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# POLICY BRIEF

## Key points

- The share of developing countries in global imports has more than tripled since 1970, and trade facilitation is increasingly important for their participation in global supply chains.
- Beyond trade, trade facilitation reforms help advance SDGs related to strengthening governance and formalizing the informal sector.
- There are strong links between trade facilitation reforms and implementation capacities; development partners need to focus their support on the most vulnerable economies.



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## REAPING BENEFITS FROM TRADE FACILITATION

The Agreement on Trade Facilitation (TFA) of the World Trade Organization (WTO), reached in Bali, Indonesia in 2013, represents a great opportunity for developing countries.

Experience shows that trade facilitation reforms improve a country's trade competitiveness and enhance its revenue collection. What is more, they can help advance development goals such as strengthening governance and formalizing the informal sector. In addition, since many trade facilitation-related challenges and solutions are regional, the implementation of such solutions can boost regional integration.

This policy brief examines the potential impact that trade facilitation reforms can have on trade competitiveness and development, including a number of specific Sustainable Development Goals (SDGs), and on revenue collection and other public policy objectives. It identifies the policies necessary for developing countries to reap the full development-related benefits of trade facilitation reforms. UNCTAD's research and experience with technical assistance programmes have shown that trade facilitation reforms should be comprehensive and ambitious. Trade facilitation should also be linked to investments in transport infrastructure and other trade-supporting services. Given the linkages between trade facilitation reforms and implementation capacities, development partners need to focus their support on the most vulnerable economies, making full use of the promises and possibilities for technical assistance provided by the TFA.

### A. Trade facilitation: Why it matters for global trade

#### *Global trends in trade and logistics*

Numerous studies have estimated the positive impact of the TFA on global trade and income. As trade has become more liberalized, other obstacles to trade have gained importance, and in today's trade logistics context, facilitation has become more important than ever. The inclusion of trade facilitation in the WTO agenda reflects a number of specific trends in international trade and logistics, as follows:

1) There is increased trade in manufactured goods, including imports and exports from developing countries, which are no longer merely providers of raw materials, but increasingly import raw materials and intermediate goods to produce manufactured goods for export. The share of developing countries in global imports has more than tripled since 1970.<sup>1</sup> A trade facilitation measure such as advance rulings (article 3 of

the TFA) is more important for manufactured goods than raw materials. For example, when a smart watch was first taken across a border and a customs officer had to decide whether it was jewellery or a watch, computer or toy, the importer would have appreciated having a binding advance ruling at hand.

2) Trade is increasingly a part of global value chains. Businesses trade more and more in intermediate goods, with a growing share of intra-company trade. In logistics expenditures, companies increasingly spend on transport and reduce expenditures on inventory holdings. This is because deliveries are increasingly planned to be just in time, and waiting times at borders need to be either non-existent or predictable, at least. In this context, any trade facilitation measure that helps in understanding and speeding up processes, such as pre-arrival processing or publication of average release times, is increasingly important for a country's participation in global value chains.

<sup>1</sup> UNCTAD, 2015, *Review of Maritime Transport 2015* (New York and Geneva, United Nations publication).

3) Regional integration crucially depends on facilitation of cross-border trade and, at the same time, many cross-border operations depend on cooperation between neighbouring countries. One advantage of the multilateral TFA is that it can help regional integration without requiring a spaghetti bowl of regional trade agreements.

4) In parallel to growing intraregional trade, there is also diversification in trading partners, including intensifying South–South trade. The more that businesses want to sell and source abroad, the more they benefit from trade facilitation measures such as publication on the Internet or the use of international standards. The TFA helps on the following three counts: measures such as publication on the Internet (article 1.2) help businesses to obtain information globally; article 10.3 stipulates that countries should use international standards; and the TFA in itself helps to standardize terminologies and expectations with regard to border procedures.

