

Potential Consequences and Benefits of  
Implementing a Multilateral Approach to  
Trade Facilitation

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## **1. Introduction**

Trade Facilitation has been a neglected issue in global trade liberalization process, although it is important and cannot be overstated. It is beginning to be recognized as an important component of national trade reform agenda. There is also a discussion afoot to put in the WTO agenda.

Trade facilitation is the other name for reduction in transactions costs, according to a recent study carried out by the OECD the cost of poor border procedures could vary between 2% to 15% of the total transaction value of global trade. This highlights the wasteful costs involved considering that the average post-Uruguay tariffs on industrial goods amounts to a mere 3.8%.

According to a study undertaken by the UNCTAD, direct and indirect transaction costs i.e. banking and insurance, customs, business information, transport and logistics etc add up to 10% of the total value of world trade (USD 400 billion).

In another special report by Wilson, improving the performance of below average countries (i.e countries with trade facilitation parameters below global average) in terms of port efficiency will increase global trade by USD 117 billion. An improvement in Customs procedures in such countries up to the global average levels will lead to gains in trade of around USD 22 billion.

The findings are clear, reduction of transaction costs in trade through trade facilitation can bring enormous gains in trade, and as such are necessary and important for the development of global trade. All countries accept this fact, and the gains from Trade Facilitation in itself are not under dispute. In addition, the reduction of other types of barriers has brought border-crossing costs to business, such as waiting time and Customs procedures into new focus. This has led to the acceptance of Trade Facilitation as an important area for the development of global trade. The need for trade facilitation is underlined further by the plethora of the procedures that have to be gone through at the border when importing or exporting. Such procedures have increased in recent years, especially in USA after 9/11

incident, adding to the cost of trading both for governments and business and yet at the same time the volume of international trade has expanded relative to the size of many national economies, making it more difficult for administrations to cope on the basis of unchanged resources.

Thus, Trade Facilitation assumes even greater importance now in the arena of International Trade given recent trends in the structure of goods (and services) traded and the sophistication of such products.

Modern supply chain management techniques and the rapid spread of information technologies and e-commerce have progressively increased the use of just-in-time techniques by manufacturing industry and encouraged the growth of integrated global supply, production and distribution systems. In this environment, where manufacturers rely on the uninterrupted reception of the necessary components to meet production contingencies, business cannot afford to have imported or exported goods tied up for long periods because of unnecessary or over-complicated trade procedures and requirements.

Goods and Services traded across borders have become increasingly sophisticated, at the same time the rules and regulations that govern tariffs and non-tariff measures have become increasingly complicated over time. Preferential trade agreements have added to this complexity a proliferation of rules of origin. Threats to national security have also increased in recent times. All these factors add up to make the process of goods and services crossing borders far more difficult than they used be half a century ago. Threats to national health and consumer welfare have also become greater and tend to have global repercussions (a good recent example is the SARS in East and SE Asia).

Given this background, it is important to meet this basic challenge, i.e. to make trade as easy and quick as possible to harmonize global supply chains and production process while ensuring that Governments are able to efficiently administer customs and safeguard national health and security.

## **2. Transaction Costs as a Barrier to Trade**

Transport costs are important relative to other trade barriers. For 168 out of 216 U.S. trading partners, transport cost barriers clearly outweighed tariff barriers. Only a few developing countries, including among others Bangladesh, Egypt, Mauritius, Mongolia, Nepal, Pakistan, and Sri Lanka were more constrained by trade taxes than by shipping costs. For the majority of Sub-Saharan African countries, the tariff typically amounted to less than 2 percent, while the transport cost incidence often exceeded 10 percent.

Transport delays can be as costly as the costs of moving goods. According to a study by Walkenhorst and Yasui, welfare gains as a result of a 1 percent reduction in trade transaction costs are estimated to amount to about US\$40 billion worldwide. Hummels estimates that one-day less in delivery times, whether associated with waiting time in ports or delays in custom, on average around the world reduces landed costs of goods by 0.8 percent. Said differently if developing countries were to shave off an average of 1 day in the time spent handling of all of their trade, the savings would amount to some US\$240 billion annually.

