarders. In a poorly facilitated environment, this can require up to 40 documents, not only for government authorities, but also for related businesses (in a fully facilitated environment such as Australia, for instance, the whole process can be covered in just one document). In manual systems, the level of data entry can be extensive, with the high probability of data re-entry and data error. This entire process can be expensive for both government and business and can significantly reduce competitiveness.

43. Trade facilitation, then, is a comprehensive and integrated approach to reducing the complexity and cost of the trade transaction process and ensuring that all these activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards and best practices. At the same time, it seeks to optimize the effectiveness of regulatory controls to ensure the safety and well-being of citizens and the collection of appropriate taxes and fees<sup>24</sup>. Trade facilitation, therefore, primarily involves:

- simplifying (and eliminating where possible) formalities and procedures, in particular related to import, export and transit of goods
- harmonizing applicable laws and regulations
- improving and standardizing physical infrastructure and facilities, including transport, and customs facilities
- standardizing and integrating information definitions and requirements and the use of information and communications technologies so as to exchange this information efficiently.

44. Trade facilitation takes place at the national, regional and international levels. At the national level it focuses on simplifying and harmonizing the trade-related structures and procedures within a country. However, this in itself is not sufficient. As goods cross international frontiers, they move from one legal and administrative jurisdiction to another. It is therefore essential to harmonize trade facilitation norms and standards internationally and herein lies the important role of the United Nations and other international standards and rule-setting organisations.

45. In developing trade facilitation approaches, Governments must work together and with international organizations to international harmonize, simplify and standardize procedures and documents, as well as trade and transport system components. This is the foundation and rationale for the development of instruments undertaken by UNECE and other organizations in the trade facilitation area since the early 1960s.

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<sup>24</sup> In this context, it is important to realize the importance of revenue collection at Customs for developing economies (often one of the largest sources of government revenue).

## VI. Issues, Priorities and Development Strategies

46. Various governments and international organisations have given much consideration to identifying the key trade facilitation priorities and implementation issues over the past few years and several documents and reports have been published to this effect. In the following sections we will review a selection of this material and will then outline the priority areas, based on these documents and the work and experience of the UNECE.

47. The 1998 WTO Symposium on Trade Facilitation identified a long list of issues that, in essence, called for the implementation of various procedural measures related to transport, procedures, customs, trade documents, integrity, and the use of information technologies.<sup>25</sup> Well over half of these issues relate to existing trade facilitation instruments, such as the Kyoto Convention, the Montreal Protocol IV, the IMO Convention on the Facilitation of International Traffic (FAL), the United Nations Layout Key for Trade Documents, UN/EDIFACT, the Arusha Declaration on Customs Integrity, the G7 Data initiative and UN/CEFACT Recommendation 18. Of the remaining issues, the dominant themes were harmonization of data and trade facilitation promotion and coordination.

48. WTO in 1999 again assessed trade facilitation issues on the basis of both informal consultations with Members and formal meetings in the Committee on Trade and Development (CTD). It thus identified the major issues as being: simplification and greater transparency in official documentation; increased transparency and predictability; streamlining of official controls and procedures; the facilitation of trade procedures through increased use of information technology; harmonization and simplification of regulations relating to the transport and transit of goods<sup>26</sup>. Although these issues are partially covered in existing trade facilitation instruments and recommendations, many are not binding, some instruments are competing, others have few subscribers, and not all meet modern business needs and practices.

49. In considering their own work on trade facilitation, APEC members concluded that it would be more beneficial for that organization to look at trade facilitation from a horizontal perspective and increase the coordination among the various APEC committees.<sup>27</sup> APEC has, in fact, taken a more broad-based strategic approach to trade facilitation and has identified the following priority areas:

- Establishment of a high-level trade facilitation focus, which includes a development perspective within APEC
- Renewal of trade facilitation objectives and establishment of performance targets rather than measuring inputs only
- Establishment of trade facilitation as a priority
- Investment in trade facilitation research and capacity building<sup>28</sup>

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<sup>25</sup> WTO (1998), Checklist of Issues Raised During the WTO Trade Facilitation Symposium

<sup>26</sup> WTO (1999), Trade Facilitation - Contributions Received From Other Bodies (G/C/W/149)

<sup>27</sup> Canadian Department of Foreign Affairs and International Trade, Report to SOM and CTI by the Government of Canada (on the September 2000 APEC Workshop on Trade Facilitation)