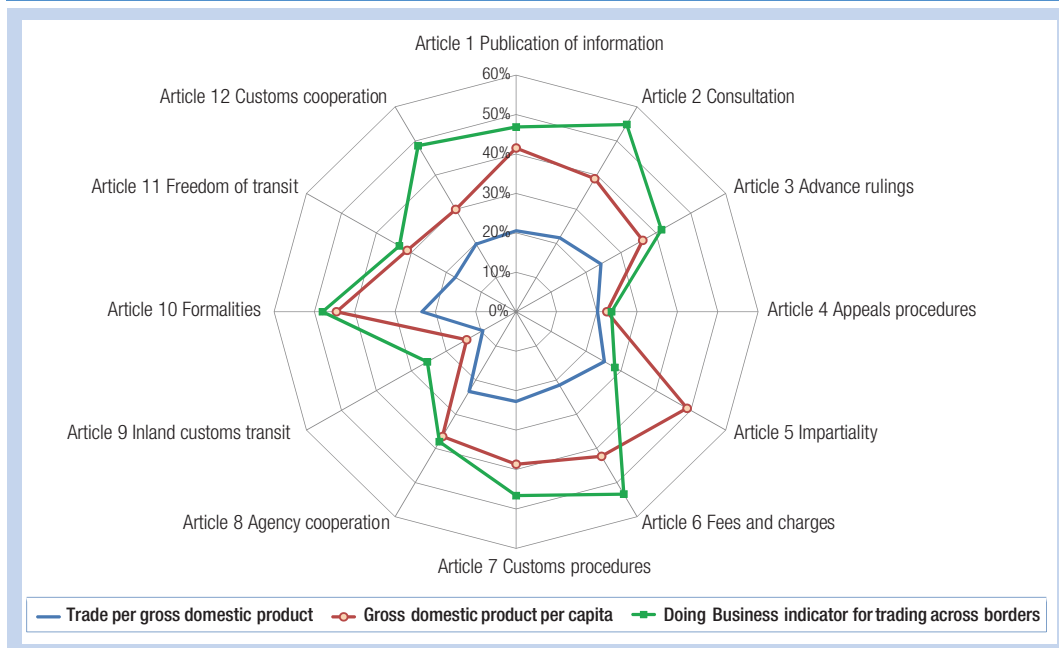
5) Available technologies: Points 1) to 4) illustrate the growing demand for trade facilitation; such facilitation also benefits from the supply of new tools. Measures such as customs automation, electronic documents and single window are all easier to implement today than when trade facilitation negotiations started at WTO a decade ago. One technology deserves special mention: the container. Recent studies have shown that the introduction of containerization

has had a greater impact on trade growth than trade liberalization. Incorporating a country's position in the container shipping network significantly improves the predictive power of trade models. Yet the benefits of containerization are lost if a lack of trade facilitation interrupts their movement, through the breaking of seals or reloading of content.

### Which measures matter most?

Since early 2014, WTO members have been notifying to the WTO their trade facilitation measures under category A, which contains “provisions that a developing country member or a least developed country member designates for implementation upon entry into force of this Agreement, or in the case of a least developed country member within one year after entry into force”.<sup>2</sup> By mid-November 2015, a total of 73 developing countries had notified their category A provisions to the WTO.<sup>3</sup> An analysis of the number of category A measures notified by country shows that a close correlation exists between the implementation levels of different TFA articles and indicators for trade, trade efficiency and income. While a statistical correlation does not in itself prove any causality, the data suggest that implementing article 2 on consultations and article 6 on fees and charges have a stronger bearing on a country's Doing Business indicator for trading across borders than, for example, article 4 on procedures for appeal or review, as shown in the figure.

## Agreement on Trade Facilitation: Implementation and trade, gross domestic product per capita and Doing Business indicator for trading across borders



Source: UNCTAD secretariat calculations, based on individual notifications (WTO), Doing Business indicator for trading across borders (World Bank) and gross domestic product per capita (UNCTAD). The values on the axes represent the partial correlation coefficient, which varies between -1 and +1. A value of +1 implies that the two variables move together at 100 per cent, while a correlation coefficient of 0 implies that the two variables are not correlated.

2 WTO, 2014, Agreement on Trade Facilitation, WT/L/931.

3 Trade Facilitation Agreement Facility, 2015, available at <http://www.tfafacility.org/wto-assistance>.

The statistical correlation is also an indicator of another causality: category A notifications are positively correlated with a country's gross domestic product per capita, which points to linkages between a country's level of development and its trade facilitation implementation capacity. Put differently, there exists a dynamic feedback whereby more developed countries find it easier to implement trade facilitation reforms and, at the same time, having implemented such reforms, are able to enhance their development, revenue collection and trade competitiveness.