Logistics systems also influence investment and trade. As discussed in the introduction, the dynamics of global trade today incorporates a high percentage of intra-industry trade, notable parts and components trade feeding into global supply chains. The developing country stake in such global parts and components trade has greatly increased in recent years. A large portion of this intra-industry trade is intra-MNC indeed intra-firm. Intra-firm trade around the world is now about 33 percent of total world trade. MNC firms with global production facilities, including in developing countries, make decisions about their plant locations based in part on the state of import and export rules in countries. In general, sound enabling policies, including good governance, institutions and property rights, can help attract more investment and encourage economic growth.

## **3. Trade Facilitation Indicators and related areas that need reform focus**

The ambit of Trade Facilitation is very broad and touches upon several areas. While some of these falls directly under initiatives that need to be taken by the Government, others involve a partnership between private stakeholders and Government initiatives. The main indicators of trade facilitation and the areas of reform required in them are briefly presented below.

❖ ***Port Logistics***

- Cargo Dwell time
- Warehousing facilities (including refrigerated warehouses for perishables)
- Rail and road links from hinterland to ports

❖ ***Customs Procedures***

- Electronic Data Interface (EDI)
- Signature less, Internet based process for filing customs related documents.
- Trust based systems
- Post clearance audit
- Pre Shipment Inspection Agreements (PSI)
- Risk analysis and assessment

❖ ***Standards Harmonization***

- Reform of domestic Standards setting and monitoring authorities
- Moving towards regional and global convergence on standards
- Mutual Recognitions Agreements on standards

❖ ***Business Mobility***

- Movement of Professionals and transparent visa systems
- Adequate Financial systems including Banking, Insurance and Clearance mechanism

❖ ***Trade Information and E-business facilities***

- Proper channels and access to market information, legal systems and standards and regulations
- Availability of information electronically through the internet
- E-Business infrastructure to enable to business to business contacts

❖ ***Administrative Transparency and Professionalism***

- Simple and transparent procedures for export and import
- Non-discriminatory approach to enforcement based on risk assessment techniques
- Public Private cooperation and information sharing to improve enforcement and compliance

#### **4. Trade Facilitation in the Multilateral Context**

The principle behind the multilateral framework of WTO lies in the formation of a rules based trading framework for all countries. The WTO has achieved remarkable success in this direction in reference to trade liberalization and removal of barriers in terms of tariffs, and to some extent Non-Tariff barriers. The time has come for the WTO to explore areas beyond tariffs and NTB's that are impeding trade. Trade Facilitation is definitely one area that all countries will have cooperate in for their mutual benefit, and multilateral framework of the WTO provides an excellent forum to explore this issue. But it should be recognized clearly at the outset, that removal of impediments to trade facilitation would take time in most developing countries, given their lack of essential capacity to undertake reforms. Multilateral and bilateral institutions must earmark provisions of substantial resources towards capacity building process in developing countries.

##### ***Background***

Trade facilitation came rushing to the foreground of WTO issues as the international business community increasingly expressed concern for greater transparency, efficiency, and procedural uniformity of cross-border transportation of goods. Trade Facilitation came into the WTO agenda after some important studies done by APEC, World Bank and UNCTAD came up with the conclusions that:

- ❖ Clearing the red tape at country borders would generate approximately twice as much gain to GDP than tariff liberalization would.
- ❖ Trade facilitation measures would particularly benefit developing countries, where the inefficiencies are sometimes more costly to industries than are tariff barriers.

In response, WTO members added trade facilitation to the agenda at the Singapore Ministerial Meeting in 1996. The Singapore Ministerial Declaration calls upon the Council for Trade in Goods (CTG) to conduct exploratory research into cross-border barriers, and analyze the effects of those barriers on traders and consumers.

Aspects of Trade Facilitation are not new as issues in WTO/GATT. Even though Trade facilitation was first included at the 1996 WTO Ministerial Conference, there are several GATT provisions that are related to trade facilitation. In addition to Article VII (Valuation for Customs Purposes), Article VIII (International Standards, Fees and Documentation) and Article X (Marks of Origin and Publication/Information issues) a number of specific agreements have been negotiated during the Uruguay Round that are directly relevant to trade facilitation viz.