<sup>28</sup> Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000

50. The European Commission (EC) has provided extensive inputs on trade facilitation to the WTO and is one of the primary promoters of including trade facilitation in the WTO agenda. The EC advocates as priority areas the harmonization and simplification of documents and data; modernization of customs and customs management techniques; and automation and convergence of official controls. In particular, it stresses the need for providing technical assistance to developing and transition economies to implement trade facilitation, as an integral part of any WTO initiative and not as an afterthought.<sup>29</sup>

51. In considering the priority areas for trade facilitation, UN/CEFACT's International Trade Procedures Working Group pointed to the need for a "policy" as opposed to a "technical" approach to the topic, and identified the following as priority needs:

- enhanced focus on the political and macro economic aspects of trade facilitation
- significantly increased promotion and implementation of trade facilitation
- development of a coordinated global approach to trade facilitation
- standardization of data requirements and adoption of data set standards
- Customs reform, modernization and cooperation
- provision of technical assistance to support implementation

52. Based on the above considerations and on the work and experience of UNECE as a standards setting organisation in trade facilitation, it is the view of UNECE that the priority requirements for trade facilitation have changed in recent years. What is now required is a dual track approach, focusing on the harmonisation and implementation of existing standards, and the development of the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains. This calls for a significantly different approach by the various organizations involved in the trade facilitation area and certainly requires greater commitment and support from both individual governments and the business community. Bodies such as UN/CEFACT have an important role to play in these developments.

53. It is also clear that trade facilitation is now an important component of trade policy for economic development and competitiveness as opposed to being a backroom technical issue. As suggested by the World Bank, trade and transport facilitation is no longer a remote question of plumbing malfunction in the basement; it is an issue of national economic policy at the Government's table.<sup>30</sup>

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<sup>29</sup> WTO (1999), EC Approach to Trade Facilitation (WT/GC/W/190)

<sup>30</sup> Correspondence between UNECE and Marc Juhel, World Bank, February 2001

54. UNECE sees the following as key strategic issues for implementing and developing trade facilitation over the coming years:

- (a) **Political will** – developing the political will to implement new and existing trade facilitation measures
- (b) **Promotion** of trade facilitation concepts to build **awareness** at senior levels of government and business
- (c) **Implementation and development** of existing and new trade facilitation instruments
- (d) **Technical assistance** - to support the implementation
- (e) **Coordination** of trade facilitation efforts among various agencies
- (f) **ICT** - development and implementation of ICT technologies and standards to support trade facilitation
- (g) **Research** - into trade facilitation policy issues, performance measurement and benefits
- (h) **Security** - promoting the link between trade facilitation and Security

55. Each of these areas is discussed below.

(a) **Political will**

56. Political will at the national, regional and international level to make and implement the key decisions related to trade facilitation is a prerequisite for continued progress to take place. This need for political will and direction is required not only in developing/transition economies. Even in the more developed economies of Europe and in the United States the existing trade facilitation standards have not been completely implemented. Further, there is a need to ensure that the new possibilities for international trade offered by developments such as e-business and global supply chains are incorporated into the trade facilitation agenda. In all of the above areas, political will relates to the existence of relevant rules and standards and the willingness to implement these in a harmonized manner.

57. The need for political will relates to the fact that trade facilitation implementation often requires making significant changes in the operation, mandate, and orientation of various governmental agencies at both the national and international level. For this, public and private organisations may need to cooperate more openly and to focus on a common economic and social development objective or result as opposed to their separate goals and objectives. It may also involve the revision of responsibilities and change of status for senior government officials as new policies change the focus or operation of individual organizations. Political will is required, too, at the national level to address the issues of corruption, transparency and integrity that may exist at various stages throughout the trade transaction chain. These are difficult issues that need very strong leadership, generally from senior levels of government.

58. The benefits of trade facilitation must be seen to be equitable across all countries in order for government leaders to embrace the topic. For this reason the measures taken must fully encompass development concerns and needs.

59. Political will is also required to increase the provision of technical assistance to developing and transition economies for implementing trade facilitation measures. Although significant contributions have been made to date from the European Commission and other donors, there is still a pressing need for long-term well-coordinated and well-designed assistance programmes. Failure to adequately address this point could seriously undermine the willingness of developing countries to support the inclusion of trade facilitation in the next WTO round.