## **B. The development dimension Human, institutional and enterprise development**

Trade facilitation reforms are positive steps towards human and institutional development. They help small traders enter the formal sector, make economic activities more transparent and accountable, promote legal reforms, strengthen information technology capabilities and generally help modernize societies. Specific trade facilitation measures such as inter-agency coordination, right of appeal and establishment of enquiry points often form a part of national reforms not only in the context of international trade, but also in broader public sector modernization programmes that aim at, for example, e-governance or reforms of the legal system.

### ***Protection of public interest***

Trade facilitation and protection of the public from lost revenues or health hazards are complementary policy objectives. A large number of specific trade facilitation measures help both the ease of doing business and the fight against counterfeit trade, smuggling and undervaluation (which costs revenue). Measures such as advance information, post-clearance audits, authorized economic operators and risk assessments not only reduce the need for physical inspections but also increase the likelihood of detecting fraud.

### ***Trade facilitation and the Sustainable Development Goals***

Many measures in the TFA have a direct link with the recently adopted SDGs. For example, article 1 covers the publication and availability of information on import, export and transit procedures; a country that complies with article 1 may thus be closer to achieving SDG target 16.10, which, inter alia, aims at ensuring public access to information. Another example is article 5 of the TFA, which, inter alia, requires Governments to publish certain announcements

in a non-discriminatory and easily accessible manner; this is more easily achieved if traders have access to the Internet, as stipulated in SDG target 9.c. In addition, article 6 of the TFA includes the requirement to avoid conflicts of interest in the assessment and collection of penalties and duties, which can help to reduce corruption and bribery, covered by SDG target 16.5. Finally, many trade facilitation measures directly help informal businesses to better participate in foreign trade, thus supporting SDG target 8.3 on the formalization and growth of micro, small and medium-sized enterprises.

## **C. Policy implications**

### ***Targeting improvements in trade competitiveness***

Policymakers need to mainstream trade facilitation into their overall trade policies. Different trade facilitation measures are relevant for different types of trade. Some are more relevant for imports, others for exports. Some target reefer cargo such as fruit or meat, others are more relevant for global value chains and still others are of particular interest to small and medium-sized enterprises. There are also important linkages between different measures and implementation needs in planning for the appropriate sequence of reforms.

### ***Targeting sustainable development***

Policymakers that aim at achieving SDGs should keep in mind that the implementation of many specific trade facilitation measures may be an effective tool towards meeting specific SDG targets. The obligations and international support that come with the TFA are an opportunity to engage in reforms that make economic activities more transparent and help small traders enter the formal sector.

### ***National trade facilitation committees***

A starting point for many of the necessary reforms is a functioning national trade facilitation committee.<sup>4</sup> There is a need for coordination among the public and private sectors and among users and providers of trade-supporting services. Having such a committee in place is an obligation under article 23 of the TFA, and policymakers and the international community should include its creation and strengthening in the first steps towards full implementation of the TFA.

### ***Particular challenges for the least developed countries***

The least developed countries need greater assistance than middle-income developing countries in this field. The challenge for

4 UNCTAD, 2015, Trade facilitation bodies around the world, available at <http://unctad.org/TFC>.

development partners is to design their implementation assistance in a manner that ensures that aid and efforts go to the countries that need them the most. This must be a coordinated effort by all development partners, to avoid both gaps and overlaps.

### **UNCTAD technical assistance**

UNCTAD has extensive expertise and experience in the area of trade facilitation, dating back to its mandate from the Final Act of the first session of the United Nations Conference on Trade and Development in 1964, which recommended that UNCTAD “promote, within the United Nations family, arrangements [for] intergovernmental action for research into improved marketing techniques, the organization of trade fairs, the dissemination of market intelligence and the simplification of formalities relating to customs

procedure, commercial travel, etc.”. Over the past fifty years, the work of UNCTAD in trade facilitation has taken a variety of forms, constantly adjusting to the needs and priorities of its diverse membership. One example is the Expert Working Group on Trade Efficiency, whose work led to the adoption of the Ministerial Declaration on Trade Efficiency in Columbus, Ohio, in 1994. This declaration, in turn, was instrumental to the inclusion of trade facilitation in the agenda of the first WTO Ministerial Conference, held in Singapore in 1996. Today, the UNCTAD trade facilitation package includes support for TFA implementation along with broader, more ambitious transit, transport and trade facilitation reforms. Specific products cover customs automation, non-tariff measures, port training, trade portals and transit.

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