On September 14 2003, negotiations in Cancun Mexico officially broke down over the four Singapore issues. Countries could not reach explicit consensus on whether to launch talks on investment, competition, transparency in government procurement, and trade facilitation. On the one hand, Japan and Korea insisted that all four be negotiated. The coalition of the African Union, Least Developed Countries, and African, Caribbean, and Pacific countries, with the active support of Malaysia (and initially India) adamantly opposed negotiation on any of the four. The EU, a primary demandeur of starting talks on all four, proposed a compromise that only the last two issues—government procurement and trade facilitation—be considered and that the other two be dropped from the WTO work program. For its part, India agreed to the inclusion of trade facilitation. However, the other countries did not indicate any flexibility, and the stalemate led the chairman to suspend the meeting.

In the months since Cancun, an emerging consensus among negotiators is that trade facilitation alone should be the focus of negotiations. However, this consensus is not yet complete. On April 6 2004, a ‘core group’ of developing countries met with the WTO Deputy Director General for informal discussions on trade facilitation. These countries expressed their readiness to discuss trade facilitation, but only for the purpose of clarification and not in a negotiating mode. The group wanted the clarification to extend to substantive modalities for negotiations, but emphasized that negotiations must be based on ‘explicit consensus’. They were in support of dropping the remaining Singapore issues altogether from the WTO work program and called for technical assistance on trade facilitation. On the whole, the group was lukewarm with regard to discussing trade facilitation before seeing action on more urgent issues, such as agriculture.

This note looks at trade facilitation from a development perspective, and asks three questions:

- Why is trade facilitation important to the growth of developing country trade?
- What proposals for new disciplines in the WTO could contribute to improving development performance—and which ones might detract from it?
- How could new global disciplines on trade facilitation be crafted so as to promote trade without distorting national priorities?
Trade Facilitation as a Development Concern

At its broadest, trade facilitation encompasses the domestic policies, institutions, and infrastructure associated with the movement of goods across borders (see Wilson, 2004, *Trade Note* 12). This mantle subsumes ports, customs administration, transit, transportation systems for trade, and common to each of these arenas is the management of information and systems technology.

In an era of dynamic and changing global trade patterns, the costs of moving goods across international borders is as important as tariffs – if not more so – in determining the cost of landed goods. The ability of countries to deliver goods and services on time at lowest possible costs is a key determinant of integration into the world economy.

Transport costs are important relative to other trade barriers. Using 1998 data, figure 1 compared countries’ transport cost incidence for exports to the United States (the share of international shipping costs in the value of trade) to their tariff incidence (the trade-weighted ad-valorem duty actually paid). 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. Benin stands out in particular, where exports faced duties equivalent to 0.6 percent of total exports, but shipping costs represented 22.7 percent of trade. Since the passage of preferential access to the US under AGOA, the importance of transport costs relative to tariffs may have actually risen in African countries.

Transport delays can be as costly as the costs of moving goods. This can be seen through different lenses. A study by UNCTAD (2001) shows that a one percent reduction in the cost of maritime and air transport services could increase Asian GDP by US$3.3 billion. If trade facilitation is considered in a broader sense to include an improvement in wholesale and retail trade services, an additional US$3.6 billion could be gained by a 1 percent improvement in the productivity of that sector. According to a study by Walkenhorst and Yasui (2003), welfare gains as a result of a 1 percent reduction in trade transaction costs are estimated to amount to about US$40 billion worldwide.4 Hummels (2001) estimates that one-day less in delivery times— whether associated with waiting time in ports or delays in customs—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.

Figure 1. Transport costs are often higher than tariffs....

Note: Data refer to 1998. Five countries (Benin, Guinea, Soloman Island, Togo and Western Samoa) exhibited a transport cost incidence greater than 20 percent and are not shown.
Source: US Bureau of Census; Adapted from World Bank (2002).
Expediting customs clearance procedures reduces the discretionary power of customs officials, thus reducing the scope for corruption. More transparent border procedures and regulations are particularly burdensome for the many small and medium-sized firms in developing countries, including those landlocked nations with extremely difficult access to trade routes. The introduction of EDI (electronic data interchange) systems in Chilean customs led to savings of over US$1 million per month, for a system cost of US$5 million (WTO, 2000). Recent Bank research in Global Economic Prospects 2004 shows, that raising capacity in trade facilitation halfway to the global average around the world in areas related to regulatory transparency, customs efficiency, and administration of trade rules could increase trade by $377 billion.

At the same time, logistics systems also influence investment. Intra-firm trade around the world is now about 33 percent of total world trade. Multinational 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 (Chia and Dobson, 1997).

At the WTO

Trade facilitation in the WTO has a more specific and limited focus than trade facilitation for development. It is the subject of several provisions and obligations, such as (a) GATT Articles V, VIII, X; (b) Agreements on Customs Valuation, Import Licensing, Pre-shipment Inspection, Rules of Origin, Technical Barriers to Trade, and the Agreement on the application of SPS Measures. The working group discussions between the Singapore and Doha negotiations were limited to only consideration of GATT Articles V, VIII, X. These GATT Articles center on general trade principles that underpin an open trading system and include transparency, predictability, due process, non-discrimination, and avoiding unnecessary restrictions to trade.

In particular, GATT Article V (freedom of transit) provides a basis for creating an environment in which the transit of goods is free from barriers to transport and discrimination between suppliers, firms, and traders from different countries. GATT Article VIII (fees and formalities connected with importation and exportation) relates in general to customs clearance procedures and includes general commitment of non-discrimination and transparency in fees and rules applied to goods crossing borders. GATT 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.
The New Trade Facilitation Agenda

The Doha Declaration of the WTO in 2001 stated that decisions on the “modalities” for negotiation would be decided “subject to a decision to be taken by explicit consensus on modalities” at the fifth Ministerial which concluded in Cancun in September 2003. Discussions were to be limited to clarifying and improving Articles V, VIII, and X of the GATT 1994, and establishing an agreement to “further expedite the movement, release and clearance of goods, including goods in transit.” To that end, certain countries have proposed amendments to Articles V, VIII and X.

With respect to Article V (transit), Canada, the EC, and South Korea have suggested simplifying and standardizing customs procedures and document requirements, and clarifying fees and charges for customs services. The EC in particular, has suggested redrafting sections of the Article and extending its scope; expanding national treatment on modes of transport to include new modes of carriage (of oil, gas and other products via pipelines and other means); and amendments to support special and differential treatment of developing countries. It should be noted that Article V is of particular relevance to land-locked countries since it involves transit trade, but there have been no formal disputes concerning this article at the WTO.

For Article VIII (fees), many countries have favored the “single-window” approach (to meet all the requirements in one go) at border points, and minimizing and standardizing data requirements and procedures. Here too proponents have suggested technical assistance and capacity building to complement the reforms. This would reduce duplication, and thus cost to traders in terms of time and money. The EC has pointed out that the Article as it now stands lacks specificity and is not fully operational. Though the EC has recognized the need for minimizing the incidence and complexity of import and export formalities, it has not put forward any recommendations on how this can be achieved. Similarly, it has also acknowledged the need for reducing the number and diversity of fees and charges. Colombia has proposed the possibility of accession to various international agreements (Kyoto Convention and the Istanbul Convention), and supports a multilateral agreement that includes special and differential treatment for developing countries.

With respect to Article X (transparency), the EC, Japan, Korea and Canada recommended updating the current text to reflect the importance of transparency and predictability in world trade. Proposals on how to improve and clarify trade rules have included (1) the creation of inquiry points on legal requirements for imports, (2) more systematic consultation between customs administrations and traders, (3) the establishment of harmonized appeal procedures in disputes over import fees, and (4) creating standardized and streamlined import/export procedures, among others. Brazil and India have challenged the view that Article X needs reforming since current proposals have failed to exhibit any deficiencies. They have supported reform through a process of reworking existing obligations rather than adopting new ones.

The final draft Ministerial text at Cancun—which was not agreed to by Ministers—suggested starting talks on government procurement and trade facilitation. The modalities for negotiations on the latter were set forth in Annex E to the draft declaration. The text explicitly emphasized the importance of implementation capacity of developing and least-developed countries, and noted the use of special and differential treatment to achieve trade expansion goals of the WTO. Language included in the draft Annex further stated the commitment to enhanced technical assistance by WTO members. In particular, the text called for a collaborative effort by the World Bank, International Monetary Fund, UNCTAD, and the World Customs Organization be undertaken in the (1) identification and assessment of needs in technical assistance and capacity building, (2)
building effective and operational support, and (3) coherence.

**Concerns of Developing Countries**

Developing countries expressed several reservations that have to be addressed if the negotiations are to move forward.

A first set of concerns centers around the negotiating dynamics of the whole Doha Agenda. On the one hand, many countries felt that, prior to adopting the new regulatory obligations inherent in the Singapore issues, an agreement on issues of importance to developing countries had to be reached—otherwise the Doha Agenda taken as a whole might not benefit them fully and would simply add to their regulatory burden. Without progress in agriculture, for example many were reluctant to adopt an affirmative position on launching negotiations on the Singapore issues. This concern should be manageable as the discussions move forward in other arenas. On the other hand, some countries, particularly those with limited sophisticated negotiating capacity, feared that negotiations would be open-ended and would produce a TRIPS-like expanded agenda.

Second, many governments expressed fears that obligation arising out of negotiations would be expensive and difficult to administer. They might require investing in new technologies for customs management or for managing ports. Indeed, Finger and Schuler (2000), based on analysis of World Bank projects, estimated that the 16 areas of the customs valuations agreement would cost $2.5 million each to improve. They find that the costs of implementing the TRIPS agreement and the customs valuation agreement ran into the millions of dollars in middle-income developing countries. Some countries feared the worst-case scenario: 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. These concerns have prevented all but a few developing countries from joining voluntary agreements in existing trade-related international agreements (such as SPS and the Kyoto Convention). Costa Rica, for example, indicated that it would be impossible to implement the customs valuation obligation without large investments in the modernization of customs administrations.

A third concern centered around the appropriateness of attempting to compel institutional improvements through rule-making, a point emphasized by Malaysia. 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. One conventional way to assuage this constraint is to provide for long transition periods for at least the poorest countries through special and differential treatment (SDT). However, as Hoekman (2003), and Mattoo and Subramanian (2004) have argued in the context of broader reforms of the WTO’s SDT regimes, this has not been particularly effective in engaging countries in the reform process; nor will it in this case produce the sustained effort necessary for institutional reform.

A fourth concern was that promised technical assistance to help countries implement these arrangements might in actuality not be forthcoming, so countries would be left to their own devices to finance new regulations. Developing countries feared that technical assistance would be slow to be delivered, and inadequate to address their problems.

Finally, according to a few countries, the dispute resolution mechanisms—designed for enforcement of trade policies through trade penalties levied by the aggrieved country—were inherently unsuitable for use in enforcing institutional progress.
Options to Move Forward on Trade Facilitation Modalities

A WTO agreement to negotiate on trade facilitation—if properly formulated to take into account these concerns—could provide an impetus for countries to upgrade their customs, and increase the efficiency of border measures and transit. Reforms need political support, and commitment by those involved in implementing trade policy. Possible commitments in these areas can be structured to reflect a joint obligation of the international community to the common goal of reducing trade transactions costs.12

But to arrive at a consensus, such a multilateral effort has to address the concerns of developing countries in the modalities. Modalities could usefully cover five topics.

1. Bounding the negotiations

WTO trade facilitation disciplines in the modalities could reaffirm the three core issues mentioned in the Doha Ministerial draft text – fees and formalities, transit, and transparency (aligned with Articles V, VIII and X). Specific wording in a modalities agreement at the outset that confines the discussion to these principal topics would at least partially allay fears among some developing countries that the agenda would mushroom into unanticipated areas.

2. Taking into account limited implementation capacity: A Trade Facilitation Program

Addressing concerns among some developing countries that new disciplines would not be tailored to country needs or fit into development priorities requires specific recognition that wide differences exist among developing countries in terms of resources, capacities to undertake institutional improvements, and investments priorities. Modalities could recognize that approaches have to be designed to account for specific circumstances, needs, and capacities of individual countries. Developing countries have to formulate a trade facilitation program suited to their own development strategies and priorities.

To be effective, such a trade facilitation program ought to (a) identify country development and trade facilitation priorities as part of its national development strategy13; (b) situate enactment of WTO disciplines in these priorities in a way that makes development sense; (c) provide for a reasonable schedule of implementation for the whole program; and, where relevant for low-income countries, (d) present a schedule of projected financial support for the program as a whole, including but not limited to the WTO provisions. Leveraging information technology can markedly improve efficiency at relative low cost.

National trade facilitation programs do not necessarily have to entail huge costs (Hoekman, 2003). Several basic reforms that are cost-effective can be implemented prior to adopting an advanced trade facilitation program. Publishing rules and regulations in an easily available, transparent manner, and adopting existing international standards and rules etc. are some examples (Swedish National Board of Trade, 2003). Discussions in the WTO Council for Trade in Goods have also suggested making the three GATT Articles more operational through a set of implementation tools such as: issuance of administrative implementation guidelines to increase predictability of rules; public dissemination of service charters and code of ethics; use of aligned documents, adopting standardized data elements to encourage standardization and harmonization of border-related requirements etc.14

3. Commitments for technical assistance and capacity building for trade facilitation

Potential support for implementation of a broad program of trade facilitation already exists in the World Customs Organization, UNCTAD, the World Bank, and regional development banks. For example, best practice
principles are embodied in the revised Kyoto Convention, and the WCO instruments would provide solid guidance and the administrative basis for their effective implementation. Developed countries can support developing countries’ participation in international fora by sharing best practice information through regional seminars and case studies on trade facilitation (Department For International Development, 2003). The World Bank announced in Cancun a major new initiative in support of trade facilitation. Other international agencies and bilateral donors are also increasing resources devoted to these activities, so there appears to be an abundance of technical assistance resources available for countries wishing to implement a trade facilitation program. Technical assistance could productively be coordinated with broader initiatives that support modernization of customs, and could precede actual negotiation and implementation of new rules for trade facilitation.

A subset of the trade facilitation program is the more limited implementation agenda of any agreements associated with Doha-related changes to Articles V, VIII, and X. The WTO technical assistance fund could provide resources to fund this component. While binding capacity building that would make it obligatory for developed countries to deliver on their promises might be difficult because of the complex process involved in institutional change, developed countries can set up funds that would aid in this process. This will help alleviate developing countries’ concerns stemming from new trade facilitation rules, distorted development priorities and onerous implementation costs.

4. Dispute Settlement Options

Improving institutions is a continual process and, as Rodrik (2002) has emphasized for trade policy generally, there is no single recipe for design and organization of good institutions. Without a reliable template for institutional design, trying to compel countries to adopt particular organizations or forms under threat of trade sanctions is unlikely to succeed – and may even be counterproductive. One alternative is to ask countries to develop a trade facilitation program that would subsume an action plan for institutional requirements, and report on progress as part of the Trade Policy Review Mechanism (TPRM) conducted under the auspices of the WTO. (The TPRM process itself could be made more effective by making it annual for large trading countries and more frequent for even small trading countries.) Donors and international financial institutions could support the action plan with resources where appropriate, and they could monitor and assess compliance.

A variant of this proposal is to phase in compulsory dispute settlement – if it is deemed necessary – as countries reach certain levels of development. Below a certain level of per capita income, say $500, countries would be exempt from any obligation; a middle tier of low-income countries – perhaps $500 – 1,500 – would be required to develop an action plan and reporting. Mandatory compliance and the WTO dispute settlement procedures would not apply until countries surpassed a certain level of per-capita income, $1,500 in this illustration. Establishing such clear demarcations of eligibility would trespass on conventionally liberal interpretations of SDT privileges and risks provoking entanglement with other issues.

5. Single Undertaking vs. Plurilateral Approach

The EU had previously suggested that trade facilitation, in particular, could be addressed outside of a single undertaking as negotiations on a plurilateral agreement in the WTO. This would imply that countries would be given the choice to agree to new rules on a voluntary basis, and all countries would have a say in the negotiating process. Most developing countries, however, expressed opposition to the idea of negotiating plurilateral agreements on the Singapore issues. Some Members, for example, India, felt that acceptance of a plurilateral approach to the Singapore issues would set a dangerous precedent for other
issues, such as environment, labor and geographical indications.

This approach may raise more problems than it solves. Over time many countries would come under pressure to opt in, since certain criteria may actually be set as a precondition for enforcing an agreement (Hoekman, 2003). For example, sector-specific plurilateral agreements on tariff elimination, such as the Information Technology Agreement set a threshold of at least 90 percent of world trade to be accounted for by total signatories. This implies that the agreement would not come into force unless at least some of the large developing countries opted in, which could stall any agreement. Moreover, a plurilateral agreement runs the risk of discriminating against non-members in violation of a central WTO tenet. Finally, this approach does not necessarily address limited capacity and resource constraints in developing countries.

The End Game: A Time to Be Forthcoming?

Programs to remove non-tariff administrative barriers and accelerate the flow of goods and services across borders – trade facilitation measures – are at the forefront of policy debate. Fixing ports, investing in transportation infrastructure, and reforming customs can be more important than dismantling tariffs to reduce costs of developing country trade. These efforts at institutional reform are likely to figure prominently in development strategies of nearly every developing country whether or not a negotiation is eventually launched and consummated in Geneva. Nor should a commitment to proceed with the WTO-related subset of trade facilitation issues be seen to substitute for a broad-gauged program of trade facilitation reform program.

Streamlined procedures in customs fees and formalities, more transparent legal rights and obligations for traders, and harmonized regulatory requirements are certainly part of reform goals in most countries. In this regard, the Doha Development Agenda can help strengthen transparency and greater accountability in customs and transit rules. Implementing the proposed WTO agenda could provide an opportunity – if properly framed within an overall program of trade facilitation – to set priorities consistent with national development strategies and implementation capabilities. If countries at the WTO negotiating table decide to move forward on reducing trade barriers – particularly in agriculture – developing countries may well find it in their interests to put forward a forthcoming position on trade facilitation. All in all, this would not be a bad deal.

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1 In the 1996 Ministerial Meeting of the WTO in Singapore, Ministers agreed to launch work programs in the four issues that later became known as the Singapore issues.

2 The group presently includes Bangladesh (representing LDCs), Botswana, Egypt, Cuba, China, India, Indonesia, Jamaica, Kenya, Nigeria, Philippines, Tanzania, Uganda, Zambia, Zimbabwe and Malaysia (presently coordinating the 'core group'). Mauritius and Trinidad and Tobago have also been invited to participate as representatives of the African, Caribbean and Pacific (ACP) countries at 'core group' meetings. Venezuela is the only Latin American member of the group.

3 At the General Council (GC) meeting in February 2004, chairs for the working groups on the Singapore issues were not elected. Instead, the GC chair noted that informal exploratory talks at the GC level would continue with the assistance of the WTO Secretary-General, without prejudice to the outcome of the talks or the opinion of any member.

4 The paper also provides an overview of several quantitative studies on the benefits of trade facilitation.

5 Wilson, Mann and Otsuki (2003)

6 See Country Submissions to the WTO (G/C/W/424, G/C/W/422, G/C/W/423)

7 See Country Submissions to the WTO (G/C/W/403, G/C/W/400, G/C/W/401, G/C/W/398, G/C/W/394, G/C/W/397)

8 See Country Submissions to the WTO (G/C/W/363, G/C/W/376, G/C/W/377, G/C/W/379)

9 “Taking note of the work done on trade facilitation by the Council for Trade in Goods under the mandate in
paragraph 27 of the Doha Ministerial Declaration, we
decide to commence negotiations on the basis of the
modalities set out in Annex E to this document.” Doha
WTO Ministerial Declaration. (Available at:
http://www.wto.org/english/tratop_e/minist_e/min01_e/
mindecl_e.htm).

10 Many developing countries have not participated in
various trade facilitation instruments under UN and
WCO, but all developed countries have. See “Annex :
List of Countries or Territories Having Accepted or
Acceded to Trade Facilitation Instruments”, in UNECE
(2002) Compendium of Trade Facilitation

11 Several recommendations have been made to increase
the effectiveness of SDT provisions. See Hoekman,
Michalopoulos and Winters (2003) for details. Mattoo
and Subramanian (2004) state that the multilateral
trading system is moving in the wrong direction when
trying to accommodate the interests of the poorest
countries. They recommend providing small and poor
countries compensation in the form of improved non-
preferential access and increased technical and financial
assistance, in exchange for more conscious liberalization
efforts on their part.

12 Lucenti (2003) argues in favor of multilateral and
bound commitments at the WTO – without which
countries will not meet their commitments in
international agreements. The advantages to making
commitments are four-fold: (1) large, established
membership would provide for concurrent improvements
around the world; (2) the scope for improvement is large
due to stronger incentives for compliance, and hence
trade-expanding benefits are large; (3) the binding nature
of the agreement means that governments have to make
progress in an area that would provide obvious benefits;
and (4) improving the institutions related to trade would
also have synergies with other issues such as competition
policy, procurement of goods, technical barriers etc. The
rules on trade facilitation could build upon the existing
WTO principles of non-discrimination, transparency etc,
as well as draw upon work of other international
organizations.

13 For low-income countries borrowing on concessional
terms from the international financial institutions this
could be integrated into the Poverty Reduction Strategy
Papers that provide the basis for financial support;
alternatively, it could be integrated into national
development plans and annual budgets.

14 Details can be found in OECD
Principles in GATT Article V, VIII and X: Reflection on
Possible Implementation Approaches.”

15 At Cancun, the World Bank announced a program to
step up trade-related assistance in support of success in
the Doha Agenda, including in trade facilitation and
logistics. The new work program includes more
resources devoted to research and analysis, both to
support developing countries in formulating their own
trade policies and to better identify options that would
benefit all parties to the talks. The new work of the Bank
in the “Trade Facilitation Initiative” also includes a
review of the Bank’s project portfolio in ports, customs,
and other trade-related infrastructure. Bilateral donors
including the EU, US and Japan are funding projects tied
to strengthening the WTO system, security upgrades, and
related trade facilitation infrastructure.

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Further Reading


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