60. Political will is further required to coordinate the efforts of the various national, regional and international organizations involved in developing and implementing trade facilitation instruments. The fundamental principles of trade facilitation (simplification and harmonization) should be applied to trade facilitation organizations themselves in the development of a coordinated approach to the topic.

61. Trade facilitation is essentially a government/business partnership where both parties can reap significant benefits. The active participation and commitment of the business community in the development of trade facilitation initiatives is paramount to their success. Further, the business community can be a major source of funding for implementing trade facilitation initiatives.<sup>31</sup>

62. Essentially, each country and region needs to establish a strategic agenda for trade facilitation development that has broad support from both government and the business community and is based on an overall agreed international trade facilitation agenda and standard. The regional commissions of the United Nations could be extremely important in helping to develop such a strategic agenda from a regional implementation perspective. These commissions report to the highest United Nations body in the area of economics, trade and development: the Economic and Social Council (ECOSOC). This is the ideal location for developing practical recommendations for action because, within various work areas in the United Nations system, the regional commissions have the closest links to experts from national Governments.

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<sup>31</sup> As in the case of Singapore and Mauritius, for example.

63. At the national level, the role of trade facilitation bodies (PRO organizations, Trade Facilitation Committees, etc.) should be reviewed and strengthened or redesigned where necessary in order to achieve the required level of dialogue, cooperation and investment and business partnership as outlined in UN/CEFACT Recommendation Number 4.<sup>32</sup>

**(b) Promotion and awareness**

64. Extensive promotion of the benefits of trade facilitation is an obvious necessity, especially if one wants to win the hearts and minds of politicians and senior government officials.<sup>33</sup> Trade facilitation must be recognized as much more a political and economic issue as opposed to a technical issue only, and awareness of the economic development and competitiveness aspects of trade facilitation must penetrate the political agenda at the highest level. WTO, World Customs Organisation (WCO), APEC and other organisations already have promotion programmes in this regard but much more needs to be done if we want to raise the level of awareness of trade facilitation as one of the key political and economic development issues. Essentially, politicians and senior government officials must be convinced of the benefits of trade facilitation and must have a clear understanding of the principles and potential benefits if they are to take the issue on board as a priority item.

65. This is not a simple task as trade facilitation is a significantly more diverse and complex issue than other trade development issues such as tariff reduction. It will be necessary, therefore, to distil trade facilitation into its essential components and present these in a logical yet non-technical manner. It will also be desirable to quantify more clearly the benefits of trade facilitation, especially in relation to other trade development measures such as tariff reduction. Regional case studies, for instance, would be useful.

66. The task of promotion is immense and needs to be coordinated among the relevant trade facilitation organizations to ensure that a consistent message is delivered. Bodies such as WTO, WCO, UN/CEFACT, the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC) should continue to address this issue at the international level. At the regional level, the regional commissions of the United Nations could be charged with promoting trade facilitation within their regions. Other regional organisations, such as APEC, the Association of Southeast Asian Nations (ASEAN), the Southern Africa Development Community (SADC), could also play a useful role.

67. On a national level, the Trade Facilitation/PRO organizations<sup>34</sup> could also be called upon to launch a national awareness campaign, again supported by the above organizations.

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<sup>32</sup> UN/CEFACT Recommendation No. 4, National Trade Facilitation Bodies

<sup>33</sup> See, for example, the recent World Bank publication "Globalization, Growth and Poverty" (2001)

<sup>34</sup> See UN/CEFACT Recommendation No. 4 for details.

68. Promotional material should be prepared by the various organisations involved in trade facilitation. Publications, such as the UNECE/UNCTAD *Compendium of Trade Facilitation Recommendations*, should be re-written as a Guide to Trade Facilitation, outlining how the specific recommendations interrelate and indicating how they could be implemented. Further, the Guide should assist countries in sifting through the vast range of existing instruments in order to establish a prioritized approach to implementation. Similar Guides could be prepared for other instruments, as necessary.

**(c) Implementation and development**

69. Work in the trade facilitation area has been ongoing at UNECE and various other UN and other international agencies for over 40 years. Over that period, there have been tremendous improvements in both developed and developing countries regarding the overall operation of the trade transaction chain. However, much work remains to be done and several of the issues that these instruments were designed to address continue to impede the efficient operation of the international trading environment.

