
Trade Facilitation: Progress and Prospects for the Doha Negotiations

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It is widely acknowledged that lowering the costs of trading can be as important as lowering tariffs in foreign markets.¹ Too often, outdated and inefficient processing systems, procedures, and infrastructure can result in high transaction costs, long delays in the clearance of goods, and opportunities for administrative corruption. Hummels (2001) estimates that cutting delivery times by one day (by reducing waiting time in ports or delays in customs) would reduce the average landed costs of goods around the world by 0.8 percent. Inefficiencies in the processing of trade adversely affects a country's competitiveness by raising the cost of imported inputs and saddling exports with dead weight inefficiencies. Countries that facilitate the movement of imports and exports, by contrast, are likely to attract investment and help their small and medium-sized enterprises participate and compete in the international trading system.

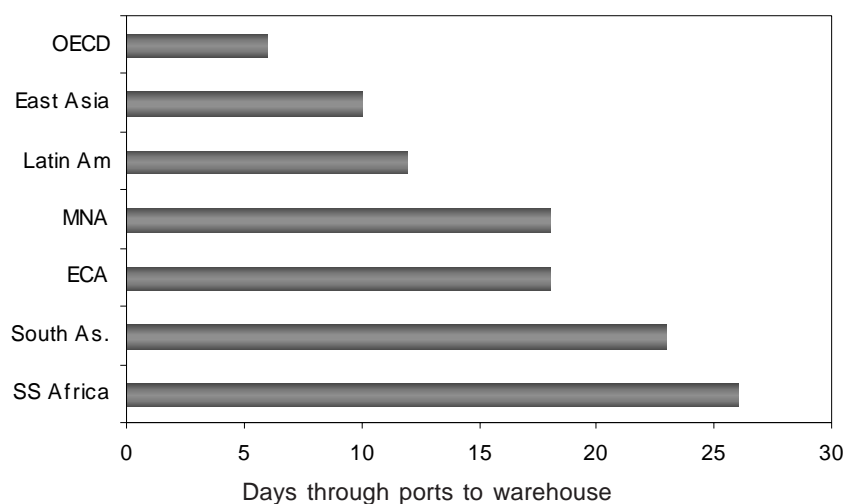
Most developing countries could do better

Many developing countries lag far behind the Organization for Economic Cooperation and Development (OECD) average in the time it takes to process imports and exports (figures 1a and b), putting their traders at a significant disadvantage and further pressuring already stretched port and transport infrastructure.

Evidence suggests that improvements in border clearance systems and procedures can significantly reduce delays and lower traders' transaction costs. At the same time, such improvements typically enhance revenue collection and the level of community protection provided by border institutions (Table 1). For these reasons, trade facilitation reform based on better customs processing and improved border management procedures has become an important development issue in recent years, as reflected in increased levels of investment by governments and donors alike. Its importance is also reflected in numerous provisions related to trade facilitation in recent bilateral and regional trading agreements and in the push by many countries for multilateral rules on trade facilitation within the World Trade Organization (WTO).

The decision of the WTO General Council in July 2004 to launch negotiations on trade facilitation was not taken lightly. Many developing countries had serious reservations about whether new WTO disciplines were a good way to promote reform. This note examines progress in the negotiations and argues that developing countries can use new WTO obligations to further their domestic reform agenda

Figure 1a. Port and customs inefficiency drive up the cost of imports



Source: World Bank, Doing Business 2006.

rather than distort it—provided they develop a coherent negotiating strategy based on securing agreement to a range of practical measures to facilitate trade and make it easier for traders to compete in regional and international markets.

Trade facilitation has always been a WTO concern

Provisions and obligations related to trade facilitation have been a central part of the GATT/WTO system since 1948 (Box 1).