- ❖ **Customs Valuation Agreement:** It sets out rules and guidelines for customs valuation.
- ❖ **Agreement on Rules of Origin:** It contains principles for origin determination in a neutral transparent, non-trade restricting manner. However actual origin rules are yet to be finalized for which intense negotiations are going on for the last seven years.
- ❖ **Agreement on Pre-shipment Inspection (PSI).** It provides for pre-shipment inspection to avoid delays and to resolve disputes.
- ❖ **Agreement on Import Licensing Procedures.** It lays down rules for issuance of import licenses in respect of goods requiring license.
- ❖ **Agreement on Technical Barriers to Trade (TBT).** It provides that product standards should be based on scientific information and evidence and should not be so applied as to cause unnecessary obstacles to trade.
- ❖ **Agreement on the Application of Sanitary and Phytosanitary (SPS) measures.** It provides that sanitary and phytosanitary regulations are not so formulated and applied as to create unnecessary obstacles to trade.

## **5. Trade Facilitation in India: current scenario**

India has several problem areas in Trade Facilitation and there are substantive Transaction Costs involved in trading with India. While some impressive gains have been made over the last decade in terms of eradicating transaction costs, a lot of work still needs to be done to bring India up to the global standards in this area. The major work will involve simplification of export/import procedures and streamlining customs procedures and improving port logistics. Another major area of work will involve bilateral and multilateral initiatives that work towards agreements on Mutual Recognition (MRA) of Standards and Pre-shipment Inspection (PSI).

### ***Export and Import Procedures***

In spite of major trade liberalization introduced since June 1991, the administrative procedures associated with trade are probably the most complex and irrational procedure-bound in the world. Table I shows that in order to export, one needs to obtain 258 signatures, make 118 copies of the same information, keypunching of which takes 22 hours. It of course, involves dealing with a multitude of GoI agencies separately. This evokes hardly a protest from established exporters who have a knack of going around the system and having prompt clearance by paying bribes. But for the new global players, this is posing a major irritant. Moreover, the Government should promptly remove a major source of complex administrative procedures and corrupt practice. Table 1 illustrates the sheer wastage of time (and escalations of costs involved with wastage of time) to get export clearance in India

**TABLE I**  
**Documents Required for Export Clearance**

Documents	No. of Copies	No. of Signatures Required	Time Required for Typing
<b>TOTAL</b>	<b>118</b>	<b>258</b>	<b>22 hours</b>
1. Proforma Inv.	4	4	1 hour
2. Buyers Order	8	16	1 hour
3. Letter of Credit	<u>1</u>	<u>4</u>	<u>1 hour</u>
Total	13	24	3 hours
<u>Shipper's Documents</u>			
4. Shipping Instructions	2	2	1/2 hour
5. Commercial Invoice	11	27	2 hours
6. Packing List	10	26	2 hours
7. GRI (Exch. Cont.)	2	4	1/2 hour
8. Freight Certificate	2	2	5 minutes
9. Origin Cert. Form 'A'	2	2	1/2 hour
10. AR4/AR4A	2	4	1/2 hour
11. G. Receipt	3	6	15 minutes
12. AR4 or AR4A	4 or 5	16 or 20	1/2 hour
13. T. Tax (BAHETI)	2	3	10 minutes
14. Inspection Certificate	2	2	15 minutes
15. Insurance	<u>3</u>	<u>3</u>	<u>2 hours</u>
Total	46	101	9 hrs. 15 min.
<u>Clearing Agent</u>			
16. Shipping Bill	10	72	1 hour
17. Carting Order	4	5	15 minutes
18. Forwarding Note	2	7	10 minutes
19. SPL. Custom Inv. (Visa)	2	4	15 minutes
20. G.S.P.	4	4	1 hour
21. Meas. Certificate	4	4	1 hour
22. Fumigation Certificate	3	3	15 minutes
23. Container Load Plan (CLP)	<u>3</u>	<u>3</u>	<u>1/2 hour</u>
Total	31	105	3 hrs. 40 min.

Documents	No. of Copies	No. of Signatures Required	Time Required for Typing
<b>TOTAL</b>	<b>118</b>	<b>258</b>	<b>22 hours</b>
<b><u>Carrier</u></b>			
24. Railway Receipt	2	2	10 minutes
25. N. Forms	2	2	10 minutes
26. Mate's Receipt	3	3	10 minutes
27. Bill of Lading	18	18	1 hour
28. Freight/Cargo Manifest	<u>2</u>	<u>2</u>	<u>4 hours</u>
<b>Total</b>	<b>27</b>	<b>27</b>	<b>5 hrs. 30 min.</b>
<b><u>Bank</u></b>			
29. Application to Bank for Negotiation	<u>1</u>	<u>1</u>	<u>1/2 hour</u>
<b>Total</b>	<b>118</b>	<b>258</b>	<b>22 hours</b>

Source: Dr. Jayanta Roy

### *Cargo Dwell time and Port/Airport logistics*

The current performance of India's Ports and Airports are far below global norms, and remain an impediment to India's greater integration with the world economy.

#### Typical Cargo Dwell Time

Transaction	Location	Norm
<b><i>Air Freight</i></b>	<b><i>Delhi Airport</i></b>	
Export	2.5 days	Less than 12 hours
Import	15 days	Less than 12 hours
<b><i>Containerized Sea Freight</i></b>	<b><i>Mumbai</i></b>	
Ship Waiting Time	3-5 days	Less than 6 hours
Export Dwell Time	3-5 days	Less than 18 hours
Import Dwell Time	7-14 days	Less than 24 hours

Source: Dr. Jayanta Roy

The table above clearly shows that premier Indian entry points i.e. Delhi and Mumbai perform far below par of International norms, and thus reforms are urgently needed.

## **6. Proposals for Trade Facilitation in WTO in the Indian context**

### ***Article X of the GATT***

Article X requires Members to publish all laws, regulations, judicial decisions and administrative rulings relevant to importing and exporting in a manner as to enable governments and traders to become acquainted with them. The text of Article X further elaborates that the laws, regulations, judicial decisions and administrative rulings could pertain to. These include classification or valuation of products, rates of duty, taxes or other charges; requirements, restrictions or prohibitions on import or export; on transfer of payments related to imports or exports and on sale, distribution, transportation, insurance, warehousing, inspection, exhibition, processing, mixing and others related to export or import. Article X also requires Members should publish all trade agreements affecting international trade policy.

### ***Proposals based on Article X***

Countries that have given proposals on Article X include the European Communities (G/C/W/363), Japan (G/C/W/376), Korea (G/C/W/377) and Canada (G/C/W/379).

The key issues in the proposals are related to:

- ❖ Advance rulings
- ❖ Use of electronic media
- ❖ Enquiry points
- ❖ Consultative mechanism
- ❖ Appeals.

### ***Advance rulings***

India has set up the Authority for Advance Ruling by the Finance Act 1999. The scheme of advance ruling has become fully operational from 4th February 2004. The ruling by the

Authority can be on classification, valuation and applicability of duty exemption in respect of export, import, production and manufacture. Despite this positive move, the scope of advance ruling has been limited. Only foreign firms which want to invest in India through joint ventures or wholly owned subsidiaries, or Indians who are getting into joint ventures with foreign firms can ask for advance ruling, such a provision is not made available to a solely-Indian owned company. While this sends a very strong signal to foreign investors into the Indian market, it does not objectively address the concern of Trade Facilitation. Solely solely Indian owned companies, many of which are small to medium scale players, undertake most of India's importation. It is accepted facts that small to medium scale companies are far more susceptible to high transaction costs than larger players. Keeping such Indian stakeholders outside the purview of the Authority for Advance Ruling will be counter productive to the goals of trade facilitation.

### **Use of electronic media**

The CBEC, the DGFT and the Reserve Bank of India are using the electronic media very widely for dissemination of information, though there is room for improvement. Some positive suggestions are the use of online training modules for private stakeholders, guidelines for best practices on the website and interfaces for information at the regional Port/Airport level.

### **Enquiry Point**

As of now there is no officially designated inquiry point for traders. India should immediately start work on creating such a single window enquiry point that is online (this feeds into the use of electronic media). Such a single window system will go a long way in reducing information costs of trade in India

### **Consultative Mechanism**

The Kelkar Committee Report recognized the acute need for a consultative mechanism. The Kelkar committee has thus recommended, 'An institutional mechanism, namely

Standing Committee on Procedures chaired by Chairman CBEC and including trade and industry representatives, should be established to identify and resolve the problem areas in present procedures and evolve new procedures on a need basis'. While the Government has accepted the recommendations of the Kelkar Committee Report, it is yet to fully implement many recommendations made by it.

### **Appeals**

India has an excellent institutional mechanism dealing with appeals protesting the decision of authorities dealing with customs and related assessment problems. The mechanism allows appeals at various levels up to the highest of Supreme Court. The right to make such appeals are enshrined legally under the aegis of the Customs Act of 1962. However, it must be kept in mind that the transaction costs (including the cost 'time' element) in legal disputes in India are substantial and are often beyond small to medium players. Initiative should be taken to evolve some sort of mechanism whereby most minor disputes in terms of valuation and assessment are dealt with expeditiously.

### ***Article VII of the GATT***

Article VIII of the GATT requires contracting parties to impose fees and charges in relation to import and export in a manner that it is limited to the cost of service provided. It also requires parties to recognize the need for reducing the number and diversity of fees and charges and the incidence and complexity of import and export formalities. Article VIII also provides an illustrative list of the types of fees and charges, formalities and requirements relating to consular transactions, statistical services, analysis and inspection, and licensing which are imposed by governmental authorities beyond Customs.

### **Proposals based on Article VIII**

Proposals regarding fees and formalities were made by Canada (G/C/W/397), Colombia (G/C/W/425), European Communities (G/C/W/394), Hong Kong, China (G/C/W/398), Japan (G/C/W/401) and Korea (G/C/W/403).

The key proposals relate to:

- ❖ The levy of fees and charges
- ❖ Provisions to reduce documentation requirements
- ❖ Standard processing times
- ❖ The use of international standards.

### **Levy of Fees and Charges**

The GATT requires that fees and charges related to Import/Export be based on the actual cost of service provided by the Government, not on ad valorem basis. While most fees and charges imposed by authorities in India are indeed nominal and based on the cost of actual services provided, there are some anomalies i.e. some fees and charges are based on the value of goods (i.e ad valorem). It is important that such anomalies are removed from the system.

### **Provisions to reduce documentation requirements**

India has taken a significant towards reducing documentation requirements through the harmonization of the customs code. Since February 2003, classification codes at the eight-digit level used by the Central Board of Excise and Customs (for purposes of tariff), the Directorate General of Foreign Trade (for purposes of determining importability/exportability) and DGCI&S (for statistical purposes) have been unified to evolve a Combined Nomenclature based on the HS classification.

### **Standard processing times**

The CBEC has set basic guidelines on standard processing times. However, it must be kept in mind that such guidelines serve only as an intent on the part of CBEC. India has several customs stations and the level of infrastructure varies considerably between them. In order for India to fully implement such guidelines, substantial investment will have to be made in various fronts, including the provision of physical infrastructure and training for personnel. It is obvious that India will require help on such capacity building activity.

### **The use of international standards**

In order to fully meet International Standards as set by the Revised Kyoto Convention, India will need to implement several reforms in the area of customs administration. Such reforms will involve the following:

- ❖ Upgrading the existing EDI system to move towards a totally paperless mechanism for declaration. It should also create mechanism to incorporate the latest technology for online payment of duty. Another major feature should be an interface that allows interconnectivity of the EDI to all ports and airports, not stand-alone system as are now in place.
- ❖ Incorporating the best practices of risk management and assessment systems in the customs administration, as envisaged by the Kelkar Committee recommendations.
- ❖ Move towards and universal Green Channel system.

Trade transaction costs can vary also according to characteristics of the trader, such as the size of the trading firms. Smaller firms, which engage less frequently than bigger competitors in cross-border transactions, have several disadvantages:

- ❖ They will tend to have fewer specialized personnel, so that they might have to devote relatively more resources towards acquiring knowledge on trade formalities and administering cross-border procedures
- ❖ They might have weaker capital reserves, so that unforeseen delays at the border, tying-up a part of their working capital, can affect their liquidity and force them to seek expensive interim financing
- ❖ Small firms might not have a sufficiently rich track record with customs authorities, so that they might be classified in a higher risk category and, hence, more frequently subjected to costly documentary and physical cargo checks.

### **7. Developing Country Perspective on Transaction costs and Trade Facilitation**

Developing countries expressed several reservations that have to be addressed if the negotiations at the multilateral level on Trade Facilitation are to be engaged in constructively.

Almost all developing countries have expressed fears that obligation arising out of negotiations would be expensive and difficult to implement. The cost of administering such commitments and after their implementation and training personnel to meet the needs of such administration would also be substantial (see section 9 for a overview of such costs). They will require investing in new technologies for customs management, for managing ports and airports and developing state of the art logistical support.

A related concern for some countries, including South Asian countries like India, Bangladesh, Pakistan and Sri Lanka, is that additional rules might involve institutional changes that would exceed implementation capacities, and increase the likelihood of dispute settlement action for failure to follow new WTO obligations. In essence, the developing countries fear that a multilateral agreement on Trade Facilitation will become the proverbial albatross around their necks, with developed world countries using it as a Non-Tariff Barrier (NTB).

Yet another developing world concern is centered on the appropriateness of attempting to compel institutional improvements through rule making. In contrast to policies, which can be changed quickly, institutional improvements require sustained effort over a long period, and countries at different stages of development have different needs, priorities, and capacities to implement global rules.

Of course, this constraint can be overcome through the WTO mechanism of Special and Differential Treatment (SDT) i.e. provide for substantial transition periods for developing countries to meet the required standards. Other agreements that have involved, in part, institutional development along with changes in rules and policies (e.g. SPS Agreement) have also had in-built Special and Differential Treatment (SDT) clause. Unfortunately, the developing countries have often experienced NTB's with regards to SPS despite the spirit of SDT being a part of SPS Agreement. Thus, history does not provide much confidence to developing states on SDT. A way forward will be to incorporate a holistic and detailed SDT clause that is obligatory and enforceable on developed countries.

Another issue is of technical assistance and capacity building. Most developing countries feel that promised technical assistance to help them implement these arrangements might in actuality not be forthcoming. Developing countries fear that they would be left to their own devices to finance new regulations. The historical experience for developing countries vis-à-vis technical assistance is that it is slow to be delivered, and more often than not inadequate to address their problems. Such an experience does not inspire much confidence for developing states.

Finally, according to a few developing countries (India among them), the dispute resolution mechanisms, designed for specifically for enforcement of trade policies through trade penalties levied by the aggrieved country, are inherently unsuitable for use in enforcing institutional progress.

### **9. Agreement on Trade Facilitation: The benefits of multilateral agreement**

India's traditional stand on Trade Facilitation at WTO has been that it should be a voluntary (as opposed to compulsory) yardstick, and not an Agreement subject to compulsory standards thus party to dispute settlement mechanisms. India's stand stems from the legitimate concern that some members might use Trade Facilitation as a tool for retaliatory market protection. While such a concern is logical, time has come to also take a fresh look at the advantages of Trade Facilitation in a multilateral context.

The key advantages of achieving a WTO undertaking in the area of trade facilitation would be renewed political impetus to make border controls more efficient and strengthened international coherence in tackling the issue. Some specific advantages of this are discussed below.

- ❖ The need to enhance efficiency in order to face an increasingly complex international trading environment has been an important driving force behind Customs reforms undertaken at national level around the world in recent years. However, it has frequently not gone far enough to do away with deeply entrenched outdated institutional settings and cumbersome procedures. To be successful, a trade facilitation agenda needs wide political support and the sustained commitment of

those involved in the formulation and implementation of trade policy, both within the administration and among the economic actors. Decisively launching the reform process and keeping it on the right track is crucial for achieving well-designed trade facilitation reforms that pay off quickly and end up being self-sustaining. Overcoming resistance to change from vested interests requires a considerable political effort that is not easy to muster without a high level of motivation. Trade facilitation rules in the framework of the WTO could offer this missing impetus at the multilateral level, providing an external discipline to ensure continuing domestic political commitment and shield from temptations to backtrack.

- ❖ Coherence is also essential. Trade facilitation efforts, national or international, need to be consistent between different policy areas. Partial approaches that lack coherence appear a sure recipe for failure. Speeding up Customs clearance, for example, will not help move goods faster if there is no road system to carry them. It is also a question of better co-ordination between the narrow area of trade facilitation and the areas of Customs valuation, rules of origin, import licensing or sanitary controls. A coherent multilateral setting would also provide a solid background for designing well targeted technical assistance and capacity-building projects, overcoming regional divides, ensuring that the projects' different components are mutually supportive and better targeting aspects of co-operation between border agencies of concerned countries.

### **8. The cost of implementing transaction cost reforms for Trade Facilitation.**

Reducing Transaction Costs through trade facilitation will in many cases involve upfront investments and higher operational expenses for governments and businesses. As customs services play a vital role for the functioning of border procedures, their modernization and reform often constitutes an important element in promoting trade facilitation. The magnitude of the implementation costs varies according to the size of the customs service, existing customs infrastructure and available human resources. Moreover the general economic environment plays an important role. One frequent element of trade facilitation in

developing countries is, for example, the introduction of automated customs systems, which crucially depends on the availability of functioning basic infrastructure, such as communication facilities and stable electricity supply.

Given the substantial costs involved, many developing countries appreciate assistance from bilateral and multilateral agencies to help them improve their customs services. In 1999, the World Bank extended 15 adjustment loans with components addressing customs reform. For example, USD 78 million was devoted to customs improvements in six southeastern European countries and USD 35 million towards export development in Tunisia. Moreover, a five-year project for customs modernization in Bolivia has been financed from several sources with about USD 38 million since 1999, of which about USD 25 million is being spent for institutional improvements and USD 9 million for computerized systems. One major type of investment concerns customs automation systems. According to UNCTAD figures the costs of introducing automated customs system could sometimes be as high as USD 20 million provided that countries develop their own system, and less than USD 2 million for the widely-used Automatic System for Customs Data (ASYCUDA) system. In Chile, the total investment cost of implementing an automated customs system amounted to USD 5 million in the early 1990s, while in Jamaica, the introduction of the ASYCUDA system in connection with overall requirements analysis, the development of software suites, data communication equipment and computers cost about USD 5.5 million.

Once an improved customs system is running, there are operating expenses that in some countries are passed on to traders in the form of higher user fees, while in other countries these higher costs are financed from government budgets. Moreover, systems have to be updated from time to time in order to reflect the latest technological developments. The costs for such updates can be of a similar magnitude as the initial investments to introduce a new system. For example, Chinese Taipei updated its air cargo clearance system in 2000 at a cost of USD 5 million, and is scheduled to improve its existing ocean-going cargo system in 2004 for about USD 6.5 million. In the Philippines, updating the existing automated system from a DOS to a Windows-based platform cost about 40 per cent of the original system installation.

## **Conclusion**

While Trade Facilitation and reduction in Transaction cost is something that cannot be ignored and indeed unilateral initiatives for the same are need of the hour, there are some issues and concerns regarding a multilateral framework for it.

Perhaps the most important issue is to do with resources and capacity building. South Asian countries like Bangladesh and Pakistan will require enormous resources to upgrade their entire trade related infrastructure and institutions in keeping with the holistic agenda of trade facilitation. The requirement for resources becomes particularly acute given the holistic nature of trade facilitation. Trade Facilitation in the true sense of the term covers areas as diverse as logistics, customs and procedural reform, trade and market information, development of transport infrastructure and other purely logistical issues such as refrigerated warehouses for perishables etc. For reduction in transaction costs and trade facilitation to be truly effective, all of these issues need dealing with eventually. It is precisely for this reason that effective implementation of trade facilitation reforms for larger countries like India is even more of concern. Given India's sheer geographical spread, the number of ports, airports and land entry points (many of them small and ill equipped), the relative diversity of goods and services traded (by developing country standards), the task of implementation of an trade facilitation related program is enormous. Needless to say, the requirement in terms of technology, investment and manpower is also equally huge. Without effective capacity building help from developed countries, large emerging states like India and smaller developing countries with severe resource constraints like Bangladesh will find it difficult to implement reforms related to trade facilitation in a holistic manner.

It is obvious that issues related to trade facilitation are an essential component of unilateral trade liberalization; hence it has featured prominently in most World Bank adjustment loans and IMF standby programs. It is also evidence of the seriousness with which multilateral and Governmental institutions emphasize the role the diverse aspects of trade facilitation. The existence of a multilateral framework (and therefore obligation) will provide much-needed external stimulus to unilateral reforms to reduce transaction costs. As discussed in section 7, such a external stimuli has unique advantages in terms of negotiating domestic ennuui and

opposition. Developing countries have legitimate concerns over the exact nature and framework of any multilateral initiative on Trade Facilitation, and these need to be accommodated to move the agenda forward, some suggestions are:

- ❖ Effectively delink Trade Facilitation from the Singapore Issues (i.e. total unbundling). Trade Facilitation should be a stand-alone issue, not even linked to Government Procurement (let alone investment and competition).
- ❖ Address developing country concerns on use of Trade Facilitation as a NTB by incorporating a detailed (and obligatory) mechanism for SDT.
- ❖ Deal with the issue of resource constraints in small developing countries and the sheer scale of requirements large emerging countries head on. Create effective capacity building and assistance measures.

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