70. The main focus of the work must now shift to the harmonisation and implementation of existing standards, and the development of the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains.

71. Given its extensive technical expertise, UN/CEFACT's will play an important role in developing the new standards and measures outlined above. In addition, UN/CEFACT's International Trade Procedures Working Group (ITPWG) could assist in identifying and promoting strategies for the implementation of trade facilitation instruments. For example, ITPWG is currently developing a model and recommendation for the implementation of the Single Window concept, a "one-stop-shop" approach to the exchange of trade-related information between business and government and between governmental agencies. Other similar initiatives could be undertaken by the ITPWG, in consultation and cooperation with relevant international trade organisations. International forums, such as the 2002 UNECE International Forum on Trade Facilitation, should also feed into this process.

**(d) Technical assistance**

72. There is strong agreement both from international organizations and from countries that an extensive technical assistance programme will be required to expand trade facilitation capacity in developing and transition economies<sup>35</sup>. Indeed, the inclusion of specific wording to this effect is a key element in the Doha Ministerial Declaration.

73. Technical assistance programmes for developing countries and regions must be based on a careful analysis of the needs of each country/region and on the general objectives of the global trade facilitation programme. A useful tool in this regard could be the recent World Bank document "Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action" (2001).

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<sup>35</sup> See, for example, submissions to the WTO from Japan (WT/GC/W/257) and Australia (G/C/W/263)

74. From the outset, it is recommended that technical assistance projects should be long term, well funded, results oriented and fully integrated, running seamlessly from needs analysis to project planning to implementation and review. The Project Cycle Management (PCM) approach used by the World Bank and the European Commission (EC) could be useful in developing such programmes.

75. The existing WTO technical assistance programme will be most useful as a means to support the future negotiations and help clarify the issues for delegations. However, additional technical assistance programmes, similar to those already provided by donor agencies such as the European Commission or the World Bank will be required and existing programmes may have to be strengthened. Areas such as Customs reform, implementing international trade facilitation instruments, harmonizing the operation of various government agencies, and developing and implementing necessary information and communications systems and technologies, all require substantial development and support. The existing work of UNCTAD and the World Bank in this area should be strengthened and complemented by other organizations.

76. The total cost for technical assistance requirements will likely be high. For example, World Bank loans to streamline and modernize customs procedures in Tunisia amounted to US\$35 million in 1999, and US\$38 million was lent to Poland to upgrade the physical and managerial infrastructure of port facilities.<sup>36</sup> With many developing countries requiring assistance, the total technical assistance budget requirement could be very high. This reality needs to be taken into account in the international debate on trade facilitation and planned for from the outset. Regional technical assistance projects could be considered, such as the European Commission funded projects.

#### **(e) Coordination**

77. Numerous international and regional organizations carry out trade facilitation work, including WTO, WCO, UN/CEFACT, UNCTAD, ICC, WB and the regional commissions of the United Nations. Despite the good relations and exchange of information among these bodies, the planning of their work programmes and projects needs to be better integrated and coordinated. The establishment of a joint management approach should be considered, operating within a Memorandum of Understanding (MOU) outlining the roles and responsibilities of the various agencies. This could be modelled on the existing and successful MoU<sup>37</sup> established between UNECE the International Standards Organisation (ISO), International Telecommunications Union (ITU) and IEC to coordinate the development of electronic business standards such as UN/EDIFACT and ebXML.

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<sup>36</sup> World Bank (2001), Trade Facilitation Lending by the World Bank, Recent Experience, research and Capacity Building Initiatives, John Wilson

<sup>37</sup> MoU between IEC, ISO, ITU and UNECE in the field of electronic business

78. Another coordination model that could be considered is the Global Facilitation Partnership for Transport and Trade (GFP), launched in 1999 as an initiative supported by the World Bank and the International Chamber of Commerce (ICC). For example, the GFP is setting up a task force on facilitation performance measurement to gather systematic data and establish common methodologies to produce and follow-up on facilitation indicators.

79. Coordination must be output oriented, as opposed to process oriented. Decisions should be taken regarding the specific activities that particular organisations are going to undertake. A formal coordinating structure could be established, but only if this would provide added benefit (and not added bureaucracy and administration). An initial joint planning session should be held between both senior and technical officials of the cooperating organisations to:

- consider the contents and structure of an MoU as suggested above
- exchange and discuss their work plans and strategies
- consider the general needs
- define the gaps and overlaps
- allocate responsibilities for specific organizations in specific areas, taking the statutory mandates as the principal allocating factor.