The desirability of revisiting the WTO’s existing trade-facilitation measures was first proposed in 1996 at the Singapore Ministerial Conference. Five years later, at the 2001 Ministerial meeting in Doha, WTO members decided to launch negotiations on trade facilitation provided that members could reach explicit consensus on the modalities for negotiation at the 5th ministerial meeting in Cancun, Mexico, in September 2003. The negotiations in Cancun broke down in acrimony when members could not reach agreement on the four so-called Singapore issues, one of which was trade facilitation.² At a meeting of the WTO General Council in July 2004, agreement was finally reached to launch negotiations on trade facilitation.

But it was a reluctant consensus. While almost all WTO members acknowledge the benefits to be obtained by investing time and energy in improving trade facilitation, several were reluctant to commit to a series of new multilateral rules while they are still struggling to implement existing commitments. Several members believed that they

lack the necessary capacity and resources to implement additional obligations. Moreover, many developing country members were concerned that new rules on trade facilitation may expose them to action under the WTO's dispute-settlement mechanisms.

Modalities for negotiations on trade facilitation

The modalities for negotiations on trade facilitation—Annex D of the package that emerged from the July 2004 WTO Council meeting—were therefore constructed in such a way as to address and protect the interests of developing-country members, particularly least developed countries (LDCs), through four unique features.

- The scope of the negotiations is limited to clarifying and improving the relevant aspects of Articles V, VIII, and X of the General Agreement on Tariffs and Trade (GATT) with a view to further expediting the movement, release, and clearance of goods, including goods in transit. Members explicitly narrowed the definition of trade facilitation to “the simplification and harmonization of international trade procedures.”³
- The modalities do not necessarily envisage binding rules as the outcome of negotiations. “It is understood that [the negotiations are] without prejudice to the possible format of the final result of the negotiations and would allow consideration of various forms of outcomes” .
- Any commitments ultimately negotiated are to be calibrated to the implementation capabilities of developing-country members. LDC members will not be expected or required to undertake commitments that are inconsistent with their individual development, financial and trade needs, or their administrative and institutional capabilities. Likewise, they will not be obliged to undertake investments in infrastructure beyond their means.

Table 1. Some benefits of enhanced trade facilitation for governments and traders

Governments	Traders
<ul style="list-style-type: none"> • Increased effectiveness of control methods • More effective and efficient deployment of resources • Correct revenue yields • Improved trader compliance • Encouragement of foreign investment 	<ul style="list-style-type: none"> • Lower costs and shorter delays • Faster customs clearance and release through predictable official intervention • Simpler commercial framework for domestic and international trade • Enhanced competitiveness

Source: UNECE 2002. Trade facilitation: An introduction to the basic concepts and benefits, 2002 (www.unece.org).

Box 1. Existing GATT Trade Facilitation-Related Articles

Article I (*most-favored-nation treatment*) requires that imports from, or exports to, any WTO member must receive nondiscriminatory treatment in the application of customs duties and customs formalities.

Article V (*freedom of transit*) provides a basis for an environment in which the transit of goods is free from barriers to transport and discrimination among suppliers, firms, and traders from different countries.

Article VIII (*fees and formalities connected with importation and exportation*) relates in general to customs clearance procedures and includes a general commitment to nondiscrimination and transparency in fees and rules applied to goods crossing borders.

Article X (*publication and administration of trade regulations*) contains general commitments to assist in ensuring timely publication of regulations regarding imports, including fees, customs valuation procedures, and other rules. It also provides general obligations to maintain transparent administrative procedures for review of disputes in customs.

Trade facilitation is addressed in other WTO obligations and provisions, as well, including special agreements on matters such as Customs Valuation, Import Licensing, Preshipment Inspection, Rules of Origin, Technical Barriers to Trade, Sanitary and Phytosanitary Measures, and Intellectual Property Rights.

- The modalities duly link implementation of any commitments to the receipt of technical assistance and support for capacity building both during the negotiations and in the course of implementation. Indeed six of Annex D's ten paragraphs are devoted to the issue of technical assistance and capacity building.

In one sense, the content of the Annex D document, developed in the weeks leading up to the July 2004 General Council meeting, was a victory for the developing-country members in that its provisions clearly shelter them from obligations that are beyond their means and capacity. At the same time, the document commits the developed countries to providing appropriate technical assistance. However, these same provisions may leave LDCs in a position where they are required to implement almost nothing of substance, which may encourage them to postpone necessary improvements to their border processing regimes and so prolong their marginal status in the international trading system.

The trade-facilitation negotiations—progress to date

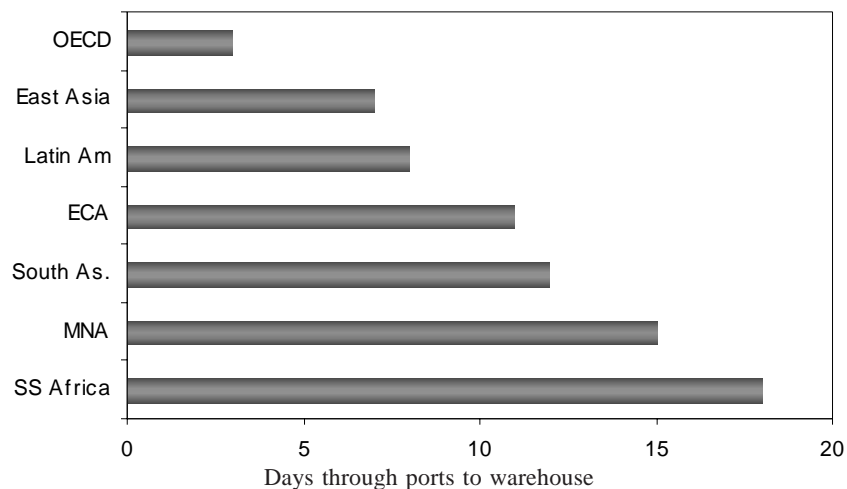
In October 2004 the WTO Trade Negotiations Committee established a Trade Facilitation Negotiating Group (TFNG) under the chairmanship of Ambassador Yacob Muhamad Noor of Malaysia. Since beginning its work in November, the group has met at four- to six-week intervals. As of the end of September 2005, WTO members had submitted more than 50 proposals, focused on clarifying and improving Articles V, VIII and X. To assist members to analyze the proposals and to provide a basis for further discussion within the TFNG, the WTO Secretariat has prepared a compilation or summary document (TF/TN/W43) that is updated after each meeting of the TFNG.⁴

The proposals submitted to date, covering all aspects of GATT Articles V, VIII, and X, have stimulated productive discussion and debate within the TFNG. Proposals range from relatively straightforward issues that are likely to be incorporated in any possible new agreement (such as employing risk-management principles to assess the risks posed by imported cargo), to more difficult and resource-intensive measures, such as the implementation of electronic single-window regimes. Significant time has been devoted to discussing the needs and priorities of developing-country members for technical assistance and capacity building.

Overall, the negotiations have been conducted in a spirit of cooperation and compromise not always evident in other areas of negotiation within the WTO. With

Figure 1b. Port and customs in efficiency drive up the cost of export

Signatures required to export



Source: World Bank, Doing Business 2006.

most of the key proposals now in hand, negotiations will shift toward a process of clarifying those proposals, and then narrowing and refining the list of measures that are likely to be agreed on.

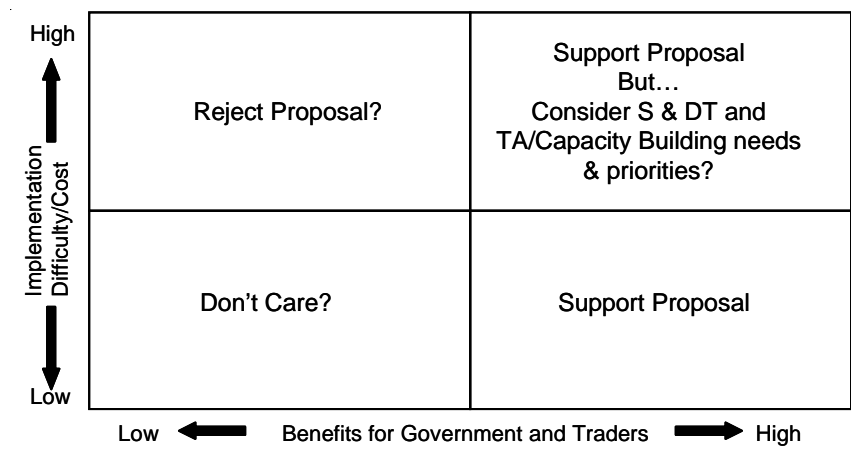
Support from international organizations

The modalities encouraged international organizations—including the International Monetary Fund, OECD, UNCTAD, World Customs Organization (WCO), and the World Bank—to “undertake a collaborative effort.” To date, the international organizations have focused on three key areas: (a) promotion and advocacy to highlight the benefits of trade facilitation and encourage members to seek a positive and ambitious outcome; (b) sharing of information on relevant tools, instruments, and international standards; and (c) providing advice and assistance to help members determine needs and priorities for technical assistance related to the negotiating agenda.

Noteworthy in this regard is OECD’s ongoing work on the cost of introducing and implementing trade-facilitation measures. The WCO, too, has supported the negotiations by providing information on its instruments and tools, including the Revised Kyoto Convention and its Time Release Study methodology. The WCO also has partnered with the WTO secretariat, UNCTAD, and the World Bank to contribute its expertise through workshops, seminars, and other events throughout the world. UNCTAD has been equally active, providing advice and guidance to

Figure 2. Governments should look for high benefits, low cost reforms

WB/WCO proposal analysis grid



Source: World Bank and World Customs Organization.

members based on its capacity building experience and hosting or contributing to a range of relevant educational and informational events in Geneva and around the world. The World Bank's support for negotiations has been focused on providing balanced advice to negotiators on the benefits and consequences of an ambitious trade-facilitation agreement. It has also helped developing-country negotiators overcome some of the practical constraints they face.⁴ The World Bank's engagement has been premised on the view that much of the technical expertise necessary to examine and assess proposals as they are tabled within the TFNG already exists in members' capitals and that real-time contact between Geneva-based negotiators and content specialists in the capital will help developing-country members gain confidence in their ability to implement the measures under negotiation.

Several points of nascent agreement have emerged from the discussions of technical assistance and capacity building:

- Although needs, priorities, and capacities vary enormously from region to region and from country to country, there is a significant degree of commonality and much agreement about the potential benefits of the proposals tabled to date.
- Most proposals are positive and have been welcomed by government officials and private sector representatives. Fears of excessive costs and a lack of technical capacity associated with implementation may have been overstated. This not to suggest that members would not benefit from well-targeted capacity building support, but that many of the measures currently proposed can be implemented with relatively modest amounts of technical assistance and capacity building support. The assessments of members' home-based specialists have revealed that many of the measures proposed to date within TFNG would ultimately have been introduced by members' customs administrations as they represent best practice in customs and border management and are frequently included in existing internationally agreed instruments.⁵
- Content-matter specialists have also noted that many of the barriers to implementation are domestic (insufficient political commitment to reform and poor interagency cooperation are two examples) and thus not susceptible to resolution through the sort of technical assistance and capacity building that have been under discussion.
- Few countries are starting from scratch as most are already engaged in some form of reform and modernization of their border processing regimes (often supported by significant donor support) and therefore any technical assistance and capacity building support that is ultimately provided will need to complement rather than displace existing efforts.

