Mr. Chairman,

It is with pleasure that I speak at this International Forum on Trade Facilitation organized by the UNECE on a theme that is not only topical but touches the very heart of the trade facilitation issue – establishing a positive relationship between trade and development. However, I would like to rephrase the proposition somewhat, given the ground reality that we face and to pose it as follows: - How and under what conditions can developing countries be <u>enabled</u> to receive a better share of the benefit of trade facilitation?

We base ourselves on the fact that the developing countries are at present significantly handicapped in the race towards trade facilitation, mainly due to resource constraints and physical, social and trade infrastructure related inadequacies, given their stage of development. Their own efforts towards modernization and automation of trade procedures, particularly customs procedures and the support of the international community will thus crucially determine the benefits to them, as will the pace and terms of their integration in this area.

Many developing countries so far have been autonomously moving towards an approximation of the four main ideals of rationalization, simplification, harmonization and automation of trade procedures, especially customs procedures, with emphasize on use of modern IT tools like EDI. Taking my country India's example, we have implemented the EDI at 23 customs locations covering major ports, airports, inland container depots and freight stations which cover 75% of India's international trade. An EDI Gateway Project, under implementation, would provide a flexible and highly reliable framework to Customs for exchange of electronic messages with other partners. Fast Track Clearance Scheme, Self Assessment Scheme and an Accelerated Clearance of Import and Export Scheme [ACS] have been introduced on a pilot basis at a few ports. A Project team on Customs Re-engineering is working on several projects including Post Clearance Audit and Risk Management Strategy. Transparency is assured through real time availability of all rules and notifications on the DGFT/CBEC websites. Tariff structures have themselves been simplified through slab reductions on a number of duties and exemption notifications.

So it is recognized by developing countries that trade facilitation and efficiency is not only the wave of the future but a necessity of the present. Apart from autonomously working towards trade facilitation, a number of them are participating in voluntary schemes for trade facilitation convergence in the regional integration context. Multilaterally, this matter is being dealt with in the World Customs Organisation. Efforts, however, are being made by developed countries to bring trade facilitation within the purview of the WTO as part of the 'Singapore Issues', presumably to make compliance with trade facilitation standards mandatory for all countries as part of a single undertaking with all that this implies in terms of binding, dispute settlement linked obligations.

The WTO and the mandatory compliance route to bridge the trade facilitation gap between developed and developing countries is not fair, desirable or in the best interests of either the developing countries or the development oriented trading system promised at Doha. Such an approach would ignore the reality of their resource constraints and crowd out their own welfare and development priorities. Instead, the correct approach would be a development led route which would allow developing countries to adapt and, as appropriate, adopt global best practices according to their own capacities, interest, priorities, resources and time lines.

This is particularly important when we consider that most of the trade facilitation standards that are being evolved and held up as models are those that are devised by the developed countries in the light of their own needs, experiences, capacities and objectives and bring to bear state-of-the-art technology and tools at their command. Their compliance with a global regime will be virtually cost free for them. Thus, not being standard makers, only standard takers, developing countries have a double disadvantage in trying to upgrade their trade infrastructure. They are challenged to adopt something which is not home grown and bear the cost of adjustment too.

Therefore, in order that trade facilitation yields efficiency and welfare benefits to developing countries, the following prerequisites need to be accepted and put in place: -

i) Trade facilitation should not be looked at as an end in itself but a means to the goal of increasing trade revenues and thus development dividends for developing countries from international trade and investment. It is a process not a destination.

ii) Trade facilitation should not be treated as a mechanical process which if addressed or redressed will at one stroke remove all the transaction related difficulties that the trade of developing countries faces. What is required is a systemic approach to different obstacles posed to an efficient flow of trade of developing countries that looks at both at the forward and backward linkages and the totality of their trade facilitation needs relating to their exports as much as their imports.

iii) By backward linkages, I mean the supply chain of trade efficiency – the entire realm of production, transport, services infrastructure and legal framework which feed into the developing countries' international trade effort. This has an impact on the speed, cost and predictability with which trade operations are actually completed. As we all know, in many developing countries, unless deficiencies in the state of road, rail, air and port infrastructure - physical and institutional and their high costs - are addressed, merely tinkering with customs procedures will not bring the promised benefits in terms of reducing barriers to trade, lowering transaction costs, dealing with corruption, raising revenues, making them more competitive from the perspective of global TNC and business community, and giving a fillip to their trade and investment opportunities and prospects.

iv) By forward linkages I mean the international transport, logistical and financial frameworks and the complex trade restrictive procedures followed by developed countries which are their main markets. The low level of control developing countries have on the external dimension of facilitation related to their export trade is an issue of major concern and no amount of reform at the domestic end to strengthen the backward linkages will be able to compensate for their vulnerability in relation to the forward linkages. Several studies, including those by the UNCTAD, have pointed to the problems faced by developing countries in this area and to the fact that these external processes are largely controlled by the developed countries and their economic operators and have serious implications for developing countries.

v) One only needs to look at the security related initiatives recently taken such as the Customs, Trade Partnership against Terrorism [C-TPAT] and the adoption of measures such as the Container Security Initiative to understand how these could prove major drawbacks for developing countries in international trade and transport systems. It would involve re-routing of trade flows between certain origins and destinations, in particular those in the United States and call for a very high level of supply chain management capability, technological and financial resource mobilization and significant disruption of developing country trade whilst adding costs to their already heavy trade facilitation agenda.