80. The above arrangement would not in any way affect or change the mandates and operations of the organizations. The objective would be to coordinate the implementation of work programmes in such a way as to avoid duplication and overlaps, and ensure that all the priority areas are covered for the benefit of member countries.

81. To disseminate information on the (coordinated) work programmes to the general community, it is recommended that a Web-based projects and activities database be established under the MoU, listing all the major projects and activities currently being undertaken or planned. This should help focus the complementary activities of external organisations and the overall programme of activity. The WTO as part of its programme for Trade Related Technical Assistance is compiling a comprehensive database on all assistance programmes – bilateral and multilateral – in the field of trade facilitation, and this is likely to be available in the third quarter of 2002.

**(f) Information and communication technologies**

82. Electronic business tools will continue to play a major role in modernizing the whole supply chain and trade transaction process. For example, APEC is aiming at paperless trade by 2005 for developed economies and 2010 for developing economies (within APEC)<sup>38</sup>.

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<sup>38</sup> Asia Times, APEC: Trade saviors or talking heads? August 19, 2000

83. For information and communication technology (ITC) to be effective in an international trade facilitation environment, the adoption of agreed international standards is essential. New technologies such as ebXML hold great promise as an integrated e-business standard for the future. At present, however, UN/EDIFACT remains the only international standard for e-business in trade facilitation and continues to be the basis of most automated international supply chains. It is important, therefore that this standard is strongly promoted

84. Standardization and harmonization of data elements used in customs and administration has been identified as a pressing issue for trade facilitation for both developed and developing economies. This is an area where improvements are called for by business sectors even in well-developed customs administrations, including countries within the European Union. The project to identify a core set of elements undertaken by the Group of 7 countries, the G7 data model, was passed on to the WCO earlier this year for further development and international endorsement. It is imperative that this work proceeds as quickly as possible.

85. In considering ICT solutions to trade facilitation issues, it must be understood that automating existing processes is rarely the correct approach. Rather, development of information systems generally presents a unique opportunity for a review of the entire customs or transactions process and it is in this process itself that most of the benefits can be achieved.<sup>39</sup> This is especially important when considering appropriate strategies to facilitate global supply chain and e-commerce business operations which often have significantly different operational requirements than more traditional businesses (and consequently could benefit from significantly more creative trade facilitation processes). This is a challenging task and as indicated by the Czech Republic Customs organization, what initially might look like a simple technological operation can prove to be a de facto customs revolution.<sup>40</sup> UN/CEFACT has adopted an integrated approach in this regard, focusing on the interdependency of trade facilitation and electronic business tools.

#### **(g) Research**

86. Although the potential benefits of trade facilitation are fairly well understood, there are very few recent empirical estimates available as to the economic benefits that could accrue due to the implementation of trade facilitation instruments (see section IV). Given the fact that some developing countries have questioned the potential for trade facilitation to benefit SMEs in particular and developing countries in general,<sup>41</sup> it is essential that trade facilitation research should address such basic questions as a matter of priority.

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<sup>39</sup> Harvard Business School Case #9-191-009, Singapore Tradenet: A Tale of One City (1990)

<sup>40</sup> WTO (2001), Trade Facilitation, National Experience of Czech Republic, G/C/W/247

<sup>41</sup> Canadian Department of Foreign Affairs and International Trade, Consultations with Canadians, 1999 - WTO and FTAA Consultations

87. Countries also need assistance in determining their current levels of trade facilitation and the development of appropriate benchmarks should be developed for this purpose. A well-defined research programme to define and utilize such measures would be most appropriate.

88. Additional research areas could include:

- development of a list or database indicating which countries have implemented which measures
- development of case studies and guides regarding the implementation of trade facilitation at the national and regional level
- the evaluation of current technical issues identified in the various trade facilitation meetings and conferences (as discussed in section III) against existing trade facilitation measures
- determination of the pressing technical issues (if any) that are not already covered by existing measures (and consequently what action should be taken, either as amendments to existing instruments or developed as new recommendations/instruments).