With respect to the proposals tabled within the TFNG, many participants have noted that it is easier to identify needs for assistance than it is to ascertain the precise form and cost of that assistance. Donor organizations have a comparative

advantage in this area, because they possess much more experience and expertise in developing and costing technical assistance and capacity building activities. Clearly, concerns about the potential costs associated with implementing a new agreement have been at the center of the debate within the TFNG and a clearer understanding of exactly what is required will greatly facilitate negotiation of a meaningful agreement.

Inspired in part by the above conclusions, the World Bank will undertake, in the first half of 2006, a series of studies to provide more detailed information to members about the actual costs of closing the gap between existing systems and procedures and those envisaged under a new trade-facilitation agreement.

In the coming months negotiators within the TFNG will focus on refining the measures that have been proposed to date. Essentially, they will weigh up the costs and benefits of individual proposals and measures based on their own needs and priorities. Although this is often a complex process involving the participation of many national stakeholders the basic decisions that can be made are illustrated by the proposal-analysis grid prepared by the WCO and the World Bank (figure 2). Members must decide whether the potential benefits to their governments and traders justify the cost and effort of implementation. To date, when content-matter specialists have been involved in the assessment of the various proposals, the vast majority of proposals have been deemed worthy of support; that is, the specialists placed them in one of the two right-hand quadrants of the grid.

Challenges ahead: prospects for a new WTO trade-facilitation agreement

The key to a positive outcome will depend in large part on the capacity of developed country members and the international organizations to deal with the remaining concerns of developing and LDC members about the potentially high costs of implementation and the availability of technical assistance and capacity building support. The difficulty is complicated by the fact that the precise content of a new agreement is not yet clear. For example, several countries have submitted proposals relating to the implementation of a “single window” at which traders might obtain all of the permits and clearances required for the importation or exportation of goods. Depending on the definition ultimately employed in a new agreement, members’ needs for technical assistance and capacity building related to the single window could vary from almost nothing to many millions of dollars.⁶ Likewise, the scale of a country’s needs for technical assistance and capacity building will depend on the provisions for special and differential STDT treatment that might apply to specific measures.

In the continuing absence of precise information on the scope, content, and magnitude of the technical assistance needs facing members it will be difficult for

developed-country members and international organizations to make open-ended commitments about the provision of technical assistance and capacity building.

A second complication is related to donors' concerns that the imperatives of a new WTO agreement on trade facilitation might subsume or displace their existing projects and development assistance activities agreed through existing bilateral and multilateral channels. To move away from this approach would be to ignore the focus on "demand driven" assistance that has characterized donor support in recent years.

Differentiating between the specific issues on the negotiating agenda and comprehensive trade-related reform is sometimes extremely difficult. For example, many customs and border clearance systems involve a series of separate but interdependent activities; several members have expressed concerns about accepting new obligations that may require changes in underlying technical and administrative systems. Identifying critical interdependencies among the specific WTO measures under negotiation will be an important element of the work being done by members and international organizations to determine needs and priorities for technical assistance and capacity building support.

The World Bank and other multilateral and bilateral donors have reported on the scale and scope of their trade-facilitation activities in meetings of the TFNG. Such information has raised members' awareness of the scope and scale of donor support already available. The process of sharing such information will have to continue in the coming months, because obtaining an ambitious agreement will require universal confidence that developing-country members will be able to obtain the help they need to implement the agreement.

While the nature and shape of a suitable international mechanism to coordinate and manage this process is still being discussed within the TFNG, it is generally accepted by WTO members that it will need to ensure effective cooperation and coherence between all the different players and meet certain key criteria. In essence, to allay the concerns of developing-country and LDC members, the coordination mechanism must have the following attributes:

- A robust process for identifying needs and priorities and matching those needs and priorities with technical assistance and capacity building support; and
- Sufficient flexibility to allow bilateral and multilateral donors to contribute according to their capacity, resources, priorities, and comparative advantage⁷; and
- The ability to build on or complement, rather than replace or duplicate, existing bilateral and multilateral mechanisms developed by donors over many years and established in close consultation with client governments; and
- Economies of scale (for example, if many countries determine that they need technical assistance to introduce a measure such as risk management, it would seem sensible to develop a core package that can then be tailored to meet the specific needs of individual members); and

- Compatibility with other relevant international tools, standards, and trade facilitation developments;⁸ and
- As least resource intensive as possible to ensure scarce resources are not wasted on unnecessary administrative activities; and
- Incorporate some form of robust evaluation and review mechanism.