vi) There are valid and legitimate reasons for developing countries to follow a staged path to establish an autonomous, sustainable trade management infrastructure. As UNCTAD has emphasized, the "objective is to facilitate in order to better control and better control for better management". Developing countries have their own security concerns and their cultural, social, political contexts within which they have to work out trade facilitation strategies. These concerns of developing countries are as relevant as concerns that may drive measures taken by some developed country partners and which profoundly affect the trade facilitation environment in key markets for developing countries.

vii) Developing countries would like to simplify procedures for their own exporters and for foreign operators trading with their country. They would like to raise revenue realization and compliance, and the efficiency and cost effectiveness of their international trade transaction. For this, they have a right to set their own methodology and time frame within the human and financial resources that they can spare and mobilize, adopting best practices as they think fit.

viii) Those pushing for an enforceable multilateral regime on trade facilitation in WTO argue that a voluntary approach is too slow and ineffective and, therefore, there is need to speed up the process of developing countries joining a world class trade facilitation regime. This logic is unacceptable. It is in developing countries' interest to make haste slowly so that they are able to manage the balancing of the cost and benefit of trade facilitation integration according to their ability, technological and institutional preparedness, and control across the supply chain of efficiency on one hand, and the external elements of the trade facilitation framework on the other.

ix) The WTO is not a suitable forum for dealing with trade facilitation issues and there seems to be no reason for duplicating work which has been on going in the World Customs Organisation – an expert customs body, in the context of the revised Kyoto Convention of WCO. There is no need to bring procedural issues to the WTO, a body focused more on trade rules, rights and obligations.

x) What could be particularly harmful to developing countries is if binding rules on trade facilitation are lodged in the WTO with the possibility of enforcing these rules through the dispute settlement mechanism. Even a developing country like India will find it difficult to meet standards of automation and modernization at all its ports, airports and land customs stations. Questions could be raised not only about whether the right systems are in place but whether a particular developing country is operationally in compliance. Promises of S&D cannot be taken at face value given the lack of progress in this area in the Doha negotiations so far. The "one size fits all" transition time that may be offered will be of scant comfort and utility. Trade facilitation would thus become another onerous obligation on developing countries and provide developed countries with yet another sophisticated instrument for trade harassment against developing countries.

xi) The debate so far in the context of the Doha Declaration to undertake exploratory and analytical work has involved a review of several GATT [1994] Articles, especially Articles V, VIII and X. Developed countries have made proposals to reinforce these provisions with a view to negotiate binding rules. Developing countries on the other hand have not responded positively and pointed instead to the lack of implementation of some of the key agreements with trade facilitation dimensions such as Rules of Origin, TBT, SPS and Customs Valuation.

xii) It would be far better if there is concentration on finalizing work on these existing agreements which have profound implications for trade facilitation and on which developed country partners have not shown any political will to move. Two such issues are rules of origin and TBT/SPS which could go a long way in trade facilitation from the point of view of developing countries and give them real benefits. In fact, the developed countries unwillingness and underperformance on speedy harmonization of Rules of Origin illustrates the double standards on the harmonization issue.

xiii) For developing countries a flexible approach to harmonization of national systems to some international guidelines as opposed to a set of binding obligations would be optimally beneficial. It would allow them the benefit of progressive trade facilitation and integration while avoiding the loss of policy autonomy and additional institutional burden as well as high implementation costs.

xiv) The issue of costs is very important since we are talking about how trade facilitation benefits to developing countries can be increased. The history of the Uruguay Round of MTNs give us a warning against pushing developing countries into agreements that impose heavy costs on them or are resource intensive without upfront and binding financial commitments from the international community. According to World Bank economists the implementation of only three of these resource intensive agreements – SPS, TRIPS and Customs Valuation would on average cost a typical developing country at least $ 150 million, not to speak of outgoes in terms of revenue loss or development and welfare foregone.

In conclusion, Mr. Chairman, I would like to reaffirm that the only way to reach the laudable goal of a global trade facilitation regime in a manner that increases developing country benefits from it and from international trade, is for it to be progressive, voluntary and not linked to WTO's enforceability provisions and dispute settlement mechanism. It could be based on some guidelines and proven systems for trade management. Regional efforts among developing countries and on a North-South basis which help the developing countries gradually adjust to a common regime, could be useful stepping stones to a global regime. Reinforcement of capacity building and technical assistance, both bilateral and by organizations like UNCTAD, would go some way in catalyzing the process. Substantial and additional financial resources should be provided by IFIs and donor community to developing countries to meet the institutional and other adjustment costs as also to upgrade their entire trade and transport infrastructure both in the short and medium term. Implementing other key aspects of trade facilitation already agreed to in the WTO, especially those which have serious market entry implications for developing countries in regard to developed countries markets and which raise the cost of trade transactions and affect their competitiveness such as rules of origin, TBT and SPS should be a priority for developed country compliance and positive action. No trade constricting and displacing measures should be taken by developed countries, including in the area of trade, transport and facilitation infrastructure, which may have a detrimental effect on developing country exports and on their trade and investment gains.

Thank you, Mr. Chairman,