#### **(h) Security**

89. Recent developments on the international front have called into question the wisdom of the “open border” approach, pointing to the increased security hazard that this presents. However, it is important to realize that trade facilitation and risk management techniques, if properly implemented, can in fact increase countries’ abilities to meet pressing security requirements. The wide body of trade facilitation recommendations and instruments developed over the past two decades already has enormous potential to facilitate, monitor and control the flow of goods and services across borders. In addition, modern information and communications technologies can supply information to all actors in the trade chain on the origin, destination, content and certification of goods. Indeed, the availability of advance accurate information on goods before they reach the border would allow for a much more effective evaluation of the risk potential of such goods and would allow “legitimate” trade to proceed unencumbered<sup>42</sup>. The availability of more accurate and comprehensive information would also enhance revenue collection and the control of suspect goods.

90. However, while much progress has been made in several developing economies in this area, it is probably beyond the current resources of many developing or transition economies to establish an integrated interagency automated system. In addition, agreement would be required between participating countries regarding the privacy of information. Further, the perplexing issue of commercial and official integrity in some countries would preclude them from participating in such a cooperative network.

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<sup>42</sup> Raven, John, *Terrorism and Trade Facilitation*, 2001, (UN/CEFACT reference number CEFACT/2001/IT023 )

91. Clearly, Governments and traders alike need to meet this security challenge. The imposition of additional controls at border posts is not necessarily the most effective or efficient response. Rather, full and proper implementation of existing trade facilitation measures, combined with the introduction and or strengthening of new techniques such as risk management and enhanced information flows, would be more effective and ultimately less costly.

## **VII. Conclusions**

92. This paper has attempted to review the current issues related to trade facilitation and point to specific areas where positive changes could take place. The fine main conclusions that emerge are as follows:

### **1. Adopt trade facilitation as a key trade and economic development instrument**

93. Government and business leaders should adopt trade facilitation as a key trade and economic development tool, as opposed to a background technical issue. This is because of its potential to enhance trade, increase competitiveness and investment, and enhance participation in the significantly changed global trade environment.

94. To achieve this objective, political and business leaders will have to be sensitized to the strategic importance, nature, impact and benefit of trade facilitation. Organizations involved in trade facilitation development should, therefore, consider strengthening their promotion and awareness campaigns, specifically targeted at this audience. While this is especially important in countries where trade facilitation is poorly developed, it is also necessary in developed economies where much work remains to be done.

### **2. Focus on implementation of existing measures and development of the next generation of measures to support the emerging new economy**

95. Organizations involved in trade facilitation should adopt a dual track approach, focusing on harmonizing and implementing existing standards; and developing the next generation of rules and standards to facilitate the emerging new economy, characterized by e-commerce and global supply chains. The rich experience of UN/CEFACT in this area would be very valuable in this exercise.

96. To achieve these goals, clear trade facilitation agendas or action plans should be developed at the national, regional and international levels. The establishment of an international agenda could be undertaken by United Nations agencies in the framework of their efforts to finance development (as detailed in the Monterrey Consensus). The long-term objective here would be to establish an internationally integrated trade facilitation structure and supporting network, based on agreed international standards and instruments. The international action plan would serve to guide national governments in developing trade facilitation plans.

97. National trade facilitation action plans should be developed in close consultation with the business community. Organizations such as the national trade facilitation committees and/or PRO organizations could play a leading role in this regard. In addition to the work of regional trade organizations, the regional economic commissions of the United Nations could play a strong role in this area.

98. Experience has shown that undertaking the necessary infrastructural changes to implement deep trade facilitation measures depends on strong political will. Development of this political will requires a clear understanding of the needs and benefits and also the capacities of local institutions to successfully implement the required changes. Political will to implement trade facilitation instruments is linked to the existence of relevant rules and standards, and this point is being considered within the current WTO negotiations.

99. All countries should have at least a minimum standard of trade facilitation implementation in order for the concept of a globally integrated trade facilitation structure to have meaning. While it is generally agreed that some countries will require technical assistance to achieve a satisfactory level of trade facilitation, the magnitude of this requirement may not be fully appreciated. It is suggested therefore, that estimates be made of the extent and cost of technical requirements in this area and that the relevant donor agencies take this issue on board as a priority trade development issue and allocate appropriate funds. Technical assistance should be long-term, well integrated and results oriented, based on the agreed national trade facilitation agenda previously discussed.

### **3. Undertake additional trade facilitation research**

100. More research needs to be undertaken on trade facilitation in order to guide and inform the related development and implementation work. Trade facilitation benchmarks need to be established. Further, research is required to develop concrete and well-balanced arguments regarding the business and other benefits to assist in the promotion and awareness campaigns mentioned above.

### **4. Promote the role of trade facilitation in security**

101. The issue of trade facilitation and security needs to be addressed as a priority. This is primarily a matter of sensitizing leading political and government officials to the potential of trade facilitation instruments to not only handle threats but to actually improve the existing security situation if properly implemented. This will take a coordinated and concentrated effort from all trade facilitation related organizations.

## **5. Coordinate trade facilitation activities**

102. Central to all of the above recommendations is the need for coordination of the activities of the various bodies involved in trade facilitation development and implementation. This will be especially important if the increased level of implementation and development recommended in this report is implemented. Although there are already excellent working relations between the various international and regional bodies involved, a more formal approach to this issue should be adopted. A joint management approach should be considered, operating within a Memorandum of Understanding (MOU). This could be modelled on the existing and successful MoU established to coordinate the development of electronic business standards.

103. In conclusion, it is essential that the positive potential of trade facilitation to enhance the economic performance of business and countries be realized as completely as possible. Trade facilitation can reduce the burden of bureaucracy for companies, broaden market access, increase the participation of small and medium-sized enterprises in international trade, reduce corruption and enable the benefits of global trade development to be achieved by all countries. This is the challenge facing Governments, business and organizations involved in trade facilitation development and we must not be found wanting in this regard.

**ANNEX**

**ESTIMATES OF TRADE TRANSACTION COSTS AND TRADE FACILITATION BENEFITS**

Note: this table is reproduced from the OECD study OECD (2001), Business benefits of Trade Facilitation, TD/TC/WP/2001/21

<b>Study</b>	<b>Scope</b>	<b>Estimates on costs</b>	<b>Estimate on benefits</b>	<b>note</b>
US NCITD (1971)	direct costs: documentation costs required by government; finance and insurance; carrier; and forwarder/broker/or their contractual counterpart	average documentation costs are \$375.77 for exports and \$320.58 for imports. Total costs aggregate represent 7 and 1/2 % of the value of the total US export and import.	(none)	Based on business survey
Ernst and Whinney (1988a,b) for Cecchini et al (1988)	(1) direct costs: customs compliance costs. (2) indirect costs: road hauliers; and business foregone	customs compliance costs (7,500 million ECU), road hauliers (415-830 million ECU), and business foregone (4,500-15,000 million ECU). Approximately around 1.5% of total intra-EC trade value for customs compliance; 1-3% for business foregone.	(none)	Based on business survey: survey on lost business opportunities and road hauliers had some methodological reservation
SWEPRO (1985)	direct costs: customs compliance costs	customs compliance costs are 4% of the value of import or export; i.e. 8% of the total value of goods traded	(none)	Apparently certain figures were obtained from Swedish customs and businesses
EU COST 306 Final Report (1989)	direct costs: documentation costs	documentation costs are 3.5-7% of the value of goods traded; with errors becomes 10-15%	(none)	No information about the methodology

Study	Scope	Estimates on costs	Estimate on benefits	note
Dee, Geisler and Watts (1996)	APEC trade liberalization programmes including trade facilitation measures, TBT, competition policy, government procurement, and transparency	mentioning estimates of Cecchini (1988), UNCTAD (1994b) and Dee, Geisler and Watts (1996), but did not provide which one it took	5% of value of value of goods traded (trade facilitation measures only); 10% (if TBT, competition policy, government procurement, and transparency measures are taken into account)	apparently use a secondary reference
APEC (1997)	APEC trade liberalization programmes including trade facilitation measures, TBT, competition policy, government procurement, and transparency	mentioning estimates of Cecchini (1988), UNCTAD (1994b) and Dee, Geisler and Watts (1996), but did not provide which one it took	While assuming that a consensus estimate on direct savings from trade facilitation is around 2-3% of total import value, use 1 and 2%	apparently use a secondary reference
Staples (1998), <i>et al</i>	direct costs: customs compliance costs	customs compliance costs are 7-10% of the value of international trade	(none)	apparently use a secondary reference

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