The need to develop effective mechanisms to coordinate and manage the delivery of technical assistance associated with the implementation of the TF agreement is well acknowledged by all donors. Such mechanisms should build on existing initiatives at the multilateral and bilateral levels and be consistent with the broad Aid for Trade initiative that is underway. Of critical importance at the moment is that members continue to define the content of a new trade-facilitation agreement in full confidence that their concerns about the long term availability of technical assistance needs are understood and that a suitable mechanism will be developed to deal with their legitimate concerns about implementation capacity.

Conclusion

The decision taken by the WTO General Council in July 2004 to launch negotiations on trade facilitation reflects a widely shared view that reforms to facilitate the movement of imports and exports and reduce costs and delays make good development sense. To make the most of the opportunity presented by the launch of negotiations, developing countries (and particularly the least developed) should view the WTO negotiations as an opportunity to further their domestic reform agenda and accelerate the implementation of measures already accepted as good practice and incorporated in a range of internationally agreed instruments. To reinforce that view of the negotiations, developing-country negotiators in Geneva should work closely with content matter specialists at home to develop a coherent negotiating strategy that focuses on securing agreement on a range of practical measures that will make it easier for their traders to compete in regional and international markets.

Notes

1. The author is a Senior Trade Facilitation Specialist—in the International Trade Department of the World Bank.

2. The other Singapore issues were trade and investment, trade and competition policy, and transparency in government procurement.

3. A wider definition of trade facilitation could include all aspects of the supply chain including government regulations, business competency and efficiency, the performance of customs and other regulatory agencies, the quality and availability of transport infrastructure, such as roads, airports, ports, etc., information and communications technology, and trade-related finance and insurance services, among other things.

4. See WTO Document TN/TF/W/43/Rev 3.

5. The Bank launched a Trade Facilitation Negotiations Support Project in February 2005. It is designed to assist members who have limited resources in Geneva to provide their negotiators with real-time analysis and advice on the content and implications of proposals tabled in Geneva. The project has three components. Component I involved the development of a Trade Facilitation Negotiation Support Guide (available in English, French, and Spanish) to help members establish negotiation-support groups in their capitals and improve the level of communication between content specialists and Geneva-based negotiators. Component II consists of a series of pilot workshops designed to promote the use of the guide and to demonstrate the usefulness of capital-based support groups to Geneva-based negotiators. Pilot workshops have been conducted in Jamaica, Uganda, and Sri Lanka and the results shared with WTO members. Three more pilot workshops will be conducted in the second half of 2005. Component III will consist of a series of in-country studies of the cost of compliance focused on determining the cost of implementing a new agreement.

6. Such as the WCO's Revised Kyoto Convention on the Simplification and Harmonization of Customs practices.

7. Recent World Bank projects that have included the development of a genuine electronic single window to connect traders with relevant government agencies have ranged in cost from \$5.6 million to more than \$30 million.

8. For example, Malaysia has recently offered its customs academy for use for regional workshops, seminars, and other events during the negotiations and later implementation. Likewise, India has indicated its willingness to make its training facilities and expertise available to other countries in the region to assist with implementation of commitments that may flow from a new trade-facilitation agreement.

9. For example, at the WCO Council sessions in June 2005, the directors-general of 164 customs administrations agreed on a Framework of Standards to Secure and Facilitate Global Trade (www.wcoomd.org). The framework overlaps many of the measures under consideration in the WTO negotiations.

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