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TRADE FACILITATION

The Challenges for Growth and Development

edited by
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Note

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Preface

Remarkable advances in new technologies make it seem like the world is becoming smaller. Information and goods have the potential to flow more easily than ever from one country to another. Trade facilitation measures help realise this potential by speeding up the movement of goods and the flow of trade information across borders. Trade facilitation helps improve the global competitiveness of those involved in international trade, promotes the development of a more reliable trading environment, and contributes to global economic growth and poverty reduction. Efficient, simple and transparent international trade procedures, functioning in an open and inclusive trading system, and interoperability of international trade standards will improve the overall climate for trade and investment. The full benefits of trade facilitation cannot be achieved without the political will for implementation. The International Forum on Trade Facilitation, organised by the United Nations Economic Commission for Europe on 29-30 May 2002, contributed to the understanding of the need for political will.

Yet concerns are growing about the widening gaps among countries striving to participate in international trade, particularly between developed countries on the one hand and many developing and transition economies on the other. To address such concerns and to promote benefits from free trade, the UNECE drew on its considerable experience in trade facilitation, and organised the Forum in May 2002 in order to provide a neutral setting for decision-makers from the public and private sectors. Organisations and businesses with an interest in trade facilitation from all regions came together to exchange views and practical concerns on trade facilitation in the new global environment.

This book contains papers prepared for the Forum as background documents or written for publication by the speakers. It is our hope that this book will help build upon the accomplishments of the Forum and serve as a basis for follow-up action and implementation.

Brigitta Schmögnerová
Executive Secretary
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List of Abbreviations

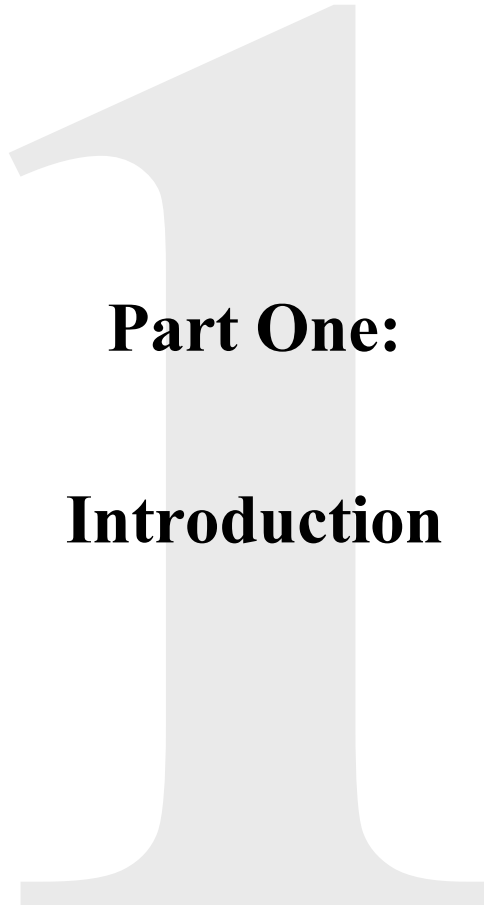
AIDMO – Arab Industrial Development and Mining Organisation
AFNOR – Association française de Normalisation
APEC – Asia-Pacific Economic Cooperation
ASEAN – Association of Southeast Asian Nations
ASP – application service providers
ASYCUDA - Automated System for Customs Data (UNCTAD)
B2B – business-to-business
B2C – business-to-customer
BOC – Bureau of Customs (of the Philippines)
BoL – bill of lading
CAD – Computer Aided Design
CEFTA – Central European Free Trade Association
CIS – Commonwealth of Independent States, comprising all former Soviet Republics with the exception of Estonia, Latvia and Lithuania
COMESA – Common Market for Eastern and Southern Africa
CTIED – Committee for Trade, Industry and Enterprise Development of UNECE
EBRD – European Bank for Reconstruction and Development
ebXML – Electronic Business XML (joint project between UN/CEFACT and OASIS for a new international standard for electronic business)
EC – European Communities
ECLAC – United Nations Economic Commission for Latin America and the Caribbean
ECOWAS – Economic Community of West African States
ECU – European Currency Unit
EDI – Electronic Data Interchange
EEC – European Economic Communities (before the establishment of the European Union)
ERP – Enterprise Resource Planning
ESCWA – Economic and Social Commission for Western Asia
ETA – estimated terms of arrival
EU – European Union
FITPRO – the national trade facilitation body in the Czech Republic
FTA – free trade agreement
GATT – General Agreement on Tariffs and Trade
GATS – General Agreement on Trade in Services

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- GFP – Global Facilitation Partnership for Transport and Trade, launched in 1999 as an initiative supported by the World Bank
- ICC – International Chamber of Commerce
- ICD – Internal Clearance Depot
- ICT – information and communications technology
- IEC – International Electrotechnical Commission
- IECC – International Express Carriers Conference
- IMMTA – International MultiModal Transport Association
- IRU – International Road Transport Union
- ISO – International Organisation for Standardisation
- IT – information technology
- ITPWG – International Trade Procedures Working Group of UN/CEFACT
- ITSAM – Integrated Transport System in the Arab Mashreq
- ITU – International Telecommunications Union
- LC – letter of credit
- LDC – least developed countries
- MERCOSUR – Southern Cone Common Market (South America)
- MNC – multinational corporations
- MoU – Memorandum of Understanding
- NCITD – National Council on International Trade Development (trade facilitation body in the United States)
- NGO – non-governmental organisation
- NTB – non-tariff barriers to trade
- OASIS – Organisation for the Advancement of Structured Information Standards
- OECD – Organisation for Economic Cooperation and Development
- PKI – Public Key Infrastructure
- PO – purchase order
- POD – proof of delivery
- RCBG – Regional Customs Bond Guarantee system in East and Southern Africa
- RIOs – Regional Intelligence Liaison Offices
- SADC – Southern Africa Development Community
- SECI – Southeast European Cooperative Initiative
- SECIPRO – the collective trade facilitation body of the countries participating in SECI
- SGS - Société Générale de Surveillance SA
- SITPRO – Simple Trade Procedures Board: the national trade facilitation body in the United Kingdom.

LIST OF ABBREVIATIONS

- SME – small and medium-sized enterprises
- SPECA – United Nations Special Programme for the Economies of Central Asia
- SPS – sanitary and phytosanitary (barriers to trade)
- SWEPRO – the national trade facilitation body in Sweden
- TBT – technical barriers to trade
- TIR – Transport International Routier (TIR Convention developed in UNECE)
- TRACECA – Transport Corridor Europe Caucasus Asia
- TRIE – Transport Routier Inter-Etats (transport facilitation convention in West Africa)
- TTFSE – Transport Facilitation project for Southeast Europe
- UCR – Unique Consignment Reference
- UN/CEFACT – United Nations Centre for Trade Facilitation and Electronic Business
- UNCITRAL – United Nations Commission on International Trade Law
- UNECE – United Nations Economic Commission for Europe
- UN/EDIFACT – the first global standard for EDI, which was developed and maintained by UNECE
- UNIDO – United Nations Industrial Development Organisation
- XML – Extended Markup Language
- WB – World Bank
- WCO – World Customs Organisation
- WEF – World Economic Forum
- WIPO – World Intellectual Property Organisation
- WTO – World Trade Organisation



Part One:

Introduction

The two chapters in Part One introduce the main issues set forth in this book. The first one, “The Policy Debate on Trade Facilitation”, discusses the importance of policy in trade facilitation. The major argument laid out in the second chapter is that the products of trade facilitation should be regarded as an international public good, whose benefits might not be obvious to the individual actors in international trade. This chapter also contains a synthesis of all the contributions to the book, and illustrates that trade facilitation should be regarded as a multifaceted concept, involving a large variety of activities and actors.

Chapter 1.1

The Policy Debate on Trade Facilitation

Paolo Garonna, Deputy Executive Secretary, UNECE

The role of trade facilitation has moved to the centre stage of the policy debate in international trade. There are several reasons to explain this development.

First, the Doha process is entering a critical phase. After the starting period, negotiations have now taken off and are picking up momentum. The political stalemate that followed the failure of Seattle has been unlocked. The wall-to-wall ideological confrontations on the broad issues of globalisation, free trade and the widening and deepening of the multilateral rules-based trade system have been overcome by a more pragmatic, balanced and result-oriented posture. The Monterrey Consensus, reached at the UN summit on “Financing for Development”, has replaced the controversial “Washington consensus”, proposing an approach to trade liberalisation that puts at the centre of the policy agenda the eradication of poverty, the bridging of development gaps and the UN basic principles of human rights and good governance. A new spirit of co-operation has been launched, bringing together, in a more coherent perspective, national governments, international organisations - especially the Bretton Woods institutions and the UN system - and the representatives of the private sector, business and civil society organisations.

While these developments have created a much more positive and promising environment, they have also raised the stakes for the post-Doha round of negotiations. We all have to make it work! We cannot afford any delay or setback. The precedent of the Uruguay Round, dragging on beyond the planned deadlines with postponements, ambiguities and mistrust, still haunts our collective memory. The crucial deadline of 2005 is approaching fast, giving a sense of urgency to on-going work.

An additional factor of concern are the number of worrying signals looming on the horizon. Trade differences between Europe and the United States have been growing in relation to issues that have a relatively minor significance in the broad and strong pattern of the US-Europe trade partnership, but that have been highly publicised and may take on a

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symbolic character. Moreover, there have been growing difficulties in implementing the legal mechanisms of the trade system of the World Trade Organisation (WTO), particularly with regard to dispute settlements and their effectiveness in preventing escalation and retaliation. Any rules-based system, in order to be credible, must have few and simple rules of the game; but those rules should be strictly enforceable, and be enforced. In any legal system there is an inherent trade-off between the need to extend and detail the regulatory framework and the risk of over-regulation and excessive burdening of the enforcement mechanisms. The complementarity between rule-based formal mechanisms and “soft regulation”, based on policy dialogue, has therefore become apparent.

The events of 11 September 2001 have added a new dimension: security measures and concerns may in fact affect the freedoms that are at the basis of trade promotion and global economic integration. A fundamental challenge, therefore, is how to reconcile the new frontiers of trade liberalisation with increased security, the fight against terrorism and organised crime. Besides, the obvious links between security and development or, perhaps more accurately, insecurity and under-development, have renewed and sharpened the focus of attention on the huge capacity gaps in trade and trade policy, dividing the North from the South, and also affecting the cohesion of the UNECE region dramatically. How to mainstream trade into the development agenda and poverty reduction has become a central question concerning globalisation and human development. It is, therefore, essential to call on all member states of the United Nations, institutions and organisations, all those who believe that trade liberalisation is a necessary (albeit not sufficient) condition for peace, security and development, to raise awareness, mobilise and focus commitment and action.

The complexity of the issues at stake should not be overlooked. Let us consider two examples. First the question of inter-agency co-operation, and in particular, the collaboration between the Bretton Woods institutions, notably the World Trade Organization, and the UN system, including the UN regional commissions. These institutions have taken a leadership role in combating poverty and underdevelopment. Financial stability with more and better financing for development are objectives of the UN system and require a wide range of programmes and commitments across the whole spectrum of sustainable development, economic reforms, the promotion of

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good governance and human rights. But the question of the most effective division of labour between the different organisations remains. How can the UN system support, through policy dialogue, technical assistance or otherwise, progress in trade negotiations or the implementation of existing rules and procedures for the settlement of disputes and the prevention of conflict? To what extent should the Bretton Woods institutions extend the reach of their activities to cover issues of poverty, capacity building in social and development policies, institutional reforms, democratisation and human rights? In the field of trade, for instance, there was a fairly clear demarcation of responsibility between WTO and UN agencies or programmes dealing with trade questions: the WTO was focused on the legal framework in support of negotiations for trade deals and on the machinery for settling disputes and implementing agreements. The UN engaged in policy dialogue, promoted the exchange of experience, not only in trade and trade policies, but also in the many, and growing, trade-related aspects of economic and social policies, such as employment or the environment. The blurring of out-dated, conventional dividing lines has opened up new opportunities for joint action and co-operation, but it has also created the risk of overlap and confusion. Moreover, the right balance between what should be achieved through the formal negotiating and dispute settling machinery and what should be left more appropriately to “soft-regulatory” policy dialogue and peer pressure has still not been clearly defined.

Another major question is the future of Europe and the impact of European Union (EU) enlargement on UNECE-wide economic and social integration. Nearly all the countries of the UNECE region are fully committed to joining the WTO. Negotiations are proceeding concerning the accession of Russia and most other countries in the CIS and the Balkans. At the same time, the enlargement of the European Union, which now concerns ten UNECE member States, could involve other countries in the Balkans and Eastern Europe. This will have significant implications for trade and economic integration in the region. The relationship between the EU and Russia, possibly also including other CIS countries, currently envisages the establishment of a “common European economic space” with repercussions for trade arrangements. Other special trade instruments have been discussed or set in motion in specific sub-regions of the UNECE, such as Central Asia, the Black Sea, and the Caucasus. It is now widely accepted that, under certain conditions, sub-regional and regional trade arrangements can

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provide a stimulus to broader, and ultimately global, trade liberalisation. However, the extent to which these new trade perspectives will influence and benefit the post-Doha round of negotiations, and the effectiveness of the rules-based global trade system, is not clear. What impact will the discussions concerning the future of Europe have on the Doha process? Will there be a risk of new divisions and European fortresses emerging from the new East-West integration mechanisms?

These are only some of the many difficult questions facing the future of Europe and its contribution to a more open and free global trade system. We firmly believe, however, that trade facilitation is an ideal ground for facing up to the new challenges and testing the response capacity of national and international communities and also that the regional dimension, namely the forum provided by the UNECE, is a decisive terrain for making real progress in identifying and pursuing bold and pragmatic solutions.

There are at least four main reasons why trade facilitation plays a significant, almost emblematic, role here:

- (1) It figures prominently in the Doha process. Even though it was agreed that actual negotiations may start only after the Fifth WTO Ministerial Meeting in Mexico in September 2003, in the meantime a programme of work was set in place, and mechanisms have been promoted for strengthening policy dialogue on national strategies, reviewing national and international priorities and supporting capacity building through technical co-operation and partnerships.
- (2) As we make progress in reducing tariffs and quotas, non-tariff barriers become the main obstacle to trade. Moreover, the advent of the information society has made available new, powerful tools for trade and production (e-business). It has also determined the risk of new barriers and divisions (the “digital divide”). Correspondingly, the importance of trade facilitation aimed at attacking, systematically, these kinds of barriers and obstacles and exploiting the new opportunities of the digital revolution has grown.
- (3) There is a greater involvement of private players, business and NGOs in setting standards and discussing trade facilitation issues. The considerable experience in trade facilitation in the UNECE

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region has shown that the contribution of the private sector is often decisive. Governments cannot proceed alone. Often, they have to take a step backwards, leaving the initiative to the collective efforts of private players (self-regulation). Always, they need to consult, involve and promote the active participation of all stakeholders concerned, public and private, particularly the most vulnerable groups in society, the unemployed, the unskilled, the elderly, etc.

- (4) Trade facilitation is recognised increasingly as an essential component of the basic infrastructure of the market economy and of democracy. It is inherently linked to the proper functioning of the tangible and intangible public infrastructures of a nation; i.e. not only transport, energy, customs services and telecommunications, but also knowledge networks, education and training and good governance. It requires, therefore, a broad and comprehensive approach to trade policy.

The regional dimension: trade facilitation in Europe and North America.

Trade facilitation is also an area where the regional dimension shows all its comparative advantages. The World Summit on Sustainable Development in Johannesburg has given significant recognition and a comprehensive mandate to the UN regional commissions. They should contribute to integrating economic, social and environmental aspects for sustainable development. They can play a unique role in promoting consistency and co-operation among the many relevant players active at the regional level. Integration and co-ordination are key features for addressing the issues of trade facilitation effectively.

We will illustrate this by making reference to five critical issues in the trade facilitation agenda:

- i) The relationship between trade facilitation and development. Trade facilitation is not simply a question of technical standards, rules or procedures. These have not only to be identified and agreed upon, but also implemented and applied in such a way as to produce actual results in a broad array of situations and policies. Trade facilitation, therefore, is above all a matter of policy and business decisions and has to be formulated and evaluated in the context of policy strategies for economic reform,

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stabilisation and growth. Sound policies in trade, customs, taxation, education, public services, etc. are both a condition and an outcome of trade facilitation. When the public administration is corrupt, customs are inefficient and unskilled, tax evasion and the black economy flourish, and there is no technical standard, software or magic bureaucratic formula that can facilitate trade. Trade facilitation presupposes, above all, “good government”, accountable democracies and sound and bold policies of economic and social reform. Trade facilitation, in other terms, means developing comprehensive national strategies. It has to be mainstreamed into the national development strategy. Countries can exchange experience on such strategies at the regional level. UNECE is a natural forum for peer dialogue and reviews of trade facilitation policies and their links with development. In this perspective, the regional dimension has clearly a leading role to play.

ii) How to develop trade facilitation standards?

In the past, the task of producing and harmonising standards was seen as typically a public sector responsibility, i.e. a prerogative of governments and intergovernmental organisations. Now the private sector plays an active role in this field and does so increasingly. There may therefore be competing standards that will converge or merge only through time and after the decisive feedback of users and markets. The role of public policies has changed, but it remains of great importance. It is the task of governments to disseminate best practice, promote access - particularly for small and medium enterprises - bridge capacity gaps, maintain competition in the market (avoiding the situation in which an industrial standard consolidates a dominant position in the market), safeguard intellectual property rights and innovation, stimulate open standards, etc.

iii) How to promote actual use and the dissemination of standards?

There are, basically, two patterns. Firstly, the standards may be incorporated in formal rules and legally binding instruments. They become then part of the WTO machinery. This issue, i.e. the negotiation of a set of formal WTO rules on trade facilitation, is currently under review and will be considered and decided upon at the Fifth WTO Ministerial Meeting, in 2003. Alternatively, they can be disseminated as informal guidelines, best practices, as they emerge through policy dialogue and the exchange of experience. As “soft rules”, they would be more flexible and adaptive, but

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would lack enforcement power. The two mechanisms are not necessarily alternative or antagonistic. Soft rules in fact could, after an appropriate period of testing and control, be translated into formal agreements.

iv) Trade facilitation and capacity gaps.

Finally, the link between trade facilitation and capacity gaps should be analysed in depth. Mainstreaming trade facilitation into a development strategy, at the national and international level, is a crucial challenge for the UNECE. Assisting the weaker countries in the region to implement trade facilitation instruments, as part of their trade liberalisation policies, can have a positive impact on achieving financial stability and growth, attracting foreign direct investment, improving governance and competitiveness and thereby generating output and jobs much needed to alleviate poverty and increase standards of living.

In conclusion, trade facilitation is a specific, but highly significant domain for policy dialogue in the UNECE. Our organisation has a long tradition of involvement and contribution in this field and now stands ready to participate in responding to the formidable challenges ahead. The complex links between trade facilitation, sustainable development and social progress place the subject at the heart of the mission of the UNECE and other agencies in the UN system, in close co-operation with all other relevant international organisations and the significant participation of the private sector players. Its possible contribution to the achievement of the fundamental goals of peace, security and development, as reaffirmed in the Millennium Declaration, can be expressed effectively by recalling what we find written in an inscription at the battlefield of Waterloo, in Belgium, which saw one of the most bloody battles in the inter-European wars.

They are the words of Victor Hugo, which read:

“... The day shall come, when there will be no battlefields other than markets opening up to trade, and minds opening up to ideas...”

Chapter 1.2

How to Achieve Efficient and Open Collaboration for Trade Facilitation?

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The world we live in today seems volatile and unpredictable. The expectations that the end of the Cold War would usher in an age of growth and prosperity, when all societies would reap the dividends of a long-awaited peace based on democracy and of an unprecedented advancement in technology, were not realised in the aftermath of the fall of the Berlin Wall. Thirteen years later, many questions still remain. The expectation that liberalisation would foster equitable growth on a global scale was one of the unachieved promises of the post-Cold War era. Pro-liberalisation leaders in the 1990s saw in the elimination of structural barriers to trade an opportunity for developing and transition economies to compete with and emulate business practices in the industrialised world, thus increasing efficiency and wealth all over the world. But despite the success of the Uruguay Round of multilateral trade negotiations and the establishment of the World Trade Organisation (WTO), we are still far from establishing equitable rules for international trade, which would encourage competition and curb the trend towards rising inequality in revenues which, some argue, accompanies globalisation. New risks for security put an additional strain on the global trading system. In this situation, sustainable development requires not just trade liberalisation but also initiatives to ensure that everyone in the global society shares in the benefits resulting from it. If liberalisation is unable to produce tangible growth in certain parts of the world, it becomes difficult to sustain it politically on the local, regional and global levels. Our major argument here is that the products of trade facilitation should be regarded as an international public good, whose benefits might not be obvious to the individual actors in international trade. In order to be realised on a global scale, these benefits would need voluntary contributions in various forms from all stakeholders, public and private, from developed, developing and transition economies.

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Trade facilitation has the potential to make a real contribution in support of peace and prosperity. It represents a form of functional co-operation in the economic sphere, which can build the foundations of political co-operation and peaceful relations among nations. Moreover, trade facilitation can make multilateral trade liberalisation an important tool for development in a system based on predictable rules, openness and lack of discrimination. Trade facilitation means the simplification, harmonisation and automation of international trade procedures and information flows. It has the potential of saving billions of dollars for world economic growth and development, while at the same time enhancing controls and security in international trade flows. The World Summit on Sustainable Development, which took place in Johannesburg in September 2002, recognised that opening up access to markets and phasing out export subsidies are a key to development for many countries.

Putting an emphasis on the “benefits for all” from trade facilitation was the goal of the International Forum on Trade Facilitation, which the United Nations Economic Commission for Europe (UNECE) organised on 29-30 May 2002, and for which the contributions to this volume were prepared. The UNECE organised the Forum in collaboration with all major international institutions which have a stake in trade facilitation, such as the United Nations Conference on Trade and Development (UNCTAD), the other United Nations regional social and economic commissions¹, the World Trade Organisation (WTO), the World Customs Organisation (WCO), the European Commission, the World Bank, and the International Chamber of Commerce (ICC). The Forum addressed the key issues of trade facilitation today, such as the need for building political will and implementing existing and new instruments for it worldwide. We built upon a broad definition of trade facilitation, which went beyond purely customs matters and encompassed various aspects and activities that contribute to its final objectives. Trade facilitation is related to trade liberalisation, but it also goes beyond that concept. In its broader sense, trade facilitation comes close to the founding principles and goals of the United Nations – achieving faster economic growth and eliminating poverty and the economic causes of

¹The five regional economic commissions of the United Nations are as follows: Economic Commission for Africa (ECA), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Western Asia (ESCWA), Economic and Social Commission for Asia and the Pacific (ESCAP), and Economic Commission for Europe (UNECE).

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violent conflict. A number of United Nations agencies have long experience in the area, and are well suited to addressing the whole spectrum of issues related to trade facilitation, ranging from capacity-building to the analysis of the costs and benefits, new techniques and instruments and, last but not least, the input of functional co-operation in trade facilitation to confidence-building in areas that experience acute communal and international conflicts.

The Forum in May 2002 created an open platform for policy debate on trade facilitation by involving decision makers from industrialised, developing and transition countries, the business community and international and non-governmental organisations. The UNECE, as the United Nations agency which has done pioneering work in trade facilitation for over forty years by developing standards, recommendations and best practices, was the appropriate driving force behind the creation of such an open forum, with the active involvement of all international institutions dealing with trade facilitation. It is important to bring together for an exchange of views representatives of industrialised countries and large companies, which support the establishment of binding multinational rules in trade facilitation, and decision-makers from developing countries, which are reluctant to acknowledge that there are preponderant benefits from a system that would purportedly cause an additional burden on their fragile economies - the alleged cost of trade facilitation.

The Forum brought together proponents of globalisation and liberalisation, members of the global civil society, key figures in the multilateral trade negotiations and major trading nations, which have either recently joined the WTO or are still outside its system. A speech pronounced by the UK Minister of State for International Trade and Investment preceded a statement from a representative of the Islamic Republic of Iran. A spokesman for the express carrier industry, who urged all nations to adopt WTO rules for trade facilitation, spoke from the same podium as several opponents to the idea. The key players in the WTO debates on the issue spoke alongside China, which is a new member of the organisation, and Russia, which has not yet joined. The Forum was the first occasion at which China officially stated its concerns in the area of trade facilitation, which promises to be an interesting subject in the multilateral trade diplomacy in the future. Along with the strong patrons of trade facilitation, the Forum

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gave an opportunity to countries that will be pivotal for the outcome of the debate, such as the Philippines and Kenya, to voice their concerns.

Years of experience have shown that trade facilitation is implemented primarily on the regional level, with regional institutions and trade organisations, such as the European Union (EU) and the Asia-Pacific Economic Co-operation (APEC), playing a leading role. Consequently, it is necessary to adopt an individualised approach to each region, and involve the five United Nations regional economic and social commissions as well as UNCTAD, regional development banks and trade promotion organisations in a collaborative effort that would combine the global approach to trade facilitation with a regional perspective. Global standards and technical co-operation projects, for example, can be implemented in practice through existing regional structures, while regional knowledge and experience can be realised through global co-operation in the elaboration and harmonisation of standards. The UNECE as a regional commission has a strong tradition in this respect. From the outset of the preparations for the first International Forum on Trade Facilitation, the idea of creating a global circle of regional commissions, development banks and other institutions promoting trade and development in order to deal with trade facilitation was an essential part of our strategy. Such a network of regional bodies can play a strong role in the future edifice of trade facilitation. It creates the possibility of raising efficiency by building global knowledge and high-quality standards by using local experience and by implementing best practices from around the world in a regional or local setting. Such a network can be further developed in relationship to the existing work done within the WTO Doha Development Agenda, which has already involved, for example, the regional development banks. WTO's strategy for technical co-operation and capacity building includes a regional approach, which focuses on the delivery of technical assistance on regional platforms, tailored to the needs of the particular regions of the world. The future work in this sense and the opportunities created by the Doha Development Agenda should take into account input from United Nations and other international organisations active in trade facilitation, in order to implement existing and new instruments for trade facilitation.

Experts agree that trade facilitation has clear benefits for all. This is also the overwhelming argument in the articles in this volume. Yet the realisation of those benefits largely depends on the existence of political will: where there

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is political will, governments deliver, in collaboration with the private sector, the public good demanded by their constituencies – the simplification, harmonisation and automation of trade procedures and flows of information – and remove existing administrative obstacles to trade. “The groundwork has been both invaluable and complementary, but in order to make trade facilitation a reality, we need to apply political pressure from the top”, said Pascal Lamy, the European Trade Commissioner. If there is no political will, little can be achieved. Moreover, the specificity of the processes involved in the facilitation of international trade necessitates more than acts of governments in isolation. All stakeholders need to make an input internationally, and provide equal access for all to the fruits of trade facilitation. Hence the necessity to promote international dialogue and consensus-building for trade facilitation on as many levels as possible. This would involve major moves on the policy level in a vast variety of areas - from technical standards and intellectual property rights to a well-structured strategy to combat rent-seeking activities in the administration of international trade. It is of key importance to define the next practical measures that governments, the business community and international organisations should undertake. This was another major objective of the International Forum on Trade Facilitation in May 2002.

Practical measures for trade facilitation

Trade facilitation has the potential to promote competitiveness and market integration. Moreover, the use of modern trade and transport facilitation techniques, such as just-in-time or the single window approach (explained in Chapter 2.3 of this book), and the development of global supply chains and electronic business, have made speed and transparency in international trade essential for successful competition in the global marketplace. Consequently, it is necessary for each country to ensure that a trade facilitation strategy is integrated into national and regional trade policy and economic development plans. The United Nations agencies could play a key role in the establishment of the international agenda for trade facilitation in compliance with the Monterrey Consensus on financing for development. The long-term perspective would be to establish a structure to support the international network for trade facilitation. The obstacles to trade facilitation are not only many and varied, but they are also inter-related, and this requires an integrated, cooperative response.

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In a rapidly changing global economy, increasingly characterised by electronic business, using advanced information technology and global supply chains, government and business leaders should adopt trade facilitation as a key tool for economic development. Achieving the most efficient collaboration among actors pursuing a large spectrum of strategies, interests and concrete objectives is never easy. All kinds of considerations can be combined, ranging from cost-efficiency arguments, which individual actors (states and businesses alike) make for themselves, to mere expectations of free riding. For this reason, building political will among all players (both public and private) in the multilateral trading system is necessary more than ever.

The Revised Kyoto Convention from June 1999, developed in the World Customs Organisation (WCO), remains one of the most important references on the simplification and harmonisation of customs procedures. Much of what we are aiming at in trade facilitation will be achieved if this Convention and the other instruments elaborated by the WCO and briefly described by Kunio Mikuriya are fully implemented. The discussions at the Forum clearly recognised the role of the WCO and the Kyoto Convention in simplifying and modernising customs procedures. Further modernisation of customs administrations and procedures should be undertaken within the framework of the revised Kyoto Convention. National authorities must address anti-corruption practices in the various institutions of governments and business, and international co-operation must be strengthened in this field within the framework of the WCO Arusha Declaration, as well as within other relevant international organisations, both governmental and non-governmental.

The business community wants to see government regulations adapted to modern practical solutions, such as “just-in-time” or the “single window”, by harmonising such regulations across borders and eliminating excessively time-consuming ones. Modern technology should be aptly applied for risk management in order to cope with the growing volume of trade around the world. Issues in international commerce such as documentary requirements, valuation, checks of quality, brand or origin, should be selectively assessed in order to determine the factors of risk involved in the trade transactions. Consequently, customs intelligence has to be validated and constantly updated, in order to maintain an efficient system. Business may contribute to the common goal of trade facilitation by: sharing useful first hand

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experience; establishing a dialogue with the government agencies when new regulations are introduced and old ones reviewed (and this is the key to compliance); providing expertise; and participating in training programmes. Mr. Julian Oliver, the Director General of the International Express Carriers Conference (IECC) sent three strong messages at the International Forum on Trade Facilitation in May 2002 to traders “to co-operate for trade facilitation, or else see their business migrate to those who do; to customs ‘to modernise or else see their revenues decline as trade migrates elsewhere; and to governments “to reform or else see other countries attract trade and foreign direct investment away from them.”

The developing countries stress the necessity to match the top-to-bottom policy formulation with appropriate and realistic bottom-to-top implementation. Mr. Alexander Arevalo, Deputy Commissioner of the Philippines Customs, stressed that government cannot implement trade facilitation alone. It needs alliances and partnerships with international and local stakeholders in both the public and the private sectors. Such international and public-private co-operation is the only way in which trade facilitation can add value to the economy. From an African point of view, according to Mr. Peter Gakunu, Economic Secretary of the Ministry of Finance of Kenya, the emphasis should be on such issues as preferential access arrangements to facilitate Africa’s exports; rapprochement with donors; elimination of post-audit processes; advancement of the automation of clearance of goods; provision of adequate information to all trading partners; harmonisation and simplification of rules of origin; elimination of pre-shipment inspection services; increasing transparency in the area of regulations concerning anti-dumping and countervailing measures; and straightforward and easy customs exit documentations and procedures. Information technology should be used to address issues of integrity, accountability, and transparency, for example by enhancing the free flows of information between customs administrations and the business community. One of the objectives would be to promote economic integration within the existing regional blocs. Finally, the “invisible” barriers to trade, which are mostly administrative in nature and simply add costs to trade, should be removed.

In order to put these measures in place, there is a need for greater coordination among public and private, national and international agents. It is necessary to alleviate certain constraints including: excessive

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documentation requirements; the lack of automation and transparency; unclear import and export requirements; inadequate procedures (especially concerning the lack of audit-based controls and risk-assessment techniques); and lack of modernisation and co-operation among customs and other government agencies. Actually, the losses of business from border delays, unclear and/or redundant documentation requirements, and lack of adequate customs automation lead to costly trading procedures that in many cases exceed the costs of tariffs. Simplification and harmonisation of trade procedures would speed up the process of clearance of goods and have a multiplier effect on expanding trade and promoting growth.

Representatives of the transition economies also stressed the vital necessity for governmental political will to undertake trade facilitation-related reforms. These would involve all stakeholders (governments, international organisations, business community) in the process of creation, unification, clarification and maintenance of simpler rules and procedures for trade. Capacity building efforts that are inclusive in nature would be in strong demand. Mr Peter Brño, State Secretary for European Integration, Foreign Trade and Tourism at the Ministry of Economy of the Slovak Republic, stressed that while recognising the importance of international institutions for analytical work and technical assistance, the role of WTO, based on legally binding and enforceable commitments and an effective control system, should be recognised. This can be done in a dynamic and ongoing partnership with the United Nations. The participants in the Economic and Social Council of the United Nations (ECOSOC) in 2002 recognised the importance of this work, which would build capacity for development. ECOSOC recognises “that trade is one of the most important sources to foster development and finance human resource development. A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalisation, can substantially stimulate development worldwide”.²

Public goods in facilitating international trade

In order for an economy to perform successfully, it must receive a substantive contribution from the public sector. It seems necessary to define more clearly the role and responsibilities of the public sector, especially in

² UN document E/2002/L.13 from 8 July 2002, para.18, p.4.

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the transition and developing economies, where private business is particularly vulnerable. Such well-defined input would be particularly helpful in order to implement trade facilitation. Andrew Stoler, Deputy Director General of the WTO, noted in his contribution to this book that open markets can only function properly if procedures designed to facilitate the flow of trade are put in place, and if the country has the capacity to regulate efficiently economic activity on its territory. The decentralised market might be the most efficient tool for producing private goods, but it relies on a set of goods that it cannot provide efficiently itself. Most of the products of trade facilitation fall within the category of public goods. Trade facilitation provides social goods – simpler procedures, standards for the automation and harmonisation of these procedures, etc. – available in equal amounts to all stakeholders.

This is the idea, for example, of the only existing global standard for electronic data interchange for international trade, UN/EDIFACT³. In other areas, the definition of the nature of the products of trade facilitation might not be so straightforward, but the very idea of simplifying the international trade procedures in a given country suggests that everyone involved in the trade processes will be able to make use of these simpler procedures, in the same quality and quantity. The standards and projects for trade facilitation, which are administered by the United Nations and the other international organisations, are based on the principle of open access to all. Various countries and agents may value the products of trade facilitation differently (as is the case with UN/EDIFACT), they may have different capacity to contribute to providing them, yet at the end they have equal access to these products. Inefficient trade procedures are a troublesome externality for those involved in international trade, yet the products of trade facilitation can also be seen as an externality – available to everyone, no matter whether some parties want more or less of them than others.

States deliver political public goods to their inhabitants: national and individual safety, predictable rules, logistical infrastructure, protection of real and intellectual property rights, medical care, education and other social services. In the area of international trade, a government that does not

³ UN/EDIFACT was published as a United Nations recommendation, adopted by ISO and recommended for use by the WCO. More information on UN/EDIFACT can be found on the following web site:
<http://www.unece.org/trade/untdid/welcome.htm>

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provide well-maintained networks for the rapid flows of goods and commercial information, based on predictable rules, does not fulfil one of its major tasks vis-à-vis its clients – the citizens. However, as the number of states has grown (from 55 in 1914 to over 180 now), and as technological progress has created new opportunities and new challenges for all, the expectations from the modern states have become higher than ever. Hardly any government today can deliver in isolation most of what is required from it, not to mention services and products in an area as complicated as trade facilitation. Therefore, international interaction and consensus building are indispensable. A particular challenge in the case of trade facilitation is created by the large diversity of areas related to it, such as government regulations and controls, business practices, and management of international projects. It is difficult to discern the potential optimal locus of responsibility in any single area of the whole complex of activities related to trade facilitation, in order to achieve the most efficient outcome. A private company may provide the best solution in some situations, a government or a single agency in others, yet there are cases when international co-operation, and appropriate technical assistance, are essential.

In addition, many products and benefits from trade facilitation in practice are the fruit of a collaborative effort of the public and private sectors, and there are good reasons why this should be so. It would clearly be inefficient even for large private actors to develop and use in isolation the wide range of trade facilitating techniques and instruments they need. “The solution can be simple and affordable for all sizes of company but it has to be built on a collaborative and transparent partnership model where the value from more than the sum of the parts can be had by all”, concludes John Hammond from Standard Chartered Bank in Chapter 4.4. It might not be reasonable to wait for the competitive market to provide the solutions either, because the calculations of autonomous actors would indicate that it would be inefficient for them to produce the necessary products. Moreover, in any case of a public good, there is an incentive to wait for others to deliver services and goods that would then be used for free by everyone. It is always difficult to reach an agreement on whether or not to produce a public good; who should pay what; and in what quantity and quality. When it comes to making decisions about trade facilitation, what matters is the sum total of voluntary contributions and the general distribution of wealth among the major actors. As with other commodities and services provided for public consumption, trade facilitation will be realised only if the sum of

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the willingness of all stakeholders to contribute goes beyond the cost of the product. Trade facilitation will then improve the lot of all different players, in other terms, it will be “Pareto efficient”⁴. The problem is to agree on the concrete acts, commitments and payments. After all, even if not everyone pays the same price, there should always be a payment scheme that would make everyone better off at the end. What is more, the payments may be made in terms of a monetary price, but they can also take the form of making political commitments and concessions.

The distribution of wealth within the groups of stakeholders – states, institutions, enterprises of different scale, or simply individuals – affects decisions about whether or not to proceed with certain measures to increase overall efficiency. In that sense, we want to point to two considerations that are related to trade facilitation in the multilateral trading system. Firstly, if we consider a scenario where the bulk of available wealth is in the possession of countries and agents who would wish to see trade facilitation realised, then commitments will be made and trade facilitation will be achieved. But if those who possess the wealth are indifferent or unwilling to pay, then there will simply be no planned or implemented trade facilitation measures. The European Community is the primary *demandeur* in the WTO for the so-called “Singapore issues”⁵, which include trade facilitation. It has always stressed that trade facilitation is “pro-development”; and it has repeatedly called for special treatment of least-developed countries. Other wealthy nations, including Canada, Hong Kong (SAR, China), Japan, the Republic of Korea and the United States, have repeatedly expressed their interest. When it comes to individual (private) contributions to the public good, however, one faces the problem of the inevitable incentive for free riding. And this is not a problem with wealthy nations alone.

⁴ From the theory of the Italian economist and sociologist Vilfredo Pareto – a “Pareto efficient” allocation of resources suggests that there is no alternative that would make all players better off.

⁵ At their first WTO meeting in Singapore in 1996, the Ministers of Trade of the WTO Member States decided to include four areas related to non-tariff barriers to trade in their agenda for negotiations. These were the so-called “Singapore issues” – relationship between trade and investment; interaction between trade and competition policy; transparency in government procurement and trade facilitation. At their meeting in Doha in November 2001, the Ministers agreed “negotiations would take place on those issues after the Fifth Session of the Ministerial Conference [Cancún, 2003] on the basis of a decision to be taken, by explicit consensus, at that session on modalities of negotiations”.

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The second consideration concerns the position of many developing countries, which continue to have reservations about the inclusion of trade facilitation in the multilateral trade negotiations. Even if they acknowledge that they need trade facilitation, they are seriously concerned with the cost that trade facilitation would impose. Such countries as the Philippines, Pakistan, Brazil and India do not want to see “prescriptive” rules for trade facilitation, and they stress that they would need a considerable increase in technical capacity in customs and other related areas in the first place. China expressed its solidarity with the developing countries in their position that financial support and transfer of technologies are necessary to cope with the disproportionate difficulties that developing countries meet in trade facilitation. The Philippines claim that they implement trade facilitation measures not because of any WTO or regional trading arrangements, but because of demands from their business community. These countries have many times stressed the need for international assistance to raise their capacity for trade facilitation. Some of these large states have a critical role in the multilateral trade negotiations – they are pivotal agents, which can either prevent or endorse the realisation of one or another international system of trade facilitation.

Elaborating a mechanism that would bring together all interested stakeholders is difficult. One option would be a voting procedure, which seems to be the case in the WTO negotiations aimed at an “explicit consensus”. Arguably, voting is not always the solution most conducive to the provision of a public good, as actors might conceal their true preferences, not least because of the incentive to free ride. This consideration has to be taken into account in the development of negotiating strategies on trade facilitation in the multilateral trade negotiations. In this case, the world enters a game, which has been played for years in the GATT/WTO system. It is reminiscent of the “prisoners’ dilemma” in game theory, but differs from it in that the players achieve maximum utility not when they make the same choice, but when “one pays and all consume the product”. In real life, the preferred option would be to find some payment scheme, in which everyone would contribute as much as he wants, and everyone would be happy if the benefits of trade facilitation were distributed among all stakeholders. Some countries and companies would make contributions in terms of funds and technical assistance. Others would make political concessions, a “side payment” that would contribute to the

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overall public good. A second option in theory would be a command mechanism, yet this scenario is out of place today, in a decentralised international trading system operated by sovereign and private actors.

A third possibility, suggested by economists for the provision of public goods that would make everyone better off, is imposing some kind of a tax for pivotal agents if they choose not to cooperate, and prevent the good from being produced. This means that society would impose on the pivotal agent the true social cost of his decision – namely the harm that he would impose on other people by preventing the production of the public good. In the case of a public good in a single country, this may be a tax imposed by the government (the so-called Clarke tax). If we know that the measures to facilitate international trade would bring benefits to all, and this is the case made by the articles in this volume, then it seems that a mechanism could be devised that would discourage pivotal agents from defection. Addressing the governments and business circles in all countries of the world, Julian Oliver stressed that if they do not reform to adopt trade facilitation they will see other countries attract more mobile trade and foreign direct investment in reference to them; their country's business will migrate elsewhere; and their revenue will drop. But is this warning enough for the various actors to agree and act together? Should there be a more restrictive mechanism? Can WTO rules offer such a mechanism? And if they can, are they the rules needed to curb the tendency of unequal development, which allegedly characterises globalisation? It should be remembered that trade facilitation has strong effect on income distribution, a factor which has not yet been fully considered in the overall debate.

The key arguments in favour of a system based on WTO rules are summarised in the contribution of Pascal Lamy, “the comprehensive nature of the new Round agreed at Doha creates the political leverage to secure a binding set of rules: rules which allow for coherent and complementary action between all the different organisations involved. Second key advantage of pursuing the WTO route is that it offers binding rules and monitoring mechanisms, and thereby real predictability for business.” In this sense, Mr. Lamy added that it would be important to “map out the work ahead, and particularly if we can establish binding rules in the WTO, it would then fall to the WCO and UNECE to establish the more detailed technical instruments. This is doubly vital, given that regular adaptation and amendment will be needed to keep pace with constantly changing

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commercial practices and requirements. Of course, UNCTAD will be a vital resource too, along with the World Bank and other development agencies, in mobilising and providing the necessary technical assistance to developing countries.” The need to prepare a road map of who does what in trade facilitation is the core of the contributions of UNIDO, UNCTAD, ECLAC, ESCWA, WCO and many other articles in this book. The international community needs to seize the opportunity “to put its house in order”, and ensure a coordinated approach internationally and among international organisations in order to obtain “practical, operational outcomes”.

Functional co-operation in trade facilitation as a contribution to confidence and peace building

The problems of the insecure and unstable world we live in need a multifaceted and interrelated approach. There was something symbolic in the fact that the WTO managed to organise and lead to a successful end its fourth Ministerial Meeting in Doha, at the heart of the Persian Gulf region, exactly at the time of the greatest terrorist alarm in history, the aftermath of the attacks of 11 September 2002. The issues of global trade development prevailed over the obsession with the political problem of the day – the new, dreadful type of terrorism. This situation turns us back to the idea that functional co-operation in the economic, social, technical and humanitarian fields, whose goal is increasing social prosperity, justice and “good life”, will help eliminate the objective conditions conducive to political conflict and war. Several decades ago, in the early years of the United Nations, David Mitrany wrote, “the problem of our time is not how to keep the nations apart, but how to bring them actively together”⁶, and this remains the challenge of our work on trade facilitation. After all, the original concept of the United Nations system was “a full-fledged experiment in the application of the functional theory to international affairs”. During the years since 1945 a plethora of international agencies and projects with a wide diversity of goals emerged in the functional field. Together they serve as the foundation of a “working peace system”. The work on trade facilitation done within international organisations should be seen as a functional co-operation for peace, and as part of a global effort to remove obstacles hampering the exchange of goods among nations. And if we talk about “building peace by pieces”, trade facilitation is an important piece in

⁶ Mitrany, David. *A Working Peace System*, Chicago: Quadrangle Books 1966, p. 28

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the puzzle to conduct the peaceful and sustainable development of the future.

A significant example of trade facilitation promoting trust in a post-conflict situation is the whole body of work on trade and transport facilitation in South-Eastern Europe. The UNECE has been associated with this work for many years, together with the Stability Pact for South-Eastern Europe, the World Bank and the Southeast European Cooperative Initiative (SECI), for which UNECE is the focal point for trade facilitation. A key motivation behind the establishment of the above initiatives and corresponding fund-raising campaigns has been the restoration of peace in a troubled area, whose instability threatens global security, including the security of the countries that donated money to these initiatives. The major lesson from the account of the international experience in South-Eastern Europe, presented in the chapter by Jani Bogoevski from the Stability Pact, is that trade facilitation may successfully work for confidence building, but there have to be a number of essential conditions in place: political will of the countries in the affected region, adequate representation and discretion to make decisions in working bodies established for the purpose and, last but not least, the pivotal role of international support – both political and financial – in order for the projects to work. When estimating whether such an initiative may work in a given region of the world, it is very important to determine whether there is sufficient interest in it on behalf of strong donor states and specific international institutions. Next comes the issue of creating an adequate structure, staffed and supported by the local states, which will cooperate in a process of learning how to build peace.

There still exist “hot” spots on our planet, where everyday co-operation in facilitating trade and promoting links between traders can make incremental, but crucial inputs to confidence building and peace. The idea of Israel becoming a trading *entrepot* for trade between the industrialised West and the Arab nations was part of the Israeli nation state project before 1948. Facilitating trade in the Middle East would be of key importance to any political settlement as shown, for example, in the peace proposal of the Saudi Crown Prince Abdullah in February 2002. If Israel and Jordan could agree at the 2002 Johannesburg Summit to build a 186-mile pipeline at a cost of about one billion US dollars to pump water from the Red Sea into the biblical Dead Sea in order to save it from drying up, why could not the Middle East neighbours agree on co-operation to promote trade? Functional

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co-operation entered the discussions about the other hot area of the world today: the Korean peninsula. A plan to build a multinational railway route from the Republic of Korea via the Democratic People's Republic of Korea and Russia to Europe - a move that could earn the three countries hundreds of millions of dollars for the transit of cargo from the Korean peninsula - was discussed on the highest level during the summit meeting between Russia and the Democratic People's Republic of Korea in Moscow in August 2001. International agencies, with their expertise in trade facilitation, can and should contribute to the realisation of such major initiatives.

The international organisations of the last five decades clearly reflect and promote the development of "an international ethic of mutual aid". Yet one of the curious elements of the international system of foreign aid and technical assistance, a large part of which is provided through the international agencies, is that it requires political justification on the state and international levels, even when it goes towards satisfying basic human needs. It would be unrealistic to think that governments and businesses would launch programmes of doing good to foreigners just for the sake of doing good, as Inis Claude put it.⁷ There is no "free lunch" here. Trade facilitation is an example of combining the interests and "reservation prices" which countries and businesses are willing to pay in order to cover the cost of trade facilitation on a global scale. There is a rationale for providing assistance, and this is the mutual interest of all actors. The rationale for the provision of foreign aid during the Cold War was security or solidarity on a case-by-case basis. Now fatigue has taken the place of these two factors, which once pumped billions of dollars of aid into the developing countries. The way forward is to find a mechanism, through which each player will contribute in one way or another to facilitate trade for the benefit of all.

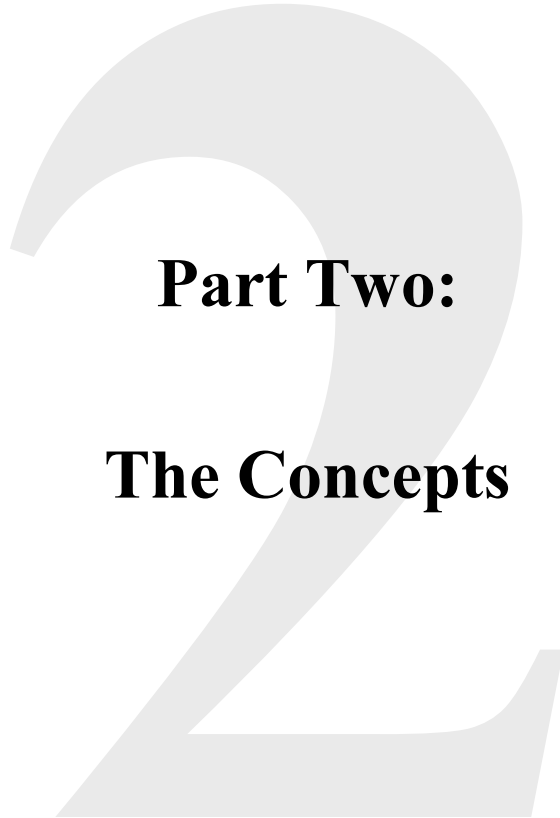
A stronger commitment from all developed countries, which value free trade, to build consensus for trade facilitation is highly desirable and would lead to gains for all. At the same time, even if the developing countries stress the necessity for financial support and technical assistance, it is not perfectly clear what are their real needs; what are the practical measures that

⁷ Claude, Inis. *Swords into Ploughshares: The Problems and Progress of International Organization*, 4th ed., New York: Random house, 1971, p. 393.

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have to be taken. The contributions to this volume, which suggest such measures, should be studied in detail by the relevant decision makers.

The chapters in this volume are arranged in such a way that they follow the logical order of the organisation of the International Forum on Trade Facilitation. Part Two of the book includes conceptual papers prepared by the UNECE secretariat, which focus on the definition and various issues of trade facilitation. It also contains policy papers identifying the problems of trade facilitation in transition and landlocked countries. The third part brings together the key contributions to the Forum, and touches upon the policy dimension of trade facilitation. The fourth part addresses the ways in which business may contribute to trade facilitation. The fifth part includes contributions on the role of the various international organisations to trade facilitation, and the sixth reflects the views of developing and transition economies, followed by the Chairman's conclusions, with which Ambassador Wasescha of Switzerland closed the Forum.



Part Two:
The Concepts

The contributions to this part of the book were drafted by the secretariat of the UNECE Trade Division. The first chapter, “Trade Facilitation in a Global Trade Environment”, was prepared as a background paper for the discussions at the International Forum on Trade Facilitation, 29-30 May 2002. Similarly, the second was prepared as a problem paper containing background information for discussion at the Round Table on the implementation of trade facilitation in transition economies held on 31 May. The International Trade Procedures Working Group of UN/CEFACT drafted the chapter on the Single Window concept. The chapter “Landlocked Countries: Opportunities, Challenges, Recommendations” was prepared by UNECE at the request of Paraguay as a study on the experience with trade facilitation of two selected landlocked countries in Europe, Switzerland and Hungary, and suggest recommendations for landlocked developing countries to follow.

Chapter 2.1

Trade Facilitation in a Global Trade Environment

Tom Butterly, Trade Facilitation, UNECE

Executive summary

Trade facilitation is a diverse and challenging issue with huge potential benefits for both business and governments on the national, regional and international levels. It cuts across a wide range of areas such as government regulations and controls, business efficiency, transportation, information and communication technologies (ICT) and the financial sector. Trade facilitation can have a dynamic effect on competitiveness and market integration. Further, the use of modern transport inventory techniques, such as just-in-time, the increasing use of air cargo, and the emergence of global supply chains and e-commerce have all made transparency and speed at international borders essential in order to compete effectively in the global economy. It is, therefore, necessary to ensure that a trade facilitation strategy is well integrated into national and regional trade policy and economic development plans. The long-term objective would be to establish an internationally integrated trade facilitation structure and supporting network with a major input from the United Nations agencies and based on agreed international standards and instruments. The international action plan would serve to guide national governments in developing trade facilitation plans.

Although work on trade facilitation has been ongoing for over half a century at UNECE and other trade related organisations, the inclusion of the issue in the WTO Doha Ministerial Declaration and the increased international attention to security, has brought the subject into sharper political focus. In a situation where the priority requirements for trade facilitation appear to have changed, it is more important than ever to define the major issues. What is required today is a dual-track approach that focuses on harmonising and implementing existing standards and developing the next generation of rules and standards to facilitate trade and economic growth in the new economy, characterised by e-commerce and global supply chains. This calls for a greater commitment and support from individual governments and the business community, but also for an increased role of such bodies as the

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United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT).

Undertaking the required infrastructural changes to implement deep trade facilitation measures requires strong political will, which would necessitate a clear understanding of the needs, benefits and capacities of local institutions to implement changes. One of the central recommendations of this paper is that government and business leaders adopt trade facilitation as a key trade and economic development tool. In this sense, organisations concerned with trade facilitation should sensitise the new generation of political leaders to the importance of this issue through focused awareness campaigns. The issue of trade facilitation and security should be addressed as a priority, sensitising officials to the potential of trade facilitation instruments for improving the existing security situation if properly implemented. National trade facilitation agendas should be developed in close consultation with the business community. Organisations such as national trade facilitation committees and regional institutions such as the European Commission and APEC have already been very active. The regional commissions of the United Nations should also take a strong role in this area, especially given their close links to national governments and experts. Central to all the suggestions in this paper is the need to coordinate the activities of the various bodies that deal with developing and implementing trade facilitation, probably in a more formal, joint management approach to coordination and in the form of a Memorandum of Understanding (MoU).

Further, it is important that all countries should have at least a minimum standard of trade facilitation implementation. This will also help assess the magnitude of technical assistance needed by certain countries to achieve a satisfactory level of trade facilitation, in order for the relevant donor agencies and governments to take this issue on board as a priority trade development issue and to allocate appropriate funds. Such technical assistance should be long term, integrated and results oriented, based on the agreed national trade facilitation agenda. A significantly enhanced effort on trade facilitation research would be necessary to guide and inform trade facilitation development and implementation work. Research is also required to develop concrete and well-balanced arguments in the awareness campaign mentioned above. Finally, it is essential that the full potential of trade facilitation, to enhance the economic performance of business and

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countries, be realised. Trade facilitation can help reduce the burdens of bureaucracy for companies, broaden market access, increase the participation of small and medium-sized enterprises in international trade, reduce corruption and help all countries obtain benefits from global trade development. This is a worthy challenge for United Nations organisations, which are, after all, focused primarily on the use of trade as a tool for economic and social development.

The purpose of this paper is to provide an overview of the current issues and priorities for action facing the field of trade facilitation. It is based on a review of the work undertaken by the main international organisations involved in trade facilitation and on the related work and experience of the United Nations Economic Commission for Europe (UNECE) over the past 40 years. The paper was prepared for discussion at the International Forum on Trade Facilitation, organised by UNECE in May 2002.

First principles

The work of the United Nations in international trade is undertaken in the context of the United Nations Charter, signed on 26 June 1945 in San Francisco. The Charter enshrines the basic United Nations principles of promoting social progress, better standards of living, full employment, and economic development, and states that the United Nations should provide solutions to international economic and social problems.⁸

In the context of the Charter, trade is essentially seen as a tool of peace and economic development for the eradication of poverty and enhancement of the freedom, equality and dignity of mankind. This is the guiding principle, the foundation and the subtext of the work undertaken by the United Nations in the area of trade. The focus is not, therefore, on the development of international trade, for its own sake, but rather on the development of international trade in the context of its potential to promote economic growth and development, and hence the alleviation of poverty.

Consequently, the United Nations' focus is to ensure that globalisation should be fully inclusive and equitable and that it should become a positive

⁸ Charter of the United Nations, www.un.org/aboutun/charter/preamble.htm

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force for all the world's people.⁹ The United Nations is in a unique position to undertake this challenge. It is the only body of its kind with universal membership and comprehensive scope for sharing information, conducting negotiations, developing norms, voicing expectations and pursuing common plans of action.

The work of the United Nations in trade facilitation clearly supports this mandate. Our role is to ensure that international trade is carried out as efficiently as possible, with full regard to the public interest and security, and that the tools and techniques of trade facilitation are made available to all countries so that all may benefit equitably from its implementation.

Trade facilitation in a global trading environment

Trade facilitation is a diverse and challenging issue with huge potential benefits for both business and governments on the national, regional and international levels. It cuts across a wide range of areas such as government regulations and controls, business efficiency, transportation, information and communication technologies (ICT), and the financial sector. It is at once a political, economic, business, administrative, technical and technological issue and all of these factors combine in the development of the trade facilitation strategy in a particular country or region.

Although traditionally considered a technical issue, trade facilitation has emerged in recent years as a key factor in trade and economic development policy, as it can have a dynamic effect on competitiveness and market integration and is arguably more important than tariff reduction as a trade development policy issue. For example, average tariff reductions under the Uruguay Round were approximately 2% of total trade value, whereas potential gains from trade facilitation are estimated in the range of 2 - 3%.¹⁰ Given the substantial tariff reductions that have already been achieved under GATT and the Uruguay Round, the potential for additional gains from trade facilitation have come under increased focus.

Another major reason for the emergence of trade facilitation as a key economic policy issue is the changing nature of trade. It is no longer only

⁹ UN (2000), We the Peoples ... The Role of the United Nations in the 21st Century, Millennium Report of the Secretary General of the United Nations, Kofi Annan

¹⁰ OECD (2001), Business benefits of Trade Facilitation (TD/TC/WP/2001/21)

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access to world markets that is at stake but getting the goods to the market on time without major delays or cost increases due to legal, administrative, customs or technical barriers. The large increase in trade flows through the use of modern transport inventory techniques, such as just in time and the increasing use of air cargo, have made transparency and speed at international borders essential in order to achieve the potential benefits of international and regional trade agreements.¹¹ This is a real challenge for all countries but even more so for countries distant from major markets, particularly the developing or remote landlocked countries. Actually, some of the earliest efforts in the development of trade facilitation undertaken by Sweden and Finland were, in fact, motivated by an understanding of the need to access European markets through better functioning of the entire trade process, including moving goods across borders from seller to buyer and monitoring their progress to final destination.

For example, global supply chains require an enabling environment that facilitates the free movement of goods and services across borders, while still taking into account the necessary regulatory and statutory instruments. This includes an acceptance of the need for speed and agility in the production and flow of goods across borders; an open attitude to information sharing; the need for appropriate legislation to cover the acceptance of digital signatures and certificates; the development of a corporate culture that looks at and takes responsibility for the entire supply chain (as opposed to only one's individual component); and a keen focus on satisfying (and anticipating) the needs and preferences of clients.

Similarly, global e-commerce offers tremendous potential for economic development, but it demands a rapid delivery system for products and services, commensurate with the concept of "instant" e-business. It is certainly self-defeating for e-business to operate in an environment where the business can be transacted at the touch of a button while the goods languish for days at the border! In this context, therefore, the potential for growth in e-business will be highly dependent on the availability of efficient transport and trade related procedures and processes.

It is, therefore, essential to ensure that trade facilitation is well integrated into national and regional trade policy and development plans. This point is particularly important in the regional context given the very strong growth

¹¹ Canadian Department of Foreign Affairs and International Trade, Consultations with Canadians, 1999 - WTO and FTAA Consultations

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of regional trade blocks in recent years¹² and the potential for open regional trade development as a building block for further global liberalisation.¹³ The Asia Pacific Economic Co-operation (APEC) has already adopted trade facilitation as a major element in its trade and economic development policy.¹⁴ Similarly, this is also a key feature of the European Union (EU) policy on trade development. This refocusing on trade facilitation, as a policy rather than a technical issue, has important implications for the overall approach to the issues discussed throughout this paper.

Trade facilitation and electronic business are vital factors in the development of world trade and, therefore, central to the remit of the United Nations Economic Commission for Europe (UNECE). Work in the trade facilitation area has been ongoing at UNECE and various other United Nations and international agencies for over 40 years, resulting in the development of over 200 trade facilitation instruments as listed in the UNECE/UNCTAD *Compendium of Trade Facilitation Recommendations*.¹⁵ UNECE itself has developed over 30 trade facilitation recommendations and the only global standard for electronic business, UN/EDIFACT.

To achieve improved worldwide coordination of these areas, the UNECE, which acts as the focal point within the United Nations for these matters, has established the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT). UN/CEFACT has adopted an integrated approach in this regard, focusing on the interdependency of trade facilitation and electronic business tools. UN/CEFACT is built upon the three pillars of trade: processes and procedures; information; and technology. It seeks to provide simple, transparent and effective processes and standards for global commerce. In order to realise this goal, UN/CEFACT works to exploit advances in information technology and to adopt new approaches to trade facilitation, based on the simplification and harmonisation of business and governmental processes.

¹² Legrain, Philippe, *The not-so global economy*, Prospect, November 2001

¹³ Bergsten, C. Fred, *Open Regionalism*, Institute for International Economics, 1997

¹⁴ Wilson, John S and Yuen Pau Woo, *Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda*, 2000

¹⁵ UNECE/UNCTAD (2002) *Compendium of Trade Facilitation Recommendations*

Trade facilitation, Doha and the WTO

Although work on trade facilitation has been ongoing for over half a century, the inclusion of the issue in the Doha Ministerial Declaration has brought the subject into sharper political focus and it is now more important than ever to define the major issues. Trade facilitation was added to the World Trade Organisation (WTO) agenda at its Singapore Ministerial meeting (December 1996). Under the mandate approved at that time, it was agreed that the Council for Trade in Goods “*carries out explanatory and analytical work, taking into account the work for other relevant organisations, on the simplification of trade procedures, in order to assess the scope for WTO rules in this area.*”¹⁶ Further to that mandate, considerable analytical work, based on proposals from a wide range of WTO Members, was carried out. Other international organisations were also associated with the work and the WTO organised two important symposia: one in 1998 focusing on the overall priorities of the international business community, and the second, in 2001, focusing on the technical assistance and capacity building needs of developing countries in trade facilitation.

The issue was again discussed at the Doha Ministerial meeting in November 2001. The Doha Ministerial Declaration established that negotiations on trade facilitation would take place after the Fifth Session of the Ministerial Conference in 2003, in Mexico. The text of the Declaration is as follows:

27. Recognising the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that session on modalities of negotiations. In the period until the Fifth session, the Council for Trade in Goods shall review and as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of members, in particular developing and least-developed

¹⁶ WTO Website, www.wto.org

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countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area.¹⁷

The overall approach to trade facilitation within the WTO will continue to be subject to deliberations among WTO Member States. There have been varied views expressed on this point in the past, with some countries arguing for a binding rules-based approach of the kind familiar in existing WTO Agreements,¹⁸ while others suggesting the development of a set of guiding principles or other types of non-binding forms of procedure as a first step in the process of establishing trade facilitation within the WTO. To what extent those pre-Doha positions have been altered, following the Fourth Ministerial Conference, remains to be seen. The major challenges lie in implementation and the associated problems of expertise, financial resources, and government commitment to reform.¹⁹ There is universal agreement that this task will require the provision of significant technical assistance to developing and transition economies for the development of trade facilitation policies and capacities.

Benefits of trade facilitation

The benefits from trade facilitation can be particularly important for developing economies, where the removal of trade inefficiencies may be many times more beneficial to industries than the reduction or removal of tariff barriers. In addition, trade facilitation can be especially important for small and medium sized companies for whom the costs of compliance with procedures are proportionately higher. Trade facilitation is also an increasingly important factor in attracting foreign investment, especially supply chain related investment, where the existence of an efficient trading process is essential.

Much progress has been made over the past decades in implementing trade facilitation measures and supporting technologies in both developed and developing economies. However, the task has been difficult and complex.

¹⁷ WTO Website, www.wto.org

¹⁸ Europa, EU Proposals to the WTO Concerning Trade Facilitation December 2000, www.europa.int/comm/trade/miti/tradefac/cons WTOag_trfac.htm

¹⁹ Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000.

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Trade facilitation attempts to coordinate complex public and private business relations and interactions on a global level. Achieving this goal, even at a national level, is often elusive. For example, consider how difficult it can be to get national organisations to agree to a particular data standard or procedure and one begins to understand the magnitude of attempting the task at the global level. Added to this are the vastly different conditions in individual countries and regions and the pressing need, in some developing economies, for institutional development and micro-economic reforms.²⁰ Consequently, one must consider the constraints when assessing the potential for implementing trade facilitation and in particular more advanced trade facilitation measures such as global risk management strategies. One has to examine both the benefits of introducing new systems and approaches and the potential costs of not applying such methods.

Trade facilitation and electronic business is not only about cost savings but equally, and perhaps more importantly, is the business development aspect of trade facilitation techniques. Increasing revenues through electronic business and through the use of the Internet World Wide Web and associated standards like ebXML will bring new business opportunities and revenue streams that are linked to modern business and transport solutions. These opportunities are worth trillions of dollars.

Measuring the benefits

Although it is clear that trade facilitation results in direct benefits to both governments and the business community, there has been little empirical work undertaken to date, to measure the extent of such benefits. The business benefits of trade facilitation are equivalent to the savings in transaction costs plus the significantly increased business opportunities resulting from the introduction of trade facilitation measures. These include reductions in the following:

- Compliance costs (producing and transmitting required documents);

²⁰ UNECE (2001), Regional Perspectives on Globalisation: An opportunity for catching up or a risk of falling behind in the development process, statement by Danuta Hubner.

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- Service charges (banking, insurance, cargo handling, transport, etc);
- Time-costs (processing time, procedural time);
- Business opportunities cost (lost business or business not considered);
- The “hassle” factor associated with dealing with a complex and time-consuming trade process;
- Personal opportunity cost (time lost in waiting at customs, taking documents from one agency to another, etc), which is particularly severe for SMEs; and
- Costs related to unpredictability and corruption.

APEC estimated that trade facilitation measures already committed would add 0.25% to real gross domestic product (GDP) (or about US\$ 46 billion in 1997 prices) by 2001, compared to gains of 0.16% of real GDP from trade liberalisation (tariff removal) measures.²¹

The implementation of the trade facilitation network in Singapore that allows traders to make an electronic declaration of imports and exports direct from their own computer, generated savings worth approximately 1% of Singapore’s GDP and 0.4% of total external trade. The system became self-financing within three years of operation.²² Mauritius implemented a similar system, which also gave very positive results, and is profit making. Chilean customs estimated that the introduction of their Electronic Data Interchange (EDI) systems resulted in business savings of over US\$ 1 million per month and for a system cost of US\$ 5 million.²³

A recent study undertaken by the Organisation for Economic Co-operation and Development (OECD)²⁴ (summarised in the annex) laments both the outdatedness and the lack of rigour in currently available estimates of the

²¹ Wilson, John S and Yuen Pau Woo, *Cutting Through Red Tape: New Directions for APEC’s trade facilitation agenda*, 2000

²² World Bank, *Information Technology and National Trade Facilitation, Making the most of Global Trade*, Technical paper Number 316. See also Harvard Business School Case #9-191-009, *Singapore Tradenet: A Tale of One City* (1990)

²³ WTO (2000), *Trade Facilitation: Chile’s experience with the modernisation of Customs administrations Based on the use of information technology* (G/C/W/239)

²⁴ OECD (2001), *Business benefits of Trade Facilitation* (TD/TC/WP/2001/21)

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value of trade facilitation and points to the need for further empirical research on the matter. From the various studies reviewed, the author concludes that the range of estimates for transaction costs make up 2 to 15% of trade transaction value. On the basis of the estimates described in the report, it can be said that trade facilitation measures could result in a saving of between 2 to 3% of total trade value. The potential for such savings will obviously vary from country to country, depending on the existing costs and levels of inefficiency.

The World Bank is currently conducting research into this important question under an APEC project. Results from this analysis are expected to be available later in 2002.

Trade facilitation and economic growth

Why are some countries richer than others? What are the factors for economic growth? How can growth be sustained? These questions have occupied the minds of economists and politicians for many years and a full discussion of the subject falls outside the scope of this paper. However, it is clear that trade facilitation plays an important role in economic growth and thus, it is crucial for policy makers and political decision-makers alike to understand and make full use of this tool for economic development.

The output of an economy is a function of factors such as labour, physical capital and human capital, as well as the productivity with which these factors are combined to produce goods and services. However, these factors do not by themselves explain growth and it has been suggested that other deeper determinants are instrumental for growth. In this regard, Rodrik (2002) identifies: (1) geography, (2) trade and (3) institutions.

Economists have long considered the geographical position of a country and proximity to markets as important factors in the development process.²⁵ Frequently, the case is made that trade (integration in the world economy) translates into higher growth and that high quality institutions are causal to trade development. It has also been suggested that a two-way interaction

²⁵ Smith, Adam. *An inquiry into the Nature and the causes of the Wealth of Nations*, Chicago University Press, 1776 (1976); and Sachs, Jeffrey D., Mellinger Andrew D., Gallup John L., *The Geography of Poverty and Wealth*, Center for International Development at Harvard University, in Scientific American Magazine, March 2001

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exists between trade and institutions. Better institutions foster trade and trade supports the development of higher quality institutions.²⁶ Clearly, these determinants play a relatively stronger role the more a country is disadvantaged by its geographical position. A country not located close to major markets encounters high transport costs and the role of institutions becomes relatively more important. It is here that modern trade facilitation techniques can make a difference: by offsetting the disadvantage of high shipping costs and by enhancing the development of institutions through the use of electronic means for business exchanges and automation.

A strong relationship has been found between shipping costs and economic growth.²⁷ Given that world prices are elastic (a trader can exert little impact on world prices) the higher the shipping costs, the more firms will have to pay for imported goods, and the less they will receive for their exports. Thus, higher transport costs would have to be offset by lower wages or by reduced costs somewhere else in the production process, in order to allow firms to compete.

Tariffs have been reduced and the actual transportation costs show a downward trend due to containerisation and other modern transport techniques, including electronic data interchange (which in itself is a trade facilitation technique). As a result, procedure related costs are a relatively higher proportion of total shipping cost and thus, the possibility of reducing total costs through trade facilitation techniques is relatively more important than before.

Firms operating in countries where shipping costs are high are likely to pay lower wages and accept smaller returns on capital to compensate for these higher costs. In these countries, in addition to macroeconomic stability and relevant trade policy, trade facilitation techniques can make a difference by cutting red tape and rationalising business and administrative procedures, thus lowering overall shipping costs.

²⁶ Rodrik, Dani, Institutions, integration and geography: In search of the deep determinants of growth, 2002

²⁷ Radelet, Stephen and Sachs, Jeffrey, Shipping costs, manufactured exports and economic growth, 1998

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New standards and techniques for electronic business, including the Internet World Wide Web, are already revolutionising many institutions. Many of the world's customs services are computerised and electronic means of communication are being established with traders. In addition to customs services, other institutions and procedures benefit from automation. In the European Union, for example, the transit procedure is automated and discussions are under way for a "single window" procedure whereby traders only need to submit information about a consignment once. Further, the use of electronic means of information such as EDI and the new standards using the Internet World Wide Web, will provide immense benefits to official administrations and institutions. This will affect all aspects of government, giving opportunities for dramatically improved productivity.

In conclusion, policy makers should pay more attention to the available tools that can be used to overcome development barriers associated with geography and in particular, high transportation costs and should consider how these tools can be used to modernise institutions. In this respect, trade facilitation measures, including electronic business standards, can have a large impact as factors for reducing shipping costs as well as electronic business tools for the rationalisation and development of institutions; both factors of great relevance for economic growth.

Trade facilitation basics

So, what exactly is trade facilitation? Several definitions have emerged over the years. UNECE considers trade facilitation to encompass the systematic rationalisation of procedures and documentation for international trade, where trade procedures are the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade".²⁸ Trade facilitation has also been defined as the simplification and standardisation of procedures and associated information flows required to move goods internationally from seller to buyer and to pass payment in the other direction.²⁹

²⁸ UN/CEFACT Recommendation 18

²⁹ This definition was provided by the former Director General of the IECC, Mr. John Raven, in a communication to the OECD Secretariat on 18 May 2001.

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The mission statement of UN/CEFACT presents the following vision of trade facilitation: “to support activities dedicated to improving the ability of business, trade and administrative organisations, from developed, developing and transitional economies, to exchange products and relevant services effectively. The principal focus is to facilitate international transactions, through the simplification and harmonisation of processes, procedures and information flows, and so contribute to the growth of global commerce.”

In practical terms, trade facilitation focuses on creating efficiency and reducing costs across the entire trade transaction process, a process that involves a series of activities including:

- Agreement of sale between the buyer and the seller;
- Processing of the agreed commercial documentation;
- Compliance with health, safety and other regulations and standards;
- Fulfilment of the required customs and any other documents and procedures at the time of border crossing;
- The efficient movement of the goods from the seller’s to the buyer’s premises;
- Compliance of goods with the buyer’s requirements;
- Payment for the goods; and
- Disposal of goods and end products.

The number of parties involved will depend, largely, on the level of regulation and the integration and automation of a particular country’s trade system. It is estimated that an average trade transaction goes through 27 to 30 parties, including regulatory authorities, brokers, vendors, banks, carriers, and freight forwarders. In a poorly facilitated environment, this can require up to 40 documents, not only for government authorities, but also for related businesses (in a fully facilitated environment such as Australia, for instance, the whole process can be covered in just one document). In manual systems, the level of data entry can be extensive, with the high probability of data re-entry and data error. This entire process can be expensive for both government and business and can reduce competitiveness significantly.

Trade facilitation, then, is a comprehensive and integrated approach to reducing the complexity and cost of the trade transaction process and

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ensuring that all these activities can take place in an efficient, transparent and predictable manner, based on internationally accepted norms, standards and best practices. At the same time, it seeks to optimise the effectiveness of regulatory controls to ensure the safety and well-being of citizens and the collection of appropriate taxes and fees³⁰. Trade facilitation, therefore, involves primarily:

- Simplifying (and eliminating where possible) formalities and procedures. In particular, those related to the import, export and transit of goods;
- Harmonising applicable laws and regulations;
- Improving and standardising physical infrastructure and facilities, including transport, and customs facilities; and
- Standardising and integrating information definitions and requirements and the use of information and communications technologies so as to exchange this information efficiently.

Trade facilitation takes place at the national, regional and international levels. At the national level, it focuses on simplifying and harmonising the trade-related structures and procedures within a country. However, this in itself is not sufficient. As goods cross international frontiers, they move from one legal and administrative jurisdiction to another. It is, therefore, essential to harmonise trade facilitation norms and standards internationally and herein lies the important role of the United Nations and other international standards and rule-setting organisations.

In developing trade facilitation approaches, governments must work together and with international organisations to harmonise, simplify and standardise procedures and documents, as well as trade and transport system components. This is the foundation and rationale for the development of instruments undertaken by UNECE and other organisations in the trade facilitation area since the early 1960s.

³⁰ In this context, it is important to realise the importance of revenue collection at Customs for developing economies (often one of the largest sources of government revenue).

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Issues, priorities and development strategies

Various governments and international organisations have given much consideration to identifying the key trade facilitation priorities and implementation issues over the past few years and several documents and reports have been published to this effect. In the following sections, we will review a selection of this material and will then outline the priority areas, based on these documents and the work and experience of the UNECE.

The 1998 WTO Symposium on Trade Facilitation identified a long list of issues that, in essence, called for the implementation of various procedural measures related to transport, procedures, customs, trade documents, integrity, and the use of information technologies.³¹ Well over half of these issues relate to existing trade facilitation instruments, such as the Kyoto Convention, the Montreal Protocol IV, the IMO Convention on the Facilitation of International Traffic (FAL), the United Nations Layout Key for Trade Documents, UN/EDIFACT, the Arusha Declaration on Customs Integrity, the G7 Data initiative and UN/CEFACT Recommendation 18. Of the remaining issues, the dominant themes were the harmonisation of data and trade facilitation promotion and coordination.

In 1999, the WTO again assessed trade facilitation issues on the basis of both informal consultations with Members and formal meetings in the Committee on Trade and Development (CTD). It thus identified the major issues as being: simplification and greater transparency in official documentation; increased transparency and predictability; streamlining of official controls and procedures; the facilitation of trade procedures through increased use of information technology and the harmonisation and simplification of regulations relating to the transport and transit of goods.³² Although these issues are covered partially in existing trade facilitation instruments and recommendations, many are not binding, some instruments are competing, others have few subscribers, and not all meet modern business needs and practices.

³¹ WTO (1998), Checklist of Issues Raised During the WTO Trade Facilitation Symposium

³² WTO (1999), Trade Facilitation - Contributions Received From Other Bodies (G/C/W/149)

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In considering their own work on trade facilitation, APEC members concluded that it would be more beneficial for that organisation to look at trade facilitation from a horizontal perspective and increase coordination among the various APEC committees.³³ APEC has, in fact, taken a more broad-based strategic approach to trade facilitation and has identified the following priority areas:

- Establishment of a high-level trade facilitation focus, which includes a development perspective within APEC;
- Renewal of trade facilitation objectives and establishment of performance targets rather than measuring inputs only;
- Establishment of trade facilitation as a priority; and
- Investment in trade facilitation research and capacity building.³⁴

The European Commission (EC) has provided extensive inputs on trade facilitation to the WTO and is one of the primary promoters of the inclusion of trade facilitation in the WTO agenda. The EC advocates as priority areas the harmonisation and simplification of documents and data; modernisation of customs and customs management techniques and automation and convergence of official controls. In particular, it stresses the need for providing technical assistance to developing and transition economies to implement trade facilitation, as an integral part of any WTO initiative and not as an afterthought.³⁵

In considering the priority areas for trade facilitation, UN/CEFACT's International Trade Procedures Working Group pointed to the need for a "policy" as opposed to a "technical" approach to the topic, and identified the following as priority needs:

- Enhanced focus on the political and macroeconomic aspects of trade facilitation;

³³ Canadian Department of Foreign Affairs and International Trade, Report to SOM and CTI by the Government of Canada (on the September 2000 APEC Workshop on Trade Facilitation)

³⁴ Wilson, John S and Yuen Pau Woo, Cutting Through Red Tape: New Directions for APEC's trade facilitation agenda, 2000

³⁵ WTO (1999), EC Approach to Trade Facilitation (WT/GC/W/190)

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- Significantly increased promotion and implementation of trade facilitation;
- Development of a coordinated global approach to trade facilitation;
- Standardisation of data requirements and adoption of data set standards;
- Customs reform, modernisation and co-operation; and
- Provision of technical assistance to support implementation.

Based on the above considerations and on the work and experience of UNECE as a standards setting organisation in trade facilitation, it is the view of UNECE that the priority requirements for trade facilitation have changed in recent years. What is now required is a dual track approach, focusing on the harmonisation and implementation of existing standards and the development of the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains. This calls for a significantly different approach by the various organisations involved in the trade facilitation area and certainly requires greater commitment and support from both individual governments and the business community. Bodies such as UN/CEFACT have an important role to play in these developments.

It is also clear that trade facilitation is now an important component of trade policy for economic development and competitiveness as opposed to being a backroom technical issue. As suggested by the World Bank, trade and transport facilitation is no longer a remote question of plumbing malfunction in the basement; it is an issue of national economic policy at the government's table.³⁶

UNECE sees the following as key strategic issues for implementing and developing trade facilitation over the coming years:

- (a) **Political will** – developing the political will to implement new and existing trade facilitation measures;
- (b) **Promotion** of trade facilitation concepts to build **awareness** at senior levels of government and business;

³⁶ Correspondence between UNECE and Marc Juhel, World Bank, February 2001

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- (c) **Implementation and development** of existing and new trade facilitation instruments;
- (d) **Technical assistance** to support the implementation;
- (e) **Coordination** of trade facilitation efforts among various agencies;
- (f) **ICT** - development and implementation of ICT technologies and standards to support trade facilitation;
- (g) **Research** into trade facilitation policy issues, performance measurement and benefits;
- (h) **Security** - promoting the link between trade facilitation and security.

Each of these areas is discussed below.

(a) **Political will**

Political will, at the national, regional and international levels to make and implement the key decisions related to trade facilitation, is a prerequisite for continued progress. This need for political will and direction is required, not only in developing/transition economies. Even in the more developed economies of Europe and in the United States, the existing trade facilitation standards have not been implemented completely. Further, there is a need to ensure that the new possibilities for international trade offered by developments such as e-business and global supply chains are incorporated into the trade facilitation agenda. In all of the above areas, political will relates to the existence of relevant rules and standards and the willingness to implement these in a harmonised manner.

The need for political will relates to the fact that trade facilitation implementation often requires making significant changes in the operation, mandate, and orientation of various governmental agencies at both the national and international level. For this, public and private organisations may need to cooperate more openly and to focus on a common economic and social development objective or result as opposed to their separate goals and objectives. It may also involve the revision of responsibilities and change of status for senior government officials as new policies change the focus or operation of individual organisations. Political will is also required at the national level, to address the issues of corruption, transparency and

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integrity that may exist at various stages throughout the trade transaction chain. These are difficult issues that need very strong leadership, generally from senior levels of government.

The benefits of trade facilitation must be seen to be equitable across all countries in order for government leaders to embrace the topic. For this reason, the measures taken must encompass fully development concerns and needs.

Political will is also required to increase the provision of technical assistance to developing and transition economies for implementing trade facilitation measures. Although significant contributions have been made, to date, from the European Commission and other donors, there is still a pressing need for long-term, well-coordinated and well-designed assistance programmes. Failure to address this point adequately could seriously undermine the willingness of developing countries to support the inclusion of trade facilitation in the next WTO round.

Political will is required to further coordinate the efforts of the various national, regional and international organisations involved in developing and implementing trade facilitation instruments. The fundamental principles of trade facilitation (simplification and harmonisation) should be applied to trade facilitation organisations themselves in the development of a coordinated approach to the topic.

Trade facilitation is essentially a government/business partnership where both parties can reap significant benefits. The active participation and commitment of the business community in the development of trade facilitation initiatives is paramount to their success. Further, the business community can be a major source of funding for implementing trade facilitation initiatives.³⁷

Essentially, each country and region needs to establish a strategic agenda for trade facilitation development that has broad support from both government and the business community and is based on an overall agreed international trade facilitation agenda and standard. The regional commissions of the United Nations could be extremely important in helping to develop such a strategic agenda from a regional implementation

³⁷ As in the case of Singapore and Mauritius, for example.

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perspective. These commissions report to the highest United Nations body in the area of economics, trade and development: the Economic and Social Council (ECOSOC). This is the ideal location for developing practical recommendations for action because, within various work areas in the United Nations system, the regional commissions have the closest links to experts from national governments.

At the national level, the role of trade facilitation bodies (PRO organisations, Trade Facilitation Committees, etc.) should be reviewed and strengthened, or redesigned where necessary, in order to achieve the required level of dialogue, co-operation and investment and business partnership as outlined in UN/CEFACT Recommendation 4.³⁸

(b) Promotion and awareness

Extensive promotion of the benefits of trade facilitation is an obvious necessity, especially if one wants to win the hearts and minds of politicians and senior government officials.³⁹ Trade facilitation must be recognised as much more a political and economic issue as opposed to a technical issue only, and awareness of the economic development and competitiveness aspects of trade facilitation must penetrate the political agenda at the highest level. The WTO, World Customs Organisation (WCO), APEC and other organisations already have promotion programmes in this regard but much more needs to be done if we want to raise the level of awareness of trade facilitation as one of the key political and economic development issues. Essentially, politicians and senior government officials must be convinced of the benefits of trade facilitation and must have a clear understanding of its principles and potential benefits if they are to take the issue on board as a priority item.

This is not a simple task as trade facilitation is a significantly more diverse and complex issue than other trade development issues such as tariff reduction. It will be necessary, therefore, to distil trade facilitation into its essential components and present these in a logical yet non-technical manner. It will also be desirable to quantify more clearly the benefits of trade facilitation, especially in relation to other trade development measures

³⁸ UN/CEFACT Recommendation No. 4, National Trade Facilitation Bodies

³⁹ See, for example, the recent World Bank publication "Globalisation, Growth and Poverty" (2001)

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such as tariff reduction. Regional case studies, for instance, would be useful.

The task of promotion is immense and needs to be coordinated among the relevant trade facilitation organisations to ensure that a consistent message is delivered. Bodies such as the WTO, WCO, UN/CEFACT, the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC) should continue to address this issue at the international level. At the regional level, the commissions of the United Nations could be charged with promoting trade facilitation within their regions. Other regional organisations, such as APEC, the Association of Southeast Asian Nations (ASEAN), the Southern Africa Development Community (SADC), could also play a useful role.

On a national level, the Trade Facilitation/PRO organisations⁴⁰ could also be called upon to launch a national awareness campaign, again supported by the above organisations.

Promotional material should be prepared by the various organisations involved in trade facilitation. Publications, such as the UNECE/UNCTAD *Compendium of Trade Facilitation Recommendations*, should be re-written as a Guide to Trade Facilitation, outlining how the specific recommendations interrelate and indicating how they could be implemented. Further, the Guide should assist countries in sifting through the vast range of existing instruments in order to establish a prioritised approach to implementation. Similar Guides could be prepared for other instruments, as necessary.

(c) Implementation and development

Work in the trade facilitation area has been ongoing at UNECE and various other UN and international agencies for over 40 years. Over that period, there have been tremendous improvements in both developed and developing countries regarding the overall operation of the trade transaction chain. However, much work remains to be done and several of the issues that these instruments were designed to address continue to impede the efficient operation of the international trading environment.

⁴⁰ See UN/CEFACT Recommendation No. 4 for details.

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The main focus of the work must now shift to the harmonisation and implementation of existing standards, and the development of the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains.

Given its extensive technical expertise, UN/CEFACT's will play an important role in developing the new standards and measures outlined above. In addition, UN/CEFACT's International Trade Procedures Working Group (ITPWG) could assist in identifying and promoting strategies for the implementation of trade facilitation instruments. For example, ITPWG is currently developing a model and recommendation for the implementation of the Single Window concept, a "one-stop-shop" approach to the exchange of trade-related information between business and government and between governmental agencies. Other similar initiatives could be undertaken by the ITPWG, in consultation and co-operation with relevant international trade organisations. International forums, such as the 2002 UNECE International Forum on Trade Facilitation, should also feed into this process.

(d) Technical assistance

There is strong agreement, both from international organisations and from countries, that an extensive technical assistance programme will be required to expand trade facilitation capacity in developing and transition economies.⁴¹ Indeed, the inclusion of specific wording to this effect is a key element in the Doha Ministerial Declaration.

Technical assistance programmes for developing countries and regions must be based on a careful analysis of the needs of each country/region and on the general objectives of the global trade facilitation programme. A useful tool in this regard could be the recent World Bank document "Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action" (2001).

From the outset, it is recommended that technical assistance projects should be long term, well funded, results oriented and fully integrated, running seamlessly from needs analysis to project planning to implementation and review. The Project Cycle Management (PCM) approach used by the World

⁴¹ See, for example, submissions to the WTO from Japan (WT/GC/W/257) and Australia (G/C/W/263)

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Bank and the European Commission (EC) could be useful in developing such programmes.

The existing WTO technical assistance programme will be most useful as a means to support the future negotiations and help clarify the issues for delegations. However, additional technical assistance programmes, similar to those already provided by donor agencies such as the European Commission or the World Bank will be required and existing programmes may have to be strengthened. Areas such as customs reform, implementing international trade facilitation instruments, harmonising the operation of various government agencies, and developing and implementing necessary information and communications systems and technologies, all require substantial development and support. The existing work of UNCTAD and the World Bank in this area should be strengthened and complemented by other organisations.

The total cost for technical assistance requirements is likely to be high. For example, World Bank loans to streamline and modernise customs procedures in Tunisia amounted to US\$ 35 million in 1999 and US\$ 38 million was lent to Poland to upgrade the physical and managerial infrastructure of port facilities.⁴² With many developing countries requiring assistance, the total technical assistance budget requirement could be very high. This reality needs to be taken into account in the international debate on trade facilitation and planned for from the outset. Regional technical assistance projects could be considered, such as the European Commission funded projects.

(e) Coordination

Numerous international and regional organisations carry out trade facilitation work, including WTO, WCO, UN/CEFACT, UNCTAD, ICC, WB and the regional commissions of the United Nations. Despite the good relations and exchange of information among these bodies, the planning of their work programmes and projects needs to be better integrated and coordinated. The establishment of a joint management approach should be considered, operating within a Memorandum of Understanding (MoU) outlining the roles and responsibilities of the various agencies. This could

⁴² World Bank (2001), Trade Facilitation Lending by the World Bank, Recent Experience, research and Capacity Building Initiatives, John Wilson

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be modelled on the existing and successful MoU⁴³ established between UNECE the International Standards Organisation (ISO), International Telecommunications Union (ITU) and IEC to coordinate the development of electronic business standards such as UN/EDIFACT and ebXML.

Another coordination model that could be considered is the Global Facilitation Partnership for Transport and Trade (GFP), launched in 1999 as an initiative supported by the World Bank and the International Chamber of Commerce (ICC). For example, the GFP is setting up a task force on facilitation performance measurement to gather systematic data and establish common methodologies to produce and follow-up on facilitation indicators.

Coordination must be output oriented, as opposed to process oriented. Decisions should be taken regarding the specific activities that particular organisations are going to undertake. A formal coordinating structure could be established, but only if this would provide added benefit (and not added bureaucracy and administration). An initial joint planning session should be held between both senior and technical officials of the cooperating organisations to:

- Consider the contents and structure of an MoU as suggested above;
- Exchange and discuss their work plans and strategies;
- Consider the general needs;
- Define the gaps and overlaps; and
- Allocate responsibilities for specific organisations in specific areas, taking the statutory mandates as the principal allocating factor.

The above arrangement would not in any way affect or change the mandates and operations of the organisations. The objective would be to coordinate the implementation of work programmes in such a way as to avoid duplication and overlaps, and ensure that all the priority areas are covered for the benefit of member countries.

To disseminate information on the (coordinated) work programmes to the general community, it is recommended that a Web-based projects and

⁴³ MoU between IEC, ISO, ITU and UNECE in the field of electronic business

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activities database be established under the MoU, listing all the major projects and activities currently being undertaken or planned. This should help focus the complementary activities of external organisations and the overall programme of activity. The WTO, as part of its programme for Trade Related Technical Assistance, is compiling a comprehensive database on all assistance programmes – bilateral and multilateral – in the field of trade facilitation and this is likely to be available in the third quarter of 2002.

(f) Information and communication technologies

Electronic business tools will continue to play a major role in modernising the whole supply chain and trade transaction process. For example, APEC is aiming at paperless trade by 2005, for developed economies and 2010, for developing economies (within APEC).⁴⁴

For information and communication technology (ITC) to be effective in an international trade facilitation environment, the adoption of agreed international standards is essential. New technologies such as ebXML hold great promise as an integrated e-business standard for the future. At present, however, UN/EDIFACT remains the only international standard for e-business in trade facilitation and continues to be the basis of most automated international supply chains. It is important, therefore that this standard is strongly promoted

Standardisation and harmonisation of data elements used in customs and administration has been identified as a pressing issue for trade facilitation for both developed and developing economies. This is an area where improvements are called for by business sectors even in well-developed customs administrations, including countries within the European Union. The project to identify a core set of elements undertaken by the Group of 7 countries, the G7 data model, was passed on to the WCO earlier this year for further development and international endorsement. It is imperative that this work proceeds as quickly as possible.

In considering ICT solutions to trade facilitation issues, it must be understood that automating existing processes is rarely the correct approach.

⁴⁴ Asia Times, APEC: Trade saviors or talking heads? August 19, 2000

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Rather, the development of information systems generally presents a unique opportunity for a review of the entire customs or transactions process and it is in this process itself that most of the benefits can be achieved.⁴⁵ This is especially important when considering appropriate strategies to facilitate global supply chain and e-commerce business operations, which often have significantly different operational requirements than more traditional businesses (and consequently could benefit from significantly more creative trade facilitation processes). This is a challenging task and as indicated by the Czech Republic customs organisation, what initially might look like a simple technological operation can prove to be a de facto customs revolution.⁴⁶ UN/CEFACT has adopted an integrated approach in this regard, focusing on the interdependency of trade facilitation and electronic business tools.

(g) Research

Although the potential benefits of trade facilitation are fairly well understood, there are very few recent empirical estimates available as to the economic benefits that could accrue due to the implementation of trade facilitation instruments (see section IV). Given the fact that some developing countries have questioned the potential for trade facilitation to benefit SMEs in particular and developing countries in general,⁴⁷ it is essential that trade facilitation research should address such basic questions as a matter of priority.

Countries also need assistance in determining their current levels of trade facilitation and the development of appropriate benchmarks should be developed for this purpose. A well-defined research programme to define and utilise such measures would be most appropriate.

⁴⁵ Harvard Business School Case #9-191-009, Singapore Tradenet: A Tale of One City (1990)

⁴⁶ WTO (2001), Trade Facilitation, National Experience of Czech Republic, G/C/W/247

⁴⁷ Canadian Department of Foreign Affairs and International Trade, Consultations with Canadians, 1999 - WTO and FTAA Consultations

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Additional research areas could include:

- Development of a list or database indicating which countries have implemented which measures;
- Development of case studies and guides regarding the implementation of trade facilitation at the national and regional level;
- The evaluation of current technical issues identified in the various trade facilitation meetings and conferences (as discussed in section III) against existing trade facilitation measures; and
- Determination of the pressing technical issues (if any) that are not already covered by existing measures (and consequently, what action should be taken, either as amendments to existing instruments or developed as new recommendations/instruments).

(h) Security

Recent developments on the international front have called into question the wisdom of the “open border” approach, pointing to the increased security hazard that this presents. However, it is important to realise that trade facilitation and risk management techniques, if properly implemented, can in fact increase countries’ abilities to meet pressing security requirements. The wide body of trade facilitation recommendations and instruments developed over the past two decades already has enormous potential to facilitate, monitor and control the flow of goods and services across borders. In addition, modern information and communications technologies can supply information to all actors in the trade chain concerning the origin, destination, content and certification of goods. Indeed, the availability of accurate information on goods before they reach the border would allow for a much more effective evaluation of the risk potential of such goods and would allow “legitimate” trade to proceed unencumbered.⁴⁸ The availability of more accurate and comprehensive information would also enhance revenue collection and the control of suspect goods.

However, while much progress has been made in several developing economies in this area, it is probably beyond the current resources of many

⁴⁸ Raven, John, *Terrorism and Trade Facilitation*, 2001, (UN/CEFACT reference number CEFACT/2001/IT023)

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developing or transition economics to establish an integrated interagency automated system. In addition, agreement would be required between participating countries regarding the privacy of information. Further, the perplexing issue of commercial and official integrity in some countries would preclude them from participating in such a cooperative network.

Clearly, governments and traders alike need to meet this security challenge. The imposition of additional controls at border posts is not necessarily the most effective or efficient response. Rather, full and proper implementation of existing trade facilitation measures, combined with the introduction and or strengthening of new techniques such as risk management and enhanced information flows, would be more effective and ultimately less costly.

Conclusions

This paper has attempted to review the current issues related to trade facilitation and point to specific areas where positive changes could take place. The five main conclusions that emerge are as follows:

1. Adopt trade facilitation as a key trade and economic development instrument

Government and business leaders should adopt trade facilitation as a key trade and economic development tool, as opposed to a background technical issue. This is because of its potential to enhance trade, increase competitiveness and investment, and enhance participation in the significantly changed global trade environment.

To achieve this objective, political and business leaders will have to be sensitised to the strategic importance, nature, impact and benefit of trade facilitation. Organisations involved in trade facilitation development should, therefore, consider strengthening their promotion and awareness campaigns, specifically targeted at this audience. While this is especially important in countries where trade facilitation is poorly developed, it is also necessary in developed economies where much work remains to be done.

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2. Focus on implementing existing measures and developing the next generation of measures to support the emerging new economy

Organisations involved in trade facilitation should adopt a dual track approach, focusing on harmonising and implementing existing standards and developing the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains. The rich experience of UN/CEFACT in this area would be very valuable in this exercise.

To achieve these goals, clear trade facilitation agendas or action plans should be developed at the national, regional and international levels. The establishment of an international agenda could be undertaken by United Nations agencies in the framework of their efforts to finance development (as detailed in the Monterrey Consensus). The long-term objective here would be to establish an internationally integrated trade facilitation structure and supporting network, based on agreed international standards and instruments. The international action plan would serve to guide national governments in developing trade facilitation plans.

National trade facilitation action plans should be developed in close consultation with the business community. Organisations such as the national trade facilitation committees and/or PRO organisations could play a leading role in this regard. In addition to the work of regional trade organisations, the regional economic commissions of the United Nations could play a strong role in this area.

Experience has shown that undertaking the necessary infrastructural changes to implement deep trade facilitation measures depends on strong political will. Development of this political will requires a clear understanding of the needs and benefits and also the capacities of local institutions to implement the required changes successfully. Political will to implement trade facilitation instruments is linked to the existence of relevant rules and standards, and this point is being considered within the current WTO negotiations.

All countries should have at least a minimum standard of trade facilitation implementation in order for the concept of a globally integrated trade facilitation structure to have meaning. While it is generally agreed that some

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countries will require technical assistance to achieve a satisfactory level of trade facilitation, the magnitude of this requirement may not be fully appreciated. It is suggested; therefore, that estimates be made of the extent and cost of technical requirements in this area and that the relevant donor agencies take this issue on board as a priority trade development issue and allocate appropriate funds. Technical assistance should be long-term, well integrated and results oriented, based on the agreed national trade facilitation agenda previously discussed.

3. Undertake additional trade facilitation research

More research needs to be undertaken on trade facilitation in order to guide and inform the related development and implementation work. Trade facilitation benchmarks need to be established. Further, research is required to develop concrete and well-balanced arguments regarding the business and other benefits to assist in the promotion and awareness campaigns mentioned above.

4. Promote the role of trade facilitation in security

The issue of trade facilitation and security needs to be addressed as a priority. This is primarily a matter of sensitising leading political and government officials to the potential of trade facilitation instruments to not only handle threats but to actually improve the existing security situation, if properly implemented. This will take a coordinated and concentrated effort from all trade facilitation related organisations.

5. Coordinate trade facilitation activities

Central to all of the above recommendations is the need for coordination of the activities of the various bodies involved in trade facilitation development and implementation. This will be especially important if the increased level of implementation and development recommended in this report is implemented. Although there are already excellent working relations between the various international and regional bodies involved, a more formal approach to this issue should be adopted. A joint management approach should be considered, operating within a Memorandum of Understanding (MoU). This could be modelled on the existing and

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successful MoU established to coordinate the development of electronic business standards.

In conclusion, it is essential that the potential of trade facilitation, to enhance positively the economic performance of business and countries, be realised as completely as possible. Trade facilitation can reduce the burden of bureaucracy for companies, broaden market access, increase the participation of small and medium-sized enterprises in international trade, reduce corruption and enable the benefits of global trade development to be achieved by all countries. This is the challenge facing governments, business and organisations involved in trade facilitation development and we must not be found wanting in this regard.

ANNEX : ESTIMATES OF TRADE TRANSACTION COSTS AND TRADE FACILITATION BENEFITS

Note: this table is reproduced from the OECD study OECD (2001), Business benefits of Trade Facilitation, TD/TC/WP/2001/21

Study	Scope	Estimates on costs	Benefits	note
US NCITD (1971)	direct cost:documentation required by government; finance and insurance; carrier; and forwarder/broker/or their contractual counterpart	average documentation costs are \$375.77 for exports and \$320.58 for imports. Total costs aggregate represent 7 and 1/2 % of the value of the total US export and import.	(none)	Based on business survey
Ernst and Whinney (1988a,b) for Cecchini et al (1988)	(1) direct costs: customs compliance costs. (2) indirect costs: road hauliers; and business foregone	customs compliance costs (7,500 million ECU), road hauliers (415-830 million ECU), and business foregone (4,500-15,000 million ECU). Approximately around 1.5% of total intra-EC trade value for customs compliance; 1-3% for business foregone.	(none)	Based on business survey: survey on lost business opportunities and road hauliers had some methodological reservation
SWEPRO (1985)	direct costs: customs compliance costs	customs compliance costs are 4% of the value of import or export; i.e. 8% of the total value of goods traded	(none)	Certain figures were obtained from Swedish customs and businesses
EU COST 306 Final Report (1989)	direct costs: documentation costs	documentation costs are 3.5-7% of the value of goods traded; with errors becomes 10-15%	(none)	No information about the methodology

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Study	Scope	Estimates on costs	Estimate on benefits	note
Dee, Geisler and Watts (1996)	APEC trade liberalisation programmes including trade facilitation measures, TBT, competition policy, government procurement, and transparency	mentioning estimates of Cecchini (1988), UNCTAD (1994b) and Dee, Geisler and Watts (1996), but did not provide which one it took	5% of value of goods traded (trade facilitation measures only); 10% (if TBT, competition policy, government procurement, and transparency measures are taken into account)	apparently use a secondary reference
APEC (1997)	APEC trade liberalisation programmes including trade facilitation measures, TBT, competition policy, government procurement, and transparency	mentioning estimates of Cecchini (1988), UNCTAD (1994b) and Dee, Geisler and Watts (1996), but did not provide which one it took	While assuming that a consensus estimate on direct savings from trade facilitation is around 2-3% of total import value, use 1 and 2%	apparently use a secondary reference
Staples (1998), <i>et al</i>	direct costs: customs compliance costs	customs compliance costs are 7-10% of the value of international trade	(none)	apparently use a secondary reference

Chapter 2.2

Implementation of Trade Facilitation in Transition Economies: Current Aspects and Issues

Mario Apostolov, Coordinator, International Forum on Trade Facilitation, UNECE⁴⁹

The purpose of this paper is to provide an overview of the major trade facilitation issues facing transition economies and to indicate where the UNECE, the Committee for Trade, Industry and Enterprise Development (CTIED) and the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) could contribute in addressing these issues.

Development of trade facilitation in transition economies

Since 1990, the transition economies and the Commonwealth of Independent States (CIS) in particular, have faced difficulties with regard to the fast clearance of goods at borders and in optimising the processing of documentation at various offices. Even for those States that already had established borders before 1989, the nature of customs operations changed. For the new States, with newly instituted international borders, the creation of an entirely new infrastructure has become a necessity. Some purely logistical problems persist, such as creating new border crossings that are hundreds of kilometres away from any pre-existing supplies of water, electricity, food and police offices or increasing the staff of national customs administrations by 500- 600 per cent in some cases.

Governments in these countries are willing to establish modern commercial borders using modern systems and methods and there has been a positive response on the part of the Western trading partners and the European Union, in particular, to help them do so. In order for this assistance to be effective, however, more comprehensive programmes, involving fewer ad hoc solutions, are required. One positive example is the diagnostic studies programme instituted by the WCO, which helps national administrations

⁴⁹ This paper was prepared with the help of colleagues in the secretariat of the UNECE Trade Division.

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analyse their own problems and determine the best solutions. The WCO has set up a database indicating the assistance required and work to be done in many administrations.

In most transition economies, the administrative, transport and warehousing infrastructure related to international trade is in serious need of development. The practice, in many cases, is that assistance for the improvement of this infrastructure is linked to the commitment of the respective countries in transition to modernise their international trade procedures.

Recommendations on the facilitation of international trade transactions, many of them developed by the UNECE, already exist. However, there is not enough awareness of these recommendations on the part of trade operators and too often, also on the part of individuals or organisations providing technical assistance to transition economies. Consequently, “procedures” continue to be an indirect trade barrier, whose effects are often reflected in increased or unpredictable processing times and which have a cost and a negative impact on trade competitiveness that is real but difficult to measure.

In compliance with UNECE Recommendation No. 4: *National Trade Facilitation Bodies*,⁵⁰ most countries in Central and Eastern Europe have created national trade facilitation bodies (“PRO” committees). The work on the trade facilitation project, jointly sponsored by the Czech Republic and UNECE, has indicated some of the major lessons and recommendations for setting up and operating a successful work programme in a national trade facilitation organisation in a transition economy.⁵¹

For example, the need to give adequate time for the implementation of real change; the usefulness of local events for raising awareness, particularly among government officials and the need to develop fora where government and business can communicate and develop plans jointly for an effective and properly facilitated national trade environment.

The Southeast European Cooperative Initiative (SECI) has assisted in establishing national “PRO” committees in its member States to mobilise

⁵⁰ See www.unece.org/cefact/rec/rec4en.htm

⁵¹ See UN Document TRADE/CEFACT/2001/32

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the public and private sectors to simplify procedures and otherwise facilitate trade. The governments of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania and the former Yugoslav Republic of Macedonia have solicited financial assistance from the World Bank for one project in each country to improve the infrastructure at their border crossings. One of the conditions for accepting the project was that they improve trade procedures. These projects started in 2000 and are planned for a three-year period.

In January 2002, at the Eighth Meeting of the Working Group on Trade Liberalisation and Facilitation under the Stability Pact, a report was presented on the World Bank and SECI-supported “Trade and Transport Facilitation Programme”, which is being implemented on behalf of a number of donors. The overall aim of the Programme is to ensure a more efficient and effective customs system in the region and it will shortly cover all SECI member countries, including Yugoslavia and the Republic of Moldova. The Programme has four components:

- Reform of customs procedures;
- Trade facilitation;
- Integration of customs systems; and
- Improvement of roads and border crossings.

Significant progress was reported in customs reform and trade facilitation, including the preparation and approval of new legislation in a number of countries and progress towards the implementation of a single payment window. An active training programme comprising distance learning and conventional programmes is under way. However, there has been less progress in the area of information management and the improvement of border crossings. Further information is available at the seerecon.org website.

Again, with reference to trade facilitation in Southeast Europe, Working Table II of the Stability Pact has developed a Memorandum of Understanding on Trade Liberalisation and Trade Facilitation between Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro (as part of Yugoslavia), Romania, and Yugoslavia. In addition, there are a growing number of bilateral free trade agreements in the region, as can be seen in the annex to the present paper.

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Developing national trade facilitation bodies, pursuant to UNECE Recommendations, is on the agenda of international trade activities in the Russian Federation and other countries of the CIS. In this context, the expertise of UN/CEFACT, SECIPRO, FITPRO and the other national trade facilitation bodies cooperating with UN/CEFACT may be very useful for these countries.

Despite the significant progress described above in implementing trade facilitation measures in some transition economies, much work remains to be done, especially in many of the other transition countries not mentioned above. Feedback received by the UNECE secretariat indicates such typical problems as lack of coordination between the related activities of various institutions; lack of interest among small and medium-sized enterprises and lack of willingness among them to bear part of the cost for providing a public good (such as trade facilitation); as well as slow implementation and a lack of harmonisation among electronic tools used in international trade.

A study within the framework of Working Table II of the Stability Pact has indicated slow licensing and registration procedures and cumbersome technical barriers to trade (TBT), particularly in the areas of sanitary and phytosanitary (SPS) and quality control measures, as being widespread and costly problems impeding trade flows in the western Balkans. As another example, the World Bank report on Trade Facilitation in the Caucasus (October 2000) emphasised the particular problem of overly bureaucratic procedures and rent-seeking activities, an issue that hampers trade in varying degrees in several transition economies.

In general, trade facilitation faces the classical problem of any public good – the difficulty of defining who will be able and willing to bear the cost of providing it. Thus, raising awareness of the benefits of trade facilitation is a cornerstone for its acceptance and implementation.

Electronic business

Transition economies face problems in implementing modern information and communication technologies (ICT). In some cases, companies develop electronic means to facilitate their trade transactions, but customs and other agencies are not equipped to deal with them. In general, these countries

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have qualified ICT specialists and the challenge is to use part of this potential for trade facilitation.

In Russia, for example, a number of companies provide ICT solutions for businesses (mostly business-to-business), using a pool of well-trained ICT specialists. Some businesses (e.g. the GUM store in Moscow with its web site) use Internet successfully. There is no unique standard for messages, most companies bilaterally agree on the terms. Extended markup language (XML) is in use. A number of companies, working with the representative office of Microsoft, are developing an XML standard for Russia (adapted to the local requirements). Companies providing ICT solutions for traders in Russia work with their clients with XML. UN/EDIFACT, however, is not widely used in the Russian Federation.

A key problem for the automation of foreign trade activities in the Russian Federation is the fact that customs are not equipped for such operations. If a company prepares a foreign trade operation through electronic means, the automated chain often breaks at customs. The customs administration requires five different forms to be completed and handed in by the trader. One major obstacle to the development of ICT solutions is the lack of a legislative basis. The adoption of a Law on Electronic Signatures and a Law on Electronic Documents is expected, however, for the time being, customs officers insist on their old requirements.

Other transition economies are experiencing similar problems. At its meeting in Istanbul, Turkey, on 16 and 17 October 2000, the Stability Pact launched a project aimed at developing the infrastructure for electronic business, such as electronic networks and accompanying reforms to modernise business and government procedures, which will be part of development and reconstruction in the region.⁵² The first meeting within the framework of this project, called eSEE (e-Southeast Europe), took place in Zagreb in January 2001.

The rapid pace of change in information and communication technology could widen even further the “digital divide” between countries. More and more countries and enterprises, especially large multinationals, are facilitating their trade operations by discontinuing the use of paper

⁵² <http://www.stabilitypact.org>

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documents and by moving to modern means of electronic exchange of information in their commercial transactions and in the clearance of their goods. As large companies begin to require their partners to communicate business information via electronic means, enterprises in countries in transition, which do not have these capabilities, find themselves at a competitive disadvantage. Increasingly, international supply chains dominate trade in the region and without adequate training and technology; the transition countries will face exclusion from a major trend in the world market.

Regional advisory services

The principal objectives of the UNECE Regional Adviser on Trade Facilitation are to increase awareness of trade facilitation issues and to act as a catalyst for trade facilitation in countries in transition. The Regional Adviser has been proactive in supporting the establishment of national trade facilitation bodies in countries with transition economies. He has been participating actively in seminars and workshops, and developing information materials to be used for trade facilitation education and training.

Recently, the Regional Adviser has been instrumental in promoting major trade facilitation initiatives in the transition economies, especially in Southeast Europe and some countries in the Commonwealth of Independent States (CIS). He is the focal point of the trade facilitation segment (SECIPRO) of the Southeast European Cooperative Initiative (SECI).⁵³ He provides the secretariat for the Regional Steering Committee of the Trade and Transport Facilitation project for Southeast Europe (TTFSE), realised within the SECI framework and supported by the World Bank.⁵⁴ He has been particularly active in promoting trade facilitation in Working Table II (economic and commercial issues) of the Stability Pact for Southeast Europe. In co-operation with other institutions, he is making an important contribution to the trade and transport facilitation activities of the United Nations Special Programme for the Economies of Central Asia (SPECA).⁵⁵

⁵³ For more information please see the SECIPRO web site:
<http://www.unece.org/secipro>

⁵⁴ For more information please see: <http://www.seecon.org/index.html>

⁵⁵ For more information please see: <http://www.unece.org/speca>

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The Regional Adviser has been a contributor to the joint project of the Czech Republic and UNECE for trade facilitation in the transition economies, whose beneficiaries are Belarus, Kazakhstan, Lithuania, the Republic of Moldova and Ukraine.

The transition economies still need to address essential problems regarding mainly the improvement of international trade procedures, but also in the advancement of electronic business. The Regional Adviser has played and is expected to continue to play an important role in the provision of knowledge and networking in this field.

Policy considerations

It is particularly important that economies in transition include trade facilitation and electronic business development projects in their policy-making activities. For example, the government of Estonia has placed a great deal of emphasis on improving government procedures and developing ICT “e-government” solutions for doing so (in particular through its Tiger Leap programme). Another example is the “E-Macedonia for All” project, which will assist in the creation of a national Centre for the Digital Economy and a number of start-up Internet companies. The government in co-operation with the UNECE Team of Specialists on Internet Enterprise Development is promoting this work.

The transition process has also reached a point where countries that have been less successful in improving their trading environment can learn from those that have been more successful in doing so. Another source of information, or guidelines with regard to the necessary, detailed changes required in legislation and other areas might be, for some countries, the conditionalities imposed on accession countries to the European Union in areas related to trade.

Trade facilitation techniques can act as a catalyst for economic growth. Arguably, trade facilitation should become part of national economic policy. An industrial policy incorporating trade facilitation techniques should include measures to facilitate business investment, improve public infrastructure (e.g. telecommunication networks) and promote research, education and training in this field.

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Conclusions

The above assessment indicates that, while significant progress has been made in some transition countries *vis-à-vis* the development of trade facilitation, this is certainly not the case in all transition economies and much work remains to be done. Specific areas requiring attention are as follows:

- (a) **Trade facilitation as a trade development tool:** As argued in this paper and in the UNECE paper on “Trade Facilitation in a Global Trade Environment”,⁵⁶ trade facilitation can have a significant impact on trade and economic development and should, therefore, be included as a key policy tool for development. It is suggested that transition economies consider carefully this point and should look at the issue from a policy rather than a technical perspective.
- (b) **Political will:** The introduction of trade facilitation instruments can often require major changes to existing infrastructures and procedures. Strong political will at the senior levels of government and business is required to introduce such changes and to see them through to completion. In order to achieve this level of political will and support, it is necessary to generate enhanced awareness of the significant benefits both for governments and for business associated with trade facilitation. It is suggested, therefore, that a strong promotion campaign be launched by UNECE / UN/CEFACT and other national and international organisations involved in trade facilitation, directed to these target audiences.
- (c) **Training and awareness** is also required to enable transition economies to participate fully in negotiations for the inclusion of trade facilitation in the World Trade Organisation.
- (d) **National agendas:** The specific requirements for trade facilitation will vary significantly from one country to the next. It is essential, therefore, that each country to develop a national agenda or action plan for trade facilitation development. These action plans should be based on international norms and standards and should be consistent with international priorities in this area. National trade facilitation agendas should be developed in close co-operation between the government and business community. The existing PRO organisations could be most useful in spearheading and

⁵⁶ UNECE, “Trade Facilitation in a Global Trade Environment” (TRADE/2002/21).

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coordinating this work. Existing diagnostic tools, such as the WCO diagnostic studies programme previously mentioned and the audit methodology developed by the World Bank, should be used.⁵⁷

- (e) **Regional agendas:** Transition economies should consider regional approaches to trade facilitation wherever possible. This could both facilitate regional trade and open the doors to the broader international community. In addition, transition countries with well-developed trade facilitation experience and infrastructures should work with other countries in their region to share both their experience and expertise. In particular, it may be useful to establish a network within the transition economies (of governments, businesses and NGOs), which will provide feedback on the utility and practical implementation of the products of UN/CEFACT in transition economies. To this effect, UN/CEFACT could interact with, for instance, the trade facilitation segments of the Stability Pact, SECI, SPECA, and the TTFSE project.
- (f) **Technical assistance:** There is a major need for technical assistance to support the development of trade facilitation in some transition economies. At present, a relatively open attitude to such assistance exists in the donor community, particularly in the context of the WTO Doha Development Agenda. Transition economies should seize this opportunity and present requests to relevant donor organisations, based on the above-mentioned national and regional development agendas. UNECE could assist transition economies in both the preparation and the presentation of such requests.
- (g) **Public private partnerships:** In addition to the above, transition economies are strongly encouraged to develop public/private sector partnerships in the establishment of trade facilitation systems and infrastructures. The examples of Mauritius and Singapore should be considered in this regard.
- (h) **Implementation of existing trade facilitation instruments:** An important first practical step would be to consider existing trade facilitation recommendations and guidelines, and look for ways of implementing them in the transition economies. These may include many from the UNECE, such as the UN Layout Key for Trade

⁵⁷ World Bank (2001), "Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action"

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Documents (Recommendation 1), codes for trade data, Recommendation 31: *The Electronic Commerce Agreement*, Recommendation 32: *Self-Regulatory Instruments in E-Commerce (Codes of Conduct)*, UN/EDIFACT and the technical specifications for electronic business XML (ebXML).

- (i) **Development of trade facilitation structures to support the new economy:** In addition to implementing existing trade facilitation measures, transition economies should seek to develop and implement relevant trade facilitation infrastructures to support the new economy, characterised by ecommerce and global supply chains. Indeed, it is imperative that transition economies seek to exploit the advantages of such developments at the earliest possible stage of their trade facilitation development.
- (j) **The need for benchmarks:** The establishment of benchmarks regarding the level of trade facilitation development would be most useful in determining the current status of development and in prioritising the work undertaken within the national trade facilitation agenda. Much work needs to be done internationally in the establishment of such benchmarks and the transition economies could play a lead role in both developing and testing such measures of trade facilitation implementation. The availability of benchmarks would be most useful to transition economies in targeting (and measuring) progress for technical assistance. The UN/CEFACT International Trade Procedures Working Group could assist in this development.
- (k) **Greater involvement of transition economies in developing trade facilitation instruments:** Transition economy countries should be involved, on a larger scale, in developing trade facilitation standards and recommendations. Involvement in the development process could be provided through technical co-operation, as this would ensure a greater understanding of norms, recommendations and guidelines. This could be realised through participation in the UN/CEFACT International Trade Procedures Working Group.
- (l) **The role of the UNECE Regional Advisor:** UNECE and its subsidiary bodies CTIED and UN/CEFACT, should work with the Regional Adviser on Trade Facilitation and the national trade facilitation bodies in these countries to:

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- Update information on the specific needs of transition economies in trade facilitation, with a view to helping governments, the business community and potential donors devise and implement technical co-operation projects. The emphasis should be on the implementation of trade facilitation instruments;
- Develop educational materials and train experts in the facilitation of trade procedures and electronic business;
- Assist in the establishment of new national trade facilitation bodies, especially in the countries of the CIS, using the lessons from the experience in central and Eastern Europe and SECIPRO;
- Offer expert advice in the field of simplifying and harmonising trade procedures and in the implementation of electronic tools in international trade; and
- Provide assistance on the basis of the expertise within UNECE and UN/CEFACT in the areas of legal, procedural and documentary trade facilitation and in developing international standards for electronic business, including UN/EDIFACT and the latest technological solutions.

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	Albania	Bosnia and Herzegovina	Bulgaria	Croatia	FYR of Macedonia	Republic of Moldova	Romania	Yugoslavia
Albania		Under negotiation Meeting date to be determined		Under Negotiation Meeting 27-28/2/2002	Initialised 11/1/2002			Under Negotiation Meeting end March.
Bosnia and Herzegovina	Under Negotiation Meeting date to be determined			Applied from 1/1/2001	Under Negotiation Proposals under consideration			Signed 1 February, 2002
Bulgaria				Signed 4/12/2001	Applied from 01/01/2000		CEFTA meeting 21 Feb (part of wider CEFTA group)	Under Negotiation Met 5 and 6 February
Croatia	Under Negotiation Meeting 27-28/2/2002	Applied from 1/1/2001	Signed 4/12/2001		Applied from 09/05/97		Under Negotiation Meeting on 22/2/2002	Under Negotiation Met early February, next meeting April
FYR of Macedonia	Initialised 11/1/2002	Under Negotiation Proposals under consideration	Applied from 01/01/2000	Applied from 09/05/97 Meeting in early February on possible revision				Applied from 7/10/96 Under revision, met mid February
Republic of Moldova							Applied from 17/11/94	
Romania			CEFTA Meeting 21 Feb (as part of wider CEFTA group)	Under Negotiation Meeting on 22 February		Applied from 17/11/94		Agreement to commence negotiations announced at PM level
Yugoslavia	Under Negotiation Meeting end March	Signed 1 February, 2002	Under Negotiation Met 5 and 6 February	Under Negotiation Met early February, next meeting March	Applied from 7/10/96 - under revision met mid February		Agreement to begin negotiations announced at PM level	

Chapter 2.3

The Single Window Concept: Enhancing the efficient exchange of information between trade and government⁵⁸

The importance of efficient information flows

The efficiency with which information can be submitted to official agencies is becoming a key factor in the competitiveness of firms or agencies involved with cross-border activities.

On a daily basis, international traders have to prepare and submit increasing amounts of information to various governmental controlling authorities, with each authority often having its own specific (automated) systems and paper forms. These extensive information requirements can become a significant obstacle to business and can hinder the development of international trade.

With the increasing integration of economies around the world, facilitating the smooth flow of information becomes a pressing requirement of governments and business. Efficient information systems and procedures can increase the speed at which goods can move significantly, reduce costs, improve business efficiency and enhance the overall economic performance of a country.

A ‘Single Window’ environment

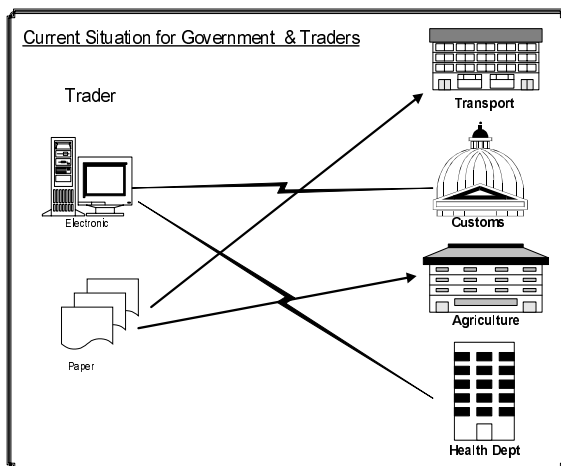
The ‘**Single Window**’ environment aims to expedite and simplify information flows between trade and government and bring meaningful gains to all parties involved in cross-border trade. In a theoretical sense, a

⁵⁸ This document was prepared for the International Forum on Trade Facilitation by the International Trade Procedures Working Group (ITPWG) of UN/CEFACT, which is hosted by the UNECE, and was initially published as document TRADE/2002/22.

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‘Single Window’ can be described as “a system that allows traders to lodge information with a single body to fulfil all import- or export-related regulatory requirements.”

Figure 1: Current Situation for Government & Traders



In practical terms a ‘Single Window’ environment provides one ‘entrance’, either physical or electronic, for the submission and handling of all data, and documents related to the release and clearance of an international transaction. This ‘entrance’ is managed by one agency, which informs the appropriate agencies, and/or directs combined controls.

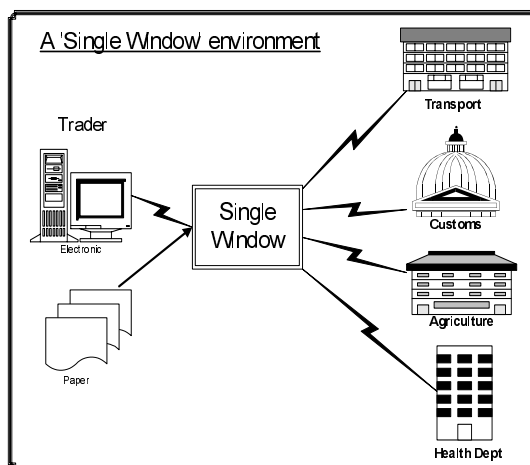
A ‘Single Window’ environment is, therefore, a practical application of trade facilitation concepts to reduce non-tariff trade barriers and deliver immediate benefits to all members of the trading community.

Benefits for government

- Correct revenue yields;
- Improved trader compliance;
- Enable the use of sophisticated ‘risk management’ techniques for control and enforcement purposes;
- More effective and efficient deployment of resources; and
- Increased transparency and integrity.

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Figure 2: A “Single Window environment”



Laying the groundwork for a ‘Single Window’ environment

Co-operation and coordination between relevant government agencies is the essential ingredient in the establishment of a successful Single Window environment. This requires strong commitment and leadership from senior levels of government.

In addition, governments must work to simplify and enhance the flow of information related to international trade. To this end, they should coordinate and minimise legal data requirements related to trade. Once official and commercial information requirements have been rationalised, these data sets can be standardised and subsequently harmonised to the benefit of the trading community.

Governments can further enhance information flows by identifying and adopting suitable information and communication technologies (ICT). Combined with the development of simpler, standardised and harmonised information, the effective application of ICT can help maximise the data flows, resulting in faster, easier and lower cost international trading. In the framework of the World Customs Organisation (WCO), the United Nations

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and various other international organisations, much work has already been done, and continues to be done, to simplify and harmonise information requirements.

Benefits for trade

- *Cutting costs through reducing delays ;*
- *Faster clearance and release ;*
- *Predictable application and explanation of rules ;*
- *More effective and efficient deployment of resources ; and*
- *Increased transparency and integrity.*

An example of such standards and recommendations is the International Convention on Simplification and Harmonisation of Customs Procedures (the Kyoto Convention) brought about within the framework of the WCO.

This Convention incorporates the principle of coordination by customs regarding inspections of goods that are also to be examined by other relevant authorities. In addition, other provisions in the Convention tackle the operation of joint controls at common border crossings and the establishment of juxtaposed customs offices.

The WCO is developing a framework for improving the information flow through the WCO Customs Data Model that would be used by administrations as a part of the process to modernise systems and streamline processes for import and export declarations, as well as for the report of cargo. The WCO Data Model is a collaborative effort between government and trade to provide an effective framework for the facilitation of international trade through data simplification and harmonisation.

These precepts are also reinforced within Recommendation No. 18 of the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) entitled: “Facilitation Measures Related to International Trade Procedures”. For example, it recommends that sellers and buyers should align all relevant in-house documents to the United Nations Layout Key for Trade Documents. Further, the recommendation suggests that government authorities should require a minimum of data and documents for control purposes and, where possible, utilise commercial information.

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In addition, it is proposed that governments should request import and export data only once and should allow the submission of data to a single entity and, if various authorities must inspect the goods, such inspections should be coordinated and, if possible, carried out at the same time. One approach to achieving this is the introduction of a 'Single Window' environment, as explained above.

How can a 'Single Window' work in practice?

A 'Single Window' can take various forms. Because it is not just limited to custom's regimes, the 'Single Window' environment must represent close co-operation between all involved departments and/or authorities.

Customs, because of its pivotal role at borders, can be the enforcement agency best suited to be the 'entrance' point to receive and coordinate the flow of information related to fulfilment of all cross-border regulatory requirements.

A 'Single Window' environment does not necessarily imply the implementation of high-tech information and communication technology (ICT). However, facilitation can be enhanced if governments identify and adopt relevant ICT opportunities.

Over the last few years various 'Single Window' programs have been developed and introduced effectively. A selection of these models is outlined below:

- **A single authority:** customs coordinates and/or enforces all border-related controls. For example, in Sweden and the Netherlands, customs officers perform many tasks based on assignments from other governmental authorities.
- **A single system,** integrating the electronic collection, use and dissemination of international trade data related to trade that crosses the border. For example, the United States established a pilot programme that allows traders to **submit standard data only once** and the system distributes the data to the agencies that have an interest in the transaction.

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- **An automated system** through which a trader can submit electronic trade declarations to the various (controlling) authorities for processing and approval in a single application. In this approach the approved permits are transmitted electronically to the sender's computer. Such a system is in use in Singapore and Mauritius. Moreover, in the Singaporean system, fees, taxes and duties are computed automatically and deducted from the traders' bank accounts.

When considering the above models, it is important to acknowledge that, although many business and trade practices are common across all countries, each country will also have its own unique requirements and conditions.

Some signposts for further information:

Sweden

http://www.tullverket.se/TargetGroups/General_English/frameset.htm

United States

<http://www.itds.treas.gov>

Singapore

<http://www.tradenet.gov.sg/>

Mauritius

<http://ncb.intnet.mu/mof/department/customs/services.htm>

World Customs Organisation

www.wcoomd.org

UN/CEFACT

<http://www.unece.org/cefact/>

UNCTAD

<http://www.unctad.org/>

Chapter 2.4

Landlocked Countries: Opportunities, Challenges and Recommendations⁵⁹

Liliana Annovazzi-Jakab, UNECE Trade Division

Landlocked countries, i.e. countries without direct coastal access to the sea and thus also to maritime trade, face very specific challenges. Compared with their coastal neighbouring countries, they start their trading “career” with numerous disadvantages from the outset. The situation is almost always aggravated when being landlocked coincides with other factors, such as remoteness from major markets, tropical climates, considerable distance from the coast, poor infrastructure, or an inadequate policy, legal or institutional environment. In today’s competitive world, landlocked countries generally face a difficult situation.

Although the international community, including international organisations, banks, bilateral aid agencies, foundations and NGOs, has put much effort into development, the income gap between rich and poor countries, instead of decreasing, actually widened. Apart from a few landlocked countries in Europe, most are not wealthy. Many of the poorest nations in the world, including a large number of African countries, are landlocked and their plight requires urgent attention.

Adam Smith in his “The Wealth of Nations”⁶⁰ noted that, apart from having a free-market economy, location and access to the sea, and, therefore, to trade routes, played a significant role in a country’s economic performance. Over time, rail, land and air transport, as well as telecommunications and information technology, have reduced the advantages of coastal over landlocked countries. However, shipping still plays a central role in global trade and geographic location also remains significant.

⁵⁹ This paper was prepared with the help of colleagues in the secretariat of the UNECE Trade Division.

⁶⁰ Smith, Adam. *An inquiry into the Nature and the causes of the Wealth of Nations*, Chicago, University Press, 1776 (1976).

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Although being landlocked is a challenge, it is not destiny. There are practical solutions to many of the problems faced by landlocked countries - ranging across comprehensive approaches to transit corridors, overall regional integration efforts, legal and regulatory reforms, institutional and administrative overhauls, specific international protection mechanisms and including an in-depth analysis of each landlocked country's foreign trade composition and **its adequacy with regard to transport constraints.**

Geographical factors are only one part of the whole story. Today, wide-reaching multilateral and regional trade agreements (in economic regions, customs areas, free trade areas or developing trade regions) stipulate the steady lowering of tariffs. The international exchange of goods and services and the integration of production and distribution modes is more and more encouraged and it, therefore, becomes all the more important to improve the physical movement of goods, i.e. the actual transport within, across and through countries' sovereign territories. It is no longer so much access to world markets that is a problem but actually getting the goods there without major delays and cost increases due to legal, administrative, customs or technical barriers. This is the real challenge for all countries, but even more so for landlocked countries and particularly for developing or remote landlocked countries.

This overview paper will attempt to describe briefly the most common and most severe challenges that landlocked countries face. In the initial chapters, it will examine the transit issues and the legal and institutional framework and outline the role of government. It will also give examples and illustrate, by case studies, how certain countries or organisations have managed to overcome certain constraints. Special attention has been given to eastern and central Europe and more particularly to Hungary, to the central Asian transition economies and to the most successful landlocked country, Switzerland. The paper, it is hoped, will go beyond being purely descriptive and provide a background for discussion. For this purpose, a number of recommendations are set out in the concluding chapter.

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Landlocked countries – challenged by geography

One of the most striking features of landlocked countries is their dual vulnerability; i.e. they are vulnerable on their own account and on account of being dependent on one or more transit countries. Not only are they deprived of access to the sea, but their neighbouring countries often have little interest in making the flow of goods across their borders easy for them. In fact, their neighbouring countries may additionally have economic or military incentives to block their access to the sea or transit through their territory.

Furthermore, coordinating infrastructure in one country is already a huge task: doing it across borders is even more difficult. No wonder then, that high transport costs, caused by whatever infrastructure deficiencies, delays, fees or procedures are encountered in the transit country, make the land leg of the shipping of goods to landlocked countries very costly and oblige the landlocked country to maintain high levels of inventory. For most landlocked countries, high transport costs remain the single most important obstacle to their equitable access to global markets and competition with other countries.

Transport costs – background

How transport costs are determined by a country's location can be seen from the following examples: The shipping cost for a standard container from Baltimore (United States) to the Ivory Coast amounts to around US\$ 3,000. Sending the same container to the landlocked Central African Republic will cost up to US\$ 13,000⁶¹. Even more extreme is the example of a standard container that is sent from Rotterdam in the Netherlands to Dar es Salaam in Tanzania over an air distance of 7,300 km for US\$ 1,400 and then transported to Kigali in Rwanda over a distance of 1,280 km by road for twice as much⁶².

⁶¹ Hausmann, Ricardo, *Prisoners of Geography* in "Foreign Policy" January 2001

⁶² Sachs Jeffrey D., Mellinger Andrew D., Gallup John L., *The Geography of Poverty and Wealth*, Center for International Development at Harvard University, in Scientific American Magazine, March 2001

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Infrastructure deficiencies

Thus, the closer a landlocked country is to the sea, the more it can profit from relatively cheap maritime transport costs. However, if a navigable inland waterway connects the landlocked country with the sea, isolation becomes already much less an issue. And if the necessary infrastructure, i.e. roads, railways, ports, is in place, geographical remoteness is further reduced. This, on the other hand, requires co-operation with the transit country. Thus, for example, in order to improve access of goods to and from Rwanda and Uganda, the Kenyan railroad system has to be improved. It also requires a coordinated approach to infrastructure development. An illustration of insufficiently coordinated infrastructure development was, for a long time, the Parana River basin in Paraguay. Only once an agreement was signed within Mercosur in the 1990s, which made the use of the inland waterway for barge transport easier, could some of the agricultural potential of landlocked Paraguay be exploited.

It is frequently not only the lack of adequate infrastructure that increases the costs for landlocked countries, but also capacity constraints, which can range from a lack of containerisation and inadequate handling facilities to ancient railway rolling stock or ships and barges. This can result in missed opportunities for landlocked countries, as they and their transit partners are often not flexible enough to respond to a greater demand in goods due to, for instance, a crop failure in another part of the world. These capacity problems are often underestimated and it is often more difficult to find investment funds for new locomotives than for new streets.

The sluggish economic growth of landlocked Africa, which is far from markets and maritime trade and which is basically inaccessible by ocean-navigable vessels, since its river system is full of impassable barriers, is rooted in many of the issues mentioned earlier. Thus in the West African Economic and Monetary Union (UEMOA), some of the most critical railway lines date back to colonial times and as early as the 1920s or 1950s. Their rehabilitation is critical to the landlocked countries in order to get their goods shipped to the ports. The East African Co-operation, an inter-governmental organisation between Kenya, Uganda and Tanzania claims that of the three countries' combined road network, 84% requires immediate attention, i.e. only 16% receives occasional upgrading or other maintenance

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work⁶³. It is, however, also very encouraging to see that on the African continent there are three landlocked countries (Botswana, Lesotho and Swaziland), which are among the best sustainable growth performers⁶⁴.

The impact of borders

The mere fact of having to cross borders adds substantial portions to the total expenses and increases the amount of red tape for traders. A recent study found that simply crossing the border between the United States and Canada is equivalent to adding between 4,000 to 16,000 kilometres worth of transportation costs⁶⁵. If a border adds such significant costs in trade between highly developed countries, it is obvious that countries with weak commercial and customs infrastructure are faced with even more costly hurdles, including even cross-border conflicts. It is, therefore, imperative to find solutions in this area: to simplify customs procedures, to harmonise documents; to introduce and implement electronic document processing and to create the enabling institutional environment for progress in this area. Even in highly integrated economic areas with firm political commitments, such as the European Union, harmonising customs procedures and eventually abolishing internal borders took time. Candidates for the next EU enlargement round, such as Hungary, are currently implementing the necessary reforms which include legislative measures, strengthening of administrative and operational capacities, IT system development and training, coordination of law enforcement and customs agencies and establishing agreements on the international level to improve customs co-operation. This short list is just an example of what a country has to do, even when that country, according to the 2001 Regular Report on Hungary's Progress Toward Accession, is "already quite advanced in this [custom union] area" in order to facilitate the movement of goods across national and international borders⁶⁶.

⁶³ East African Co-operation, Strategy for the Development of East African Infrastructures

⁶⁴ Economic Commission for Africa, *Economic Report on Africa 2000: Transforming Africa's Economies*, Addis Ababa, 2001

⁶⁵ Hausmann, Ricardo, *Prisoners of Geography* in Foreign Policy January 2001

⁶⁶ Commission of the European Communities, *2001 Regular Report on Hungary's Progress towards Accession*, Brussels 13 November 2001

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Proximity to markets

Also influencing the impact of landlockedness are such factors as closeness to markets and the composition of exports. There is a clear correlation between having the main markets “just across the border”, as in the case of the landlocked countries of Europe, and being able to reduce the impact of being landlocked, i.e. the impact of facing high transport costs. There is a further correlation between being landlocked and choosing to export high-value and especially high value-added goods. In this case, transport costs account for a much smaller part of the end value and the fact of being landlocked becomes insignificant. This has been the case for Switzerland for centuries. In addition to other factors, such as favourable trade agreements and proximity to major markets, exporting high value-added goods was a very important reason why being landlocked did not matter for this country.

Influence on growth

Many economic growth strategies for developing countries have included strong elements of labour-intensive export manufacturing or assembly. This, however, often requires a large proportion of intermediate imports, which are sensitive to transportation costs and reduce the profit margin for landlocked countries. Transport costs, in this case, act as an implicit tax on export earnings. The higher the transport costs, the greater the blow to a government’s export-led strategy. It is, therefore, realistic to assume that geographically isolated countries such as Mongolia, Rwanda, Burundi or Bolivia will have severe difficulties replicating a model of rapid growth, based on the export of labour-intensive manufactures. For certain production processes, such as in electronics, apparel or other assembly-type operations, which require high import content and have small per unit profit margins, high shipping costs can even eliminate remote landlocked countries from international competition. With the exception of those landlocked countries that are close to their markets and within easy reach, due to highly interconnected transport networks, such as in Europe, e.g. in Hungary, developing comparative advantages in the high-tech industries appears difficult. However, information technology does offer huge opportunities to landlocked countries in the export of IT-based services such as software development, data transcription, or telemarketing. This needs

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certain technical prerequisites but nonetheless opens new doors for countries to overcome the disadvantage of distance.

The access of landlocked countries to markets, their ability to trade, i.e. move exports and imports efficiently and economically, is the key to maintaining consumption levels and fostering economic growth. Trade is also important in terms of the economic adjustment of developing landlocked countries, which are often searching for means to counterbalance deterioration of terms of trade, civil unrest or natural disasters. Costly and unreliable transport depresses trade and in addition to the above-mentioned, is often a result of a transit problem.

The transit issue

In addition to these challenges, another barrier faced by landlocked countries is that they have to transit through another country, i.e. a sovereign entity of international law with its own economic, political, military and transport agenda. The trade competitiveness of landlocked countries is further reduced by “transit charges”, over which they do not have direct control, such as port charges, road tolls, forwarding fees, customs duties or transport quota restrictions on traffic from the landlocked country to the coastal neighbour, that may be set out in bilateral or multilateral agreements with the transit country or countries.

The Legal Side: Introduction

There are many documents of public and private international law, which guarantee access rights to landlocked States. Such documents include the United Nations Convention on the Law of the Sea, of 1982, which entered into force in 1994 and which, in its part X, grants right of access of landlocked countries to and from the sea and the freedom of transit. There are also the 1965 United Nations Convention on the Transit Trade of Landlocked Countries; the General Agreement on Tariffs and Trade (in its Article V); the 1973 Kyoto International Convention on the Simplification and Harmonisation of Customs Procedures; the Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention) of 1975; the Convention on the Contract for the International Carriage of Goods by Road of 1956; or the International Convention on the

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Harmonisation of Frontier Controls of Goods of 1982. Transit rights were also included in much older documents, such as in the 1921 League of Nations Convention and Statute on Freedom of Transit; the 1923 League of Nations Convention and Statute on the International Regime of Maritime Ports; the 1921 League of Nations Declaration Recognising the Right to a Flag of States Having no Seacoast; or one of the oldest transit documents i.e. the Revised Convention on Navigation on the Rhine of 1868.

Transit – short definition

Transit is a certain concession system aimed at facilitating trade within a given customs territory or between separate customs territories. It essentially allows the temporary suspension of customs duties or other taxes payable on goods originating from and/or destined for a third country while under transport across the territory of a defined customs area. This suspension of duties and taxes remains in place until the goods either exit the customs territory concerned, are transferred to an alternative customs regime or the duties and taxes are paid and the goods enter free circulation.

For example, goods imported by a retailer in Vienna originating in Japan might enter the EU at Hamburg, from where they would be transported by road to Vienna. If placed under a transit regime, duties and taxes are not payable in Hamburg but in Vienna where the goods are placed on the market. En route between the two, the goods remain duty-free and must not enter free circulation.

In transit regimes, it is necessary for identifiable persons to be responsible for the suspended taxes, duty and excise during the transit. Such a figure exists in all regimes and frequently has to provide customs with a guarantee to back up the financial liability involved. In practice, a number of different systems exist to allow such transit operations to take place. They can vary depending on the territories involved in the transport.

(Excerpt from: European Parliament-Committee of Inquiry into the Community Transit System, Report on the Community Transit System, Strasbourg, 20 February 1997)

Multilateral instruments have also been developed by regional organisations, including ASEAN–Association of Southeast Asian Nations (Framework Agreement of Goods in Transit of 1998), Mercosur–Common

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Market of the South (the Mercosur Treaty as well as, for example, the subsequent Agreement on International Road Transport within Mercosur, the Agreement on the Basic Unified Regulations for Transit; or the Agreement on Mercosur which introduces Multimodal Transport Facilitation). In West Africa, the TRIE (Transport Routier Inter-Etats) was ratified in 1982 but is so far not operational. ECOWAS-*Economic Community of West African States*-adopted the Convention relating to Inter-States Roads Transit of Goods, SADC-*the Southern African Development Community*, the Protocol on Transport, Communications and Meteorology (1996) and the Agreement on one-stop border posts. COMESA, the *Common Market for Eastern and Southern Africa* has a very ambitious integration agenda, which also includes the establishment of a regional customs transit system and already has a functioning COMESA carrier license. The COMESA/SADC Customs Document still faces many obstacles in its implementation, as does the Regional Customs Bond Guarantee (RCBG) system in East and Southern Africa. In the same region, an agreement on harmonised axle load limits has been adopted. And the European Union (with the exception of Austria) has moved to a fully liberalised road transport market.

Transit agreements

Many transit agreements are negotiated on a bilateral basis (such as Nepal's agreements with Bangladesh or India) and are in most cases for a limited period of time. Many of them are ad hoc and others only comprise some paragraphs in a larger treaty, typically dealing with all kinds of trade issues. This can lead to an uncertainty, which is especially harmful to business interests. Customers may become wary over signing long-term export contracts and foreign companies might reconsider locating their facilities to a landlocked country if the transit issue remains unclear. Although, in the end, economic considerations will determine which transit route is most used, formally signed transit agreements create fewer transit problems for the countries that have them than for those without. All formal or informal transit agreements will, however, depend on the political goodwill of the participating countries.

Landlocked countries may depend on one or several transit countries, or may have several options to access ports via road, inland waterways or railway. Transit corridors are often described in great detail, especially in

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bilateral transit agreements. This offers little if no flexibility for landlocked countries. Such detailed descriptions can deal with: points of entry, points of exit, land routes, service charges to the transit country, duty-free space, warehouses or free zones (open or covered space) in ports at the transshipping point, often even specifying the lease agreements and rent charges and customs representation in the free zone to control and inspect the trade flow and deal with administrative tasks required by the transit country.

The TIR Convention

The TIR Convention, which is currently used by more than 32,000 transport companies in over 50 countries in Europe, central Asia and the Middle East, allows road transport operators to cross borders in international and transit traffic without involving major procedures and costs. The TIR system can be used at present for transport from Norway to the Islamic Republic of Iran (North-South direction) and from Kazakhstan to Portugal (East-West direction). Thousands of lorries in Europe carry the familiar blue and white TIR plate and indicate that they are using the TIR customs transit procedure (more than 2.3 million TIR operations are carried out per year).

Traditionally, when goods are in transit or are transported from one country to another, customs authorities apply national controls and procedures to cover duties and taxes at risk, i.e. to avoid the goods being sold on the black market without payment of customs duties, sales taxes and/or value-added tax upon their importation or transit. These measures vary from country to country but usually involve at each border crossing the opening of the load compartment of the lorry, inspection of the cargo, imposition of security (guarantee, bond, etc.), the filling-in and processing of national customs and transport documents, etc.

The application of the TIR Convention provides for an internationally recognised and accepted customs transit regime with an internationally standardised and secured customs document (TIR Carnet), an international guarantee cover in case of irregularities as well as harmonised customs procedures limited, in most cases, to a standard visual external control of the sealed load compartment of the lorry and processing of the TIR Carnet. Thus, customs authorities can reduce their manpower to a few administrative controls while transport operators and traders can make use of inexpensive, fast and secure border crossing procedures, often with special channels reserved for TIR operations only.

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The TIR customs transit system is supervised by an intergovernmental machinery, the TIR Executive Board (TIRExB) and its TIR secretariat which is located in the UNECE headquarters in Geneva (Transport Division). More than 32,000 authorised transport companies are registered at present with the TIRExB and its TIR secretariat, which also ensures the regular exchange of information and intelligence among participating customs authorities to avoid misuse of the TIR system by smugglers and organised crime.

(Source: UNECE Transport Division)

It is also common to include references to the transport of hazardous cargo and the rules to be observed in such cases, import/export procedures detailing required custom transit documents, required insurance policies or bank guarantees. Certain agreements might also set permit quotas, environmental restrictions and levies or road charges. Even in Europe, road transport services were subject traditionally to bilateral intergovernmental agreements, on the basis of which the governments agreed annually on road transit permit quotas for both freight and passenger road transport. Progressive liberalisation started in the 1980s with the introduction of Community quotas and has resulted in a nearly full liberalisation.

There might also be a number of special customs regimes, which involve the bonded transport of duty-free goods. Examples include inward/outward processing regimes, where goods can be imported to be processed and re-exported, or warehousing regimes, where goods can be stored in bonded warehouses, pending the decision on their final destination.

This is by no means an exhaustive list of legal issues, but it gives a sound notion of how complicated the situation can be for landlocked countries. In most cases, the issue is complicated further by infrastructure deficiencies, maintenance problems, lengthy customs procedures, inefficiencies in the handling of goods at terminals and interactions between the various agencies involved in the transit operation. Inadequate port management can make delays in ports longer than the actual sea trip of the goods. It should, however, be noted that in many cases, the transit countries are, just as the landlocked countries, developing economies themselves, with the same weaknesses in their infrastructure, institutional, administrative and regulatory frameworks.

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Security

Apart from the weaknesses of transport and infrastructure systems, security remains an important issue. Transit routes can be closed (such clauses are, by the way, rather common in transit agreements), due to security risks or political differences, leaving the landlocked country with little other option but to develop alternative routes. Thus, due to border conflicts between landlocked Ethiopia and Eritrea, Ethiopia's access to the sea was interrupted and it had to fall back on an alternative port outlet for its foreign trade. In addition, this often leads to too much traffic on one road and an under utilisation of another route, for which the transit country has also paid and which could have been an efficient alternative.

The transit country's perspective

It is thus not only the landlocked country that pays the bill. Transit countries have to do maintenance work too. They have to invest in new infrastructure, cope with environmental costs and are supposed to have efficient logistics and customs operations readily at hand. Therefore, transit is a costly venture for both the landlocked countries and the transit countries.

Transit – Focus on Corridors, Integration

Transits are undertaken the most easily and at the lowest costs, for both landlocked and transit countries, in an integrated environment. If goods can move freely and unhampered by administrative or customs delays, if investment decisions are taken in a common perspective, the well-being of landlocked and transit countries is increased and costs are lowered. Improvements in transport and transit facilities and an increased traffic volume will eventually benefit coastal as well as landlocked countries. Once this has been recognised, it may well encourage and foster collaboration between the two partners.

Many countries and regions are, today, in the process of building or planning transit or access corridors. Such initiatives have been taken more or less successfully by landlocked and transit countries on all continents, ranging from pan-European to Bi-Oceanic Corridors in South America, to the revival of the ancient Silk Road in Central Asia. Countries are planning their "feeder" corridors, as for example Bolivia, which is planning four

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major corridors to avoid becoming a stopover country once the Bi-Oceanic corridors have been built. Over the past years, more and more integrated projects have emerged in many countries and most of them are based on two distinct, but related approaches. They are led by, or are created within, the framework of a regional integration project (as happened in Europe with the EU and its Trans-European Transport Corridor). Or, they are rooted in the establishment of a development corridor that, apart from facilitating transport, encourages social and economic development and the alleviation of rural poverty in the area it crosses.

Both approaches have in common a pooling of human, technical and capital resources to achieve economies of scale and to develop regional or sub-regional co-operation. This plays a substantial role in guaranteeing sustainability.

Development Corridors

Establishing a corridor can be a great opportunity for both the landlocked and the transit country. It can be the expression of a commitment to improve trade within a region or sub-region and to improve access for the whole region's goods to world markets. A prosperous region or sub-region will guarantee higher growth potential to all its countries.

A rather good example of the development corridor strategy is the approach taken by the Spatial Development Initiatives (SDIs) programme, launched during the 1990s by the governments of Mozambique and South Africa, and, specifically, the case of the Maputo corridor. The Maputo corridor links the South African industrial heartland of Gauteng and the Mozambican port of Maputo. It is a development initiative along the toll road and its feeder roads and there, it creates jobs and benefits communities on both sides of the border. The establishment of this development corridor is seen as a test case for regional integration and was met with scepticism, but also a lot of optimism. Having as a goal that all parties should experience benefits from the corridor, it is a joint management of economic resources by African States. It confirms the trend towards regional integration, with the real glue being cross-border physical integration. In addition, the Maputo corridor is also an example of a public-private partnership initiative (Build-Operate-Transfer, BOT), which was able to mobilise the large potential of a regional economy and private capital, as

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opposed to attracting finance for narrow infrastructure projects on the national scale only.

Regional approaches

Transport corridors maximally enhance profitable interregional co-operation, another example being the Transport Corridor Europe Caucasus Asia, TRACECA. This EU initiated programme was launched in 1993, to develop a transport corridor on a west-east axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. A very interesting approach taken in the development of the corridor was to attempt, in the first phase, to establish a common legislative base in the transport and transit sector. The rationale for such an approach was the lack of a single legislative framework in the participating States' structures, which made a coordinated approach to the concept of international freight traffic difficult, if not impossible. It was agreed that laws should be systematically harmonised and amended to meet international principles and new laws adopted to regulate international freight traffic. Another interesting side of the TRACECA project is its spillover effect on other countries. It stimulated, in fact, the signing of bilateral treaties with e.g. Romania, a Danube country, and raised interest in the Republic of Korea, China, Italy, Poland and Estonia to explore the construction of possible rail corridors.

Marketing a Transit Corridor

Each transit corridor requires an extensive marketing strategy to attract capital and transit traffic. Landlocked countries should realise that they could play a role in a sub-region and use this strategic location. In the case of Zambia, for example, it was only after independence that the country realised that it could take advantage of its strategic location in the sub-region and included such considerations in the planning and negotiation of corridors. Landlocked countries can take an active role in proposing and working on transit corridor planning. On the other hand, a transit or coastal country can use its potential to attract investment and customers and increase its own and the region's growth potential. A corridor systematically creates spillover effects, which provide opportunities for a whole region.

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Funding – The Donor Approach

Setting up a corridor as a commercial venture requires more than just a marketing strategy. It requires substantial funds on the one hand and an institutional or governmental commitment on the other. These two aspects have wide-ranging consequences. Finding funds is not an easy task. Traditionally, funds from the World Bank, the EBRD, bilateral or other multilateral donor agencies have been channelled into infrastructure development. For various reasons, not all funded projects proved to be successful or contained the right approach. This, together with other factors, resulted, during recent years, in increasingly fewer resources being allocated readily to infrastructure projects. Albeit with certain exceptions, developing landlocked countries had to renew their call for funds and had to bring their plight on to the agenda of international organisations. Thus, in July/August 2001, at their fifth meeting, the United Nations Governmental Experts from Landlocked and Transit Developing Countries and representatives of donor countries and financial and development institutions renewed their call for financial and technical assistance⁶⁷.

Advantages for a coastal country- the example of Togo

The Togolese economy is organised around its main port in Lomé. Most of Togo's foreign trade passes through this port, which also serves as a transit point for goods for the land-locked countries of the Sahel such as Burkina Faso, Mali and Niger. Exploitation of this position has encouraged the installation of communication networks linking the port to the landlocked countries and, at the same time, the opening up of Togo to the outside world. The structure of the import duties, by encouraging the transit and importation of certain goods for which there is a strong demand in the subregion, has also helped to ensure the preponderance of the services sector within the Togolese economy. The social and political crisis that Togo experienced at the beginning of the 1990s impaired the dynamism of this sector, which the government is currently trying to restore. However, the State continues to have a strong presence in the sector through its wholly owned enterprises.

⁶⁷ TD/B/48/10, 23 August 2001

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Togo's government report submitted for the WTO Trade Policy Review also stressed that one of Togo's general trade policy objectives included "...intensifying and improving transit trade..." and noted that "further liberalisation of maritime transport was envisaged; freight distribution has been eliminated in order to allow economic operators to choose their means of transport freely, and port fees have been considerably simplified; [it was envisaged to] strengthen, improve and facilitate transit trade through the Togo corridor with a view to reinforcing Togo's external competitiveness. To that end, the government plans to create a dry port at Blitta to make it easier to transport goods towards the interior of the country and hinterland countries.

(Excerpted from WTO Trade Policy Reviews: First press release, "Secretariat and Government Summaries: Togo", January 1999)

Funding – Public-Private Co-operation

That funds can also be raised from the private sector is illustrated by the earlier described Maputo corridor project or by Namibia's Walvis Bay corridor. Independent Namibia, in the 1990s, was economically weak, had a limited market potential, was isolated from its neighbours and had no relevant eastern and northern links. However, the country had a large potential to serve as a gateway for its landlocked neighbours. In a public-private partnership and pursuant to the SADC protocol on Transport, Communication and Meteorology, which recommends both corridor development and corridor management institutions, it was decided to develop the Walvis Bay corridor, an extensive network of integrated transport and facilitation services. The pooling of private resources and expertise to run the project, i.e. the transport operators in co-operation with the public authorities and governmental institutions (as the transport regulators) has resulted in a partnership, which benefits Namibia and the surrounding landlocked countries. The one issue that deserves particular attention in this case, is the simultaneous development of infrastructure, institutional and regulatory reform and private sector management and marketing. This was done to address and solve deficiencies and shortcomings, such as the lack of intermodal operations, border and customs procedures and transport regulations.

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To private operators, the key concerns are not only the total costs, but also transit time and reliability of service. Successful transit corridors are the result of joint efforts by public and private operators, as well as all other government agencies. Transit can be described as a chain, which includes all the physical, organisational and administrative operations needed to move goods from their place of origin to their final destination. This chain covers the actual transport and also documentation, customs, insurance and all other handling procedures. Therefore, aspects which deserve particular attention are: closely knit co-operation and coordination between the public and private sectors, willingness to implement necessary reforms to reduce delays and administrative hurdles, construction of roads, railway links and port facilities, their efficient management, marketing and long-term maintenance and the repositioning of a transit and landlocked country to a more commercial and business-like approach to transport, trade and infrastructure problems. There is definitely something to be gained from opening up, from developing a port or a transit corridor.

In Europe too, ports, especially medium-sized ports, have experienced substantial growth and are coping with demand from coastal as well as landlocked countries and regions. This trend shows that size is not the most critical factor. Well-functioning and efficient port facilities provide economies of scale in all sectors, including the service sector, which huge ports have difficulties competing with.

Transit - Analysis of alternatives

In any transit agreement between landlocked and transit countries, corridors require careful analysis. They can entail not only general or informal costs, but also require shorter or longer transit times. When a transit agreement is negotiated, the position of the landlocked and the transit country does not necessarily have to be opposed. On the one hand, transit traffic uses a transit country's infrastructure and it appears normal for the transit country to include incurred costs in road user charges, port tariffs, etc. On the other hand, the landlocked country is not entirely without bargaining power. Its traffic is a source of revenue for the transit country and much needed to make existing facilities profitable. Therefore, often, transit countries very much want to have good agreements to attract traffic. Most governments feel that negotiating at least two access routes is imperative in order to avoid becoming "captive"; however, it should be noted that private

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operators would always use the cheapest and most profitable route and ignore possible alternatives.

Therefore, what are the basic criteria that allow transit corridors to be compared, evaluated and chosen? Several factors play an important role. They deserve close attention and in certain cases, even mention in formal transit agreements, especially when transit routes through different countries are compared. Such factors include trade facilitation means, i.e. procedures and documents required for import/export and customs (are these procedures harmonised? do they comply with trade agreements? is IT available and used? are international conventions such as TIR applicable?); infrastructure concerns (in what states are the roads, railways, waterways, storage facilities, terminals, ports; what capacities are available; is there adequate maintenance), operational and traffic constraints (loading time; waiting time; delays at ports or custom border crossings; traffic through the corridors; who operates the corridor; restrictions on transport operators), charges and costs (including direct and formal costs; insurance or possible informal charges, etc.) or institutional arrangements (do transport sector regulations and organisation exist? are the private and public sectors involved? do traffic sharing arrangements exist; have transport regulations on e.g. axle-load, dimensions or insurance been unified?).

It also helps to include a review mechanism, which allows both the transit and the landlocked country the monitoring of the stipulated points of the agreement.

Facilitating Transit – Other Measures

Transport or development corridors are efficient but also comprehensive, long-term projects and therefore, more time-consuming approaches to the transit issue. Harmonising, simplifying and standardising transit procedures and documentation are other necessary and accompanying measures that require equal attention if transit traffic is to be improved. Efficient information processing and transfer systems contribute to the facilitation of customs transit procedures. Such measures have to be adopted and if already in place, have to be implemented. They make the life of both landlocked and transit country much easier and facilitate the task of public and private operators. Furthermore, antiquated and inefficient transit procedures make the whole transit regime vulnerable to fraud and misuse.

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Harmonised Documents and Procedures

Trade facilitation procedures have been developed on the national, regional and international levels. They range from common customs declaration documents, to the electronic transmission of data ahead of the arrival of cargo at the transshipping point, to sophisticated computer programmes. Information technology, intermodal transport or other new trends can certainly contribute in an important way to the improvement of transit traffic and the reduction of transport costs for landlocked countries. Simplified systems, which improve the co-operation of customs and authorities in transit and landlocked countries or within one region, are key to reducing transport time and costs.

There are numerous examples of such simplified systems, such as the EU's Single Administrative Document. Not surprisingly, most technical assistance programmes include a reference to the introduction of such simplified procedures. Another example is the Baltic Common Transit Procedure, which so far covers road transport only and came into force in January 2001. It simplifies transit through the three Baltic States by introducing a single customs declaration and guarantee. The Baltic countries see this Agreement as a step towards the Convention on Common Transit, which applies to the transit of goods from/through the EU, EFTA (European Free Trade Agreement) and the Visegrad countries. The Convention on Common Transit and especially the reforms introduced in July 2001, are an excellent example of legislative changes closely intertwined with operational reforms. The aim of this approach is to improve the legal environment for transit operations on the one hand, especially with regard to avoiding fraud and on the other, to link more closely the 22 customs administrations of the parties to the Convention. In Africa too, the need for a common customs document, for example, within COMESA (Common Market of Eastern and Southern Africa), has been recognised. The Subregional Transport Forum of the Greater Mekong Subregion has also taken first steps towards the recognition of simplified procedures.

The co-operation between the public and the private sector is fundamental for trade facilitation measures to succeed. The business community has hands-on experience and can therefore give concrete input. Their co-operation (which can be revenue-based, as is the case, for example, in

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Singapore and Mauritius) is therefore not only helpful, but also necessary, to progress further in this area.

Information Technology

Another important element, which draws on the aforementioned, is the use of information technology (IT). Certainly a costly venture, however, an efficient and necessary investment for both transit and landlocked country. Paper-backed transit systems cause delays that are endemic. The EU relied for a long time on such a procedure and has only recently introduced an IT-based documentary exchange in the transit area. It had be admitted that the paper-based regime which, in addition, had been designed for fewer member states, could simply no longer cope with today's transit traffic. The sheer volume of papers created every single day exceeded the capacities of the customs services by far and resulted in serious delays in the treatment of transit operations, in administrative errors and had adverse financial impacts.

ASYCUDA - Automated System for Customs Data

ASYCUDA is a computerised customs management system that covers most foreign trade procedures. It handles manifests and customs declarations, accounting procedures, transit and suspense procedures. ASYCUDA generates trade data that can be used for statistical economic analysis. The ASYCUDA software is developed in Geneva by UNCTAD. It operates on microcomputers in a client server environment under UNIX and DOS operating systems and RDBMS Software, and takes into account international codes and standards developed by ISO, WCO and the UN. ASYCUDA can be configured to suit the national characteristics of individual customs regimes, National Tariff, legislation, etc. ASYCUDA provides for Electronic Data Interchange (EDI) between traders and customs using UN/EDIFACT (United Nations Electronic Data Interchange for Administration, Commerce and Transport) rules.

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ACIS (Advance Cargo Information System) is a logistics information system designed to improve transport efficiency by tracking equipment and cargo on transport modes (rail, road, lake/river) and at interfaces (ports, Internal Clearance Depots (ICDs)) and providing information in advance of cargo arrival. It allows traders to make full use of the existing infrastructure and equipment capacity.

Source: UNCTAD

In this respect, it is worth noting that several national and international organisations are involved in assisting countries in their trade facilitation efforts and the automation of procedures. One example of such an initiative is the Trade and Transport Facilitation in Southeast Europe Project (TTFSE) of the World Bank, SECI (Southeast European Cooperative Initiative) and the US (and in collaboration with the EU). This project aims at reducing costs to trade and transport and at the same time reducing smuggling and corruption at border crossings in the region. The project provides: physical improvements to border crossings and technical assistance to strengthen the customs administrations, computerisation of procedures at the border crossings, improved exchange of information between the border control agencies and the business community, through seminars, training and Internet websites. Membership in the TTFSE Programme is based on being a recipient of funding for customs reform, under a loan from the World Bank or a credit from the World Bank's IDA (International Development Agency) and signing a joint Memorandum of Understanding (MoU). By signing the MoU, the participants commit to joining the Regional Steering Committee of the TTFSE and to collaborating in the resolution of common problems constraining trade in the region. The MoU includes a direct reference to the improvement of transit and cross border problems.

Other examples include UNCTAD's ASYCUDA and ACIS systems. Within the framework of COMESA and SADC (Southern African Development Community), new programmes aim at the consolidation and extension of computerised customs procedures and transport information systems and the setting up of joint border posts.

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Fundamental legal aspects

A stable legal environment is the basis for any transaction, between businesses, private and public entities in landlocked and transit States. We have mentioned the more specific issues relating to transit agreements; however, in many cases, it is not so much the lack of agreements that hamper the free flow of goods, as the lack of implementation and enforcement. Thus, although many bilateral and multilateral agreements contain references and commitments to resolving transit issues, customs facilitation or regulatory problems, there are often simply not enough resources at hand to tackle the challenges in practice.

In many countries, however, the most basic legal and regulatory framework either does not exist or is inefficient. Thus, in many cases, railway codes, civil aviation or inland water shipping acts, maritime or merchant shipping acts, road traffic acts, transport codes, customs legislation, freight forwarding laws and legislation on the transport of dangerous goods, require enactment, revisions and/or harmonisation with internationally agreed standards. As mentioned earlier, the EU, within the framework of developing transport corridors within the central Asian and Caucasus region, has put a lot of emphasis on legal and regulatory reform. The previous system, inherited from the former Soviet Union, was a very unique transport system, which could not be adapted to the principles of a free market economy and to international transport operations. Therefore, draft laws that were strongly customised to the needs of the particular countries were proposed to the participating States and draft multilateral agreements were brought to their attention.

Legal Reforms – Opening Markets

Infrastructure development and the development of a strong private sector that is competitive and will, therefore, add to the reduction of transport costs for landlocked countries, depends strongly on the business environment. Policies and legislation that are conducive to the development of the transport or forwarding sector, or the involvement of the private sector in infrastructure development, touches primary legislation included in civil codes or laws. Reforms in this area, which would range from liability to deregulatory issues, are far-reaching and require strong commitment from the relevant government. Since in many landlocked and transit countries the

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poor development of infrastructure and services is a lingering threat to trade expansion, legal reform to create a good and open business platform is a good start and can be a catalyst for small and large scale investments.

Often rather radical changes are necessary and it takes courage for governments to adopt and implement them. Breaking up monopolies, privatising national railroads, letting private companies take over port operations, enacting and applying concession laws or opening national transport markets to foreign companies are examples of such steps. Countries, therefore, sometimes ask for safeguards. Hungary, for example, asked for such exceptions with regard to the required adoption of the *acquis communautaire* for accession to the EU. Letting freight operators into its national transport market, the government fears, could potentially harm the small-scale operators currently in the market. Another area that could be addressed profitably is a legal framework that allows for the establishment of public-private partnerships.

Institutional Reforms

The lack of adequate institutions is another problem that requires more attention. Without appropriate institutions within the government and the relevant ministries, the specific legal issues related to transport and transit risk being delayed, lack the necessary lobby and will fail to be implemented and enforced even if they are adopted. This is also the case for the implementation and enforcement of international conventions or agreements, which are much better supervised if responsibilities are clear and their implementation and coding into national legislation, through the relevant normative acts, is driven by a designated agency. Furthermore, investments in infrastructure may not reduce transport costs if not reinforced by appropriate policy and institutional reforms. There is a two-way interaction between trade and institutions, in that better institutions foster trade and more openness to trade results in the establishment of a better institutional framework.

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In a recent study⁶⁸, a very interesting link between having functioning institutions and overcoming the disadvantages of being landlocked was analysed using the example of Botswana. Between 1965 and 1998, the country's average per capita income grew by 7.7 per cent annually despite its being landlocked and the 1999 Economic Report on Africa,⁶⁹ by the Economic Commission for Africa, ranked Botswana among the countries that satisfy the minimum requirements to sustain growth. Over the same period of time, order was maintained, the administration functioned well, large public investments were made in the education, health and infrastructure sector and institutional arrangements protected the property rights of investors. The reasons for the well functioning institutions in Botswana are manifold and root in tradition, colonial legacy, and a strong leadership with foresight. These conditions are not necessarily easy to reproduce. However, they show that these unorthodox elements, western policy advice and native approaches are a good mix for successful institutional build-up and sustainable development, even in a landlocked country.

There is also a need to not only organise inter-governmental commissions but often also the whole transport/freight forwarding sectors. Federations and associations are helpful partners when it comes to implement agreements and rules as well as when co-operation between neighbouring countries has to be fostered. In many countries, transport and freight handling companies are fully or partly State-owned and require restructuring and more private-sector involvement. In other countries, informal or semi-informal sectors have developed in the transport profession and freight is often shipped without adequate insurance or in vehicles that do not respect safety requirements. In the West African Economic and Monetary Union Region, the flouting of cargo weight limits by trucks is considered one of the greatest contributory factors to the fast deterioration of the road network.

⁶⁸ Rodrik Dani, *Institutions, integration and Geography: in Search of the Deep Determinants of Economic Growth*, John F. Kennedy School of Government, Harvard University, August 2001

⁶⁹ Economic Commission for Africa, *Economic Report on Africa 2000: Transforming Africa's Economies*, Addis Ababa, 2001

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In all these areas, government intervention is certainly necessary to foster better control and regulation, taking care, however, not to drive out the most effective service providers.

Regional Approach – Harmonising Laws

The most desirable approach to the transit issue is certainly an integrated regional approach that addresses all issues involved, looks for possible solutions and supports improvements in all countries through which the goods, also from landlocked countries, pass. Therefore, inter-country agreements are an important prerequisite as they cover access to and maintenance of transit corridors and potentially streamline and harmonise regulations. Cross-border co-operation between agencies is an efficient means to implement and enforce harmonised regulations, such as among customs administrations in a region or sub-region. Such co-operation can even include transport operators so that transit procedures are more closely followed and monitored, as is demonstrated by the example of the Transit Contact Group, under the umbrella of the European Convention on Common Transit. However, one important factor should not be forgotten: the best transit agreement can only work if backed by political will and the capacity of governments to actually control their agencies.

A further, rather strong incentive for regional coordination is also rooted in a fundamental legal issue. Goods that cross borders for the purpose of being exported, or just in transit, are also moving from one legal system to another. In many border areas, distribution and transit centres have been built, not because they have a particular economic relevance in the logistics process, but simply because they mark the furthest point a truck can legally travel and where new legal conditions have to be complied with. Borders are the natural limit of the validity of legal documents, such as bills of lading or insurance policies. Legal systems on the two sides of the border can so diverge that they create a “legal wall”. That can hinder the smooth transit of goods. Especially if legal tradition and historical or socio-economic legacies have different roots and have taken different directions, the nature of these legal systems can be incompatible. Regional approaches are, therefore, the only logical way to tackle these problems.

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The role of governments

Governments should play the role of a facilitator and interfere only when necessary. Transit agreements between governments, however, are still necessary, as they provide a much needed stability and specify more than one or two access routes to the sea, a condition that despite commercial considerations might become a necessary option at one point. Governments should create an enabling environment that allows private operators to choose the cheapest and economically most viable transit route. In their role as facilitators and trade and transit enablers, governments should examine their own actions and help overcome bottlenecks linked to procedural, regulatory or customs questions. Governments are the driving forces when it comes to privatising, liberalising and creating a conducive and competitive environment. They are also responsible for adopting the necessary accompanying measures to buffer possible unexpected effects and prepare the ground for new developments.

Therefore, details in transit agreements, for example, can be left to private operators and in many instances, governments could consider retreating from commercial operations. This will narrow their role in certain areas but, at the same time, strengthen their involvement in others, for example, in finding resources for infrastructure projects, in formulating, implementing and enforcing transport regulations, international, regional, subregional or bilateral agreements, in negotiating simplifications and harmonisations and in reforming their agencies.

The following chapters show concrete examples of how countries in eastern and central Europe, central Asia and in western Europe are coping with being landlocked, how their governments have decided to tackle the issue over the years, including during their economic and political transition process and which policies and concrete steps have been adopted to facilitate transit and their countries' access to the sea.

Country cases

What influence does the landlocked status have on the transition process in the countries in eastern and central Europe and central Asia? What other factors have to be taken into account when this assumption is being tested

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and what can be done when being landlocked is a problem for the transition process?

The geographical location of the 25 transition economies differs sharply; however 13 (Armenia, Azerbaijan, Belarus, Czech Republic, Hungary, Kazakhstan, Kyrgyzstan, the FYR of Macedonia, Moldova, Slovakia, Tajikistan, Turkmenistan and Uzbekistan) of the 25 transition economies are landlocked. It is also interesting to note that, whereas 15 of the transition economies are over 1,000 km away from the major markets of Western Europe, Hungary, the Czech Republic and Slovakia lie in the very heart of Europe and are, therefore, easily accessible for trade in goods and services.

The geographical location of the transition economies will of course also affect trade and investment and related decisions. The years since the beginning of the transition process have shown that certain countries have been more successful in both spreading economic and institutional reform and in attracting investment and trade flows. Two factors are striking: these more successful countries are either coastal economies or/and close to their major markets. Therefore, being landlocked seems to matter only if a country is, at the same time, far or disconnected from its major markets. Otherwise, it can be assumed that the closer a country, landlocked or coastal, is to Western Europe, the earlier the reform process has started and the farthest it has progressed in the meantime.

One of the major growth strategies adopted by Eastern Europe, for various reasons, is export-oriented growth with a large portion of assembly operations or outward processing trade. In these activities, transport costs play a substantial role for potential investors and as intermediate products are being imported and finished products exported to western Europe, the choice of the production location will favour countries such as Poland, Hungary, Slovakia or the Czech Republic, as these are physically closer to major markets and have a more open trading policy. Manufacturing will also most often be located close to where the final consumption of the product will take place, as long as labour costs or transport costs are not too different.

Local sourcing too will become important in order to replace costly imports and avoid high transport costs. Thus, for instance, a Singapore-based electronic engineering giant uses up to 50% of local supplies in its

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manufacturing plant in Hungary.⁷⁰ What a probable accession of the central European countries to the European Union will bring goes beyond the scope of this paper. However, it can be assumed that, once labour costs become adapted and the difference in labour costs becomes more important than gains from physical closeness (i.e. transport costs), production will move further east. Already, the big multinationals in the electronics industry are looking for facilities in Romania or Ukraine.⁷¹

These examples show that being landlocked can be a burden also for a potential investor, but the problems linked to being landlocked can be overcome. In Hungary, Slovakia and the Czech Republic, being landlocked matters relatively little, since these countries are contiguous to western Europe and are linked to western Europe and the sea through good roads, railways and navigable waterways over relatively short distances. Ever since the transition process started, they have been included in the planning of the major pan-European traffic arteries. In addition, their nearing accession to the EU has forced these countries not only to invest large sums into the upgrading of their infrastructure and capacities, but also to overhaul their transport policy, institutional frameworks and customs administrations. Closeness to the EU definitely increases the reform process and provides an interesting incentive for speedy reform.

Landlocked in the heart of Europe: the case of Hungary

Hungary, a landlocked country, is located in the middle of rich markets and close to the country's primary and most important trading partners. Hungary is certainly one of the best examples for why being landlocked is neither a real obstacle to the transition process nor to trade expansion or economic well-being. The keys to overcoming its landlocked status are both given, i.e. geographical proximity to western Europe, its location astride main land routes between western Europe and the Balkans, as well as Ukraine and the Mediterranean basin, the absence of topographical barriers, navigable waterways, i.e. the Danube and the Tisza rivers, and negotiated, i.e. trade, agreements or bilateral and multilateral transit conventions.

⁷⁰ Source: Wilson Drew, *In depth: Eye on Hungary*, in EBN, 30 January 2001

⁷¹ Source: idem

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Statistical overview

Data for 2000 indicate that Hungary's main trading partners are in Europe (with 90.2% of exports and 77.4% of imports) with the largest share in the EU (75.2% export share of Hungary's external trade and 58.5% import share) and the most important trading partner being Germany. Russia and the CIS are still relevant sources of imports, especially as providers of energy. Trade with countries overseas was relatively small with Africa (0.4% of total exports and imports), Australia and Oceania (0.1% of both exports and imports) and the Americas (6.0% of Hungary's exports and 5.4% of Hungary's imports). Active trade relations have been established with Asia, which holds an import share of 16.75 and an export share of 3.4%.

(Source: Ministry of Economic Affairs and Ministry of Foreign Affairs, Hungary, 2001)

However, being landlocked and at the same time a transit country, also imposes constraints, ranging across environmental concerns, heightened infrastructure requirements and a different logistics system than that of coastal countries, i.e. with more warehouses, distribution hubs, etc. That these challenges can actually have a positive impact and give rise to new business and trade opportunities is one of the main conclusions of the following brief overview.

Access to the sea – rail and road

Hungary can access the sea via inland waterways, rail and road, with roads being the most important, followed somewhat closely by rail and inland waterway traffic being by far the least important⁷². The Hungarian railways system has been improved during recent years. Today, there are regular container trains to the seaports, for example, in Hamburg, Bremerhaven, Rotterdam, Croatia, Turkey and Greece. Trains from Budapest take no more than 1.5 days to reach the two German ports that have become very important for Hungarian container trade to destinations overseas (including the United Kingdom and Ireland). The opening of a new railway line

⁷² Source: Commission of the European Communities, *Energy and Transport in Figures: Goods Transport, other European Countries, Performance by Mode in 1998*, Brussels, 2001

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between Slovenia and Hungary, in May 2001, made the establishment of regular container trains between Budapest and the Port of Koper in the Adriatic Sea possible. In a November 2001 study, Hungary's railway network ranked 5th among 16 European countries.⁷³ However, neither the rolling stock nor the basic infrastructure meets the latest technical and economic requirements. Maintenance of existing networks requires urgent attention and administrative reforms, especially needed is the restructuring of the Hungarian Railways Company, MAV.

The development of new roads and continued efforts to maintain the already existing road system within Hungary will further strengthen its access to sea outlets. The legislative framework, which regulates Hungary's transit and access to the sea, is codified in bilateral inter-governmental agreements, which often also regulate road freight quotas through a system of permits. A particular and inherent failure of such a system is, of course, the possible and actually often quite real shortage of permits and therefore, a limitation in transit traffic through certain countries. Therefore, in July 2000, Hungary and the EU signed the bilateral Road Goods Transit Agreement, which aims at facilitating transit across the territory of the contracting parties, particularly through the mutual exchange of road transit authorisations. These authorisations are in addition to those already exchanged within the framework of bilateral agreements between EU Member States and Hungary. The issue of transit permits opens a rather sensitive chapter in both Hungary's and the EU member States' transport policies, as only a real reciprocal liberalisation would actually bring substantive changes. Accession to the EU will introduce new rules that will require more competition and change considerably the road transport sector and admission thereto.

In addition, Hungary is also a party to several multilateral agreements including the TIR Convention. Customs transit procedures are regulated by the (EU) Convention on Common Transit of 1987 (amended in July 2001), to which Hungary is a party and which is broadly in line with the provisions of (EU) Community Transit. It has similar rules, the same documentation and procedures and similar guarantee arrangements. The Common Transit regime is not compulsory and the TIR system can be used as an alternative. Hungary also has bilateral agreements on transit and related subjects with

⁷³ Source: Healey and Baker, *European Distribution Report 2001*

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other countries, including those that are important for the country's access to the sea. Customs co-operation is also included in the Free Trade Agreements concluded within the framework of CEFTA (Bulgaria, Czech Republic, Poland, Romania, Slovakia and Slovenia), as well as with Croatia and others.

Transit

Hungary is also an important transit country; four of the ten trans-European Network corridors run through Hungary and this gives the country a significant role in European as well as sub-regional integration. In recent years, though, the excessive use made of roads for the transport of goods and the shortcomings in the rail system have seen a sharp increase in congestion on main arteries and border crossings. It is in the common interest of the transit and the transiting country that there be a good infrastructure and an equilibrium between traffic volume, traffic mode and environmental harm.

But Hungary is not only faced with the negative sides of transit. Hungary has, in fact, already started to exploit the benefits that are linked to transit and to the country's unique situation between East and West. These benefits are linked to the vast opportunities in service sector development, i.e. of providing services and solutions, especially in the logistics sector. They range from providing adequate services to transport operators or freight forwarders to services, such as increased capacities in storage, distribution, warehousing and container handling. Providing flexible and high-level services will attract business, investment and expertise and will create employment. The underlying assumption is a rather forward looking strategy, in that it builds on the dynamic expansion of markets also eastwards and Hungary's location between eastern and western Europe. In fact, Hungary has the profile, experience and historical background, which could eventually turn the country into a major trading and distribution hub, despite its being landlocked.

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The Danube – Hungary’s natural connection to the sea

Legal background

Since 1992, Hungary has been connected to both the Black Sea and the North Sea. It was then that the 170 km connection between the Rhine and Danube rivers, the Rhine-Main-Danube Canal, was inaugurated and established a navigable waterway of 3,500 km across Europe. The Danube had always been a very important link for Hungary’s access to world markets and trade. The Paris Peace Treaty of 1856, which ended the Crimean War, recognised the principle of free navigation on the Danube River. The Paris Convention of 1921 regulated navigation on the Danube from Ulm to the Danube’s mouth and established an International Commission (with, today, 11 member states⁷⁴) with authority over the Danube from Ulm to Braila. Since 1948, the Belgrade Convention on the Navigation of the Danube is in force. In its articles 1 and 25, the Belgrade Convention states that the “Danube is free and open for the nationals, merchant vessels and goods of all states, on a footing of equality in regard to port and navigation dues and conditions for merchant shipping except for traffic between ports of one and the same riparian State”. The Convention also defines, in detail, maintenance commitments and the development of navigational channels as well as the defraying of relevant costs.

Apart from this multilateral Convention, Hungary has also signed two bilateral agreements, one with Germany (1989) and the other with the Netherlands (1991), just prior to the opening of the Rhine-Main-Danube canal in 1992. They cover the reciprocal use of inland waterways by vessels for the carriage of goods and passengers and for transit and the equal participation of these countries in their respective bilateral trade. Ships of these countries are guaranteed the same treatment while on the territory of the other contracting party.

In 1955, the Danube shipping companies signed the “Bratislava Agreements” on the international carriage of goods by inland waterways.

⁷⁴ Today, the members of the Danube Commission include 11 countries (Bulgaria, Germany, Yugoslavia, Croatia, Moldova, Austria, Romania, Russian Federation, Slovakia, Ukraine and Hungary). Decisions of the Commission are only recommendations and not legally binding for the member states.

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These rules, elaborated by the transport companies themselves, are a private law document that deals with the general conditions for international transport of goods on the Danube and includes paragraphs on tariffication and emergency measures. Another agreement was adopted in 1984 on the carriage of high-cube containers. A particularity of the Bratislava Agreements and also the Agreement on Uniform International Tariffs is that they stipulate that bilateral trade should be reserved for national shipping companies of the two countries concerned. This led to the development of a strong tradition of cargo-sharing arrangements. Following the opening of the Rhine-Main-Danube Canal and the opening of East Europe, coordination of the regulations on the carriage of goods on Europe's inland waterways became necessary. In June 2001, the Budapest Convention (elaborated with the collaboration of the UNECE) on the contract for the carriage of goods by inland waterway (CNNI), was signed and will shortly come into force. This document will not only harmonise different legal regulations but also make inland waterway transport more competitive.

Traffic on the Danube- potential and reality

Waterways, in general, hold a great potential that yet remain to be fully utilised. Today, most goods from overseas arrive in containers but, unfortunately, container traffic on the Danube has only reached a very small portion of such traffic on the Rhine. Although the Rhine-Main-Danube Canal provides Hungary with a new access to the sea via cheap and environmentally friendly waterways, a ship has still to pass 65 locks on its way. This is no problem for bulk transport but nevertheless prevents the establishment of regular liner traffic between Hungary and the North Sea ports. The Rhine-Main-Danube canal, as any other canal, sets limits with regard to the dimensions of a ship and allows only limited traffic, a problem operators on the Rhine do not have. Furthermore, carriers on the Rhine-Main-Danube waterway pass from one legal and regulatory regime to another and face a number of legal, technical and administrative problems. Only recently, the Danube Commission and the Rhine Commission have agreed formally to cooperate more closely to harmonise their respective regulations. Furthermore, there are also some more specific "Hungarian" problems that require attention. These include capacity problems, i.e. container vessels and ships not always up to the latest technical standards; a lack of ports along the Danube; inadequate port infrastructure; low water depth on the Danube above Budapest and logistical problems in general.

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Trade on the Danube- past and present developments

For Hungary, traffic on the Danube has gone through many phases. Thus, during the Comecon years, the Danube was an important trade link between Hungary and its eastern neighbours with the most important part of the waterway being its eastern end, i.e. towards the Black Sea. In 1984, the 64-km Danube-Black Sea canal opened and shortened the route to the sea by 370 km, which meant a more direct and navigable, though by no means cheap, link. Access to the Black Sea provided also a trade route to the Far Eastern countries of Vietnam, China and India. The role of the Danube was reinforced by the nature of Hungary's trade with the then Soviet Union (e.g. ores and coal) and the fact that means of transport and tariffs were negotiated on ministerial levels in advance.

With the end of the Comecon in 1992, trade relations with EU countries intensified, trade moved westward and the important access points to the sea became Amsterdam, Rotterdam (with regular liner service to the UK and the shipping of even small amounts without delays), Antwerp and the German seaports, by road and to some extent by rail towards Trieste (Italy), Koper (Slovenia) and Rijeka (Croatia). Trade towards the Black Sea ports decreased during the 1990s and was even more damaged by the consequences of the war in the former Yugoslavia.

The sea ports – access to the sea

In the light of increased overseas container traffic and a possible future eastward expansion of the EU, there are once again arguments for developing the Budapest-Constanța (Romania) waterway to the Black Sea. The new free port of Constanța is being developed and at one point it might be possible to link Port Said at the Suez Canal with Constanța and Budapest (with ocean and then river vessels). Another competitive link would be the Port Said - Gioia Tauro (Italy) - Koper (Slovenia) - Budapest route with ocean vessels, feeder ships and trains.

The Adriatic ports already, today, play an important role for Hungary and due to their proximity, this importance could increase even more in the

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future. Governmental agreements and the CEFTA framework is today principally responsible for the good transit conditions and the relatively easy access to the Adriatic ports of Croatia and Slovenia. Hungarian export companies and the sheer volume of Hungarian exports have already transformed northern Croatian ports like Rijeka or the Slovenian port of Koper (the biggest Hungarian cargo handling outlet on the Adriatic coast) into huge export sites. In fact, Asia can be reached in 7 to 10 days, less from Koper than from any of the large Atlantic ports. For the landlocked countries of Central Europe, including Hungary, the port of Koper is about 500 km closer than any of the North Sea ports. In Rijeka, Hungarians have taken a lead role in encouraging the revitalisation of the port, whose facilities require urgent modernisation. The scheduled EU access of Slovenia at the same time as Hungary will further increase landlocked Hungary's access to major sea ports and remove any remaining customs or technical barriers.

Management and policy issues

As in many transition economies, the privatisation of operating, freight forwarding and handling firms, shipping companies and port authorities remains an issue to be tackled. In many of these companies the state is either the sole or the majority shareholder. These state-owned companies often have outdated fleets and an inflated administrative structure. The CEO of the Hungarian national shipping company MAHART Rt., which is still 100% state-owned and whose privatisation has been postponed for many years, estimated in May 2001 that, in order to become profitable, efficient and internationally competitive, the number of river ships would have to be cut from the current 35 to about 5; and the administrative staff would need a reduction from over 200 to not more than 3 or 4⁷⁵. The maritime merchant fleet, MAHART, operated under a Hungarian flag, ceased its operations in October 2000.

In summary

Hungary's accession to the EU and the related necessary adoption of the *acquis communautaire* has a decisive influence on the country's future position among Europe's trading nations. It influences such areas as

⁷⁵ Balazs Edith, *Mahart: Taking on Water*, in Business Hungary, May 2001

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transport policy and customs organisation. Thus, the transport sector has in fact already been re-organised, infrastructure construction work has been initiated and implementing legislation has been adopted in numerous cases. Considerable progress has also been made in the adoption of simplified and IT-supported customs procedures and the improvement of administrative and operational capacities, which substantially simplify the import, export and transit of goods.

EU accession means, for Hungary, that it will be the Union's eastern border. As such, it will also play a substantial role as a major transit country and has thus great potential for developing a modern services sector, which will strengthen Hungary's role as a link between East and West. The integration of an Adriatic port country (Slovenia), at the same time as Hungary, will further facilitate Hungary's access to the sea. Therefore, this dynamic context, with trading opportunities at the eastern and the western borders, will once again change the country's response to being landlocked.

With regard to Hungary's waterways, the priority remains the expansion of river traffic on the Danube and the construction of the necessary and adequate infrastructure and service network to support transport on this waterway. Increasing the navigability of the Tisza river is another strategic development worth mentioning. It is also interesting to note that the Danube is one of the backbones of planned new transport corridors. Although canals are, in general, rarely economically viable and limited traffic remains a problem, they promise some advantages to landlocked Hungary. The planned Danube-Adriatic Sea route, for example, which would be an extension of the Monfalcone (Italy) port to Ljubljana (Slovenia) canal towards Győr (Hungary) or Bratislava (Slovakia), is just one such example.

In summary, being landlocked matters only little to Hungary. In fact, Hungary attempts to take advantage of this given situation by emphasising service sector development and exploiting the advantages of its role as a transit country. Only recently, Hungary managed to lure away high-tech investment from Ireland, so far considered as one of the best manufacturing sites in Europe. This is all the more interesting, as one of the reasons for these moves was also Ireland's geographical situation that requires over water shipments to get to the EU. Hungary's landlocked location, together with its borders with seven countries and connections to the emerging economies eastwards, was exactly what attracted investors. Another

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interesting example is that of a foreign electronics company that has started to produce game consoles in Hungary that are actually destined for sale in Japan.

Central Asia's landlocked countries

In contrast to the central European countries, central Asia is both landlocked and far from markets and this has been highly consequential for its economic performance, especially since the beginning of the economic transition. The region also has a very distinct historical legacy. Until the beginning of the 20th century, the rate of urbanisation was very low and therefore, the region's involvement in international trade as well. During the 20th century, its geopolitical situation reduced the exchange of goods and services within the region, in order to follow a strict Soviet-centred Comecon trading pattern. On the other hand, the landlocked countries of central Asia are ancient traders with a booming trade since 3000 B.C. Located along the ancient Silk Route they were actively involved in both eastward and westward oriented trade.

Today, the region's transit routes are fragile; security remains a substantial problem and finding alternate land-sea trade routes is a difficult venture. In a statement to the United Nations General Assembly in October 2000, the Permanent Representative of Kazakhstan pointed to the fact that prohibitive transport costs in Central Asia can amount to up to 60 per cent of the value of manufactured imports.⁷⁶

Current developments

During the past 10 years, Central Asia has nevertheless been able to develop and negotiate a number of transit routes including the ever so important pipelines for energy exports through the Russian Federation. In addition, China and the Islamic Republic of Iran can be transited by rail and road; the Trans-Caspian ferry routes offer transit by rail and road and towards the South, through China to Pakistan and India, access is granted by road. These main transport corridors have already opened landlocked central Asia

⁷⁶ Statement by H.E. Mrs. Madilna B. Jarbussynova Ambassador, Permanent Representative of the Republic of Kazakhstan to the UN, New York, 26 Oct. 2000.

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to trade significantly, although much remains to be done, especially in terms of infrastructure maintenance, up-grading and rehabilitation, a priority objective of numerous transport assistance projects supported by international agencies (e.g. the UNECE and ESCAP Special Programme for Economies of Central Asia (SPECA); the European Bank for Reconstruction and Development (EBRD); the Asian Development Bank; United Nations Development Programme (UNDP), the World Bank; the Islamic Development Bank and the TRACECA Project of the EU). Also, efforts to revive the old Silk Road have been high on the infrastructure development agenda of many of the aforementioned international institutions. In June 2001, the World Bank joined, among others, the EBRD, the EU and the Islamic Development Bank by approving a substantial credit to further the plan to link landlocked Central Asia with China and eventually, other markets. An interesting component of the World Bank investment is that it includes an institutional strengthening component within the framework of the project's highway building plan in Azerbaijan. It is assumed that a restructured and modernised Azeri road agency, which owns and maintains the roads and is responsible for the implementation of the highway project, is key to the success and the sustainability of the project.

The countries of Central Asia have made substantial efforts in adopting major international transport and transit conventions, including the TIR Convention. It is, however, not enough to sign and ratify Conventions, implementing them is even more important. Thus, for the TIR regime to work, certain institutional requirements have to be met. Complying with the construction requirements for vehicles or maintaining tachographs is difficult and it will take time, capacity building and money to make these conventions operational. Another area that requires urgent attention is a region-wide effort to harmonise existing regulations and rules. As described earlier, the TRACECA project includes such a component. It is obvious that harmonised rules, with regard to axle-load, transit charges, customs regulations, insurance and the introduction of IT, would lower transport and transit cost and time considerably.

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United Nations Special Programme for the Economies of Central Asia – SPECA

Since 1997, the United Nations Economic Commission for Europe (UNECE) and the Economic and Social Commission for Asia and the Pacific (ESCAP), together with Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan and Uzbekistan, have been operating a programme, which focuses specifically on the economic issues of concern to the central Asian republics. One priority area for action is the development of transport infrastructure and the simplification of border-crossing operations in co-operation with other institutions. As a result, it is expected that SPECA countries will improve their transit and trade potential in central Asia and improve links in Europe and Asia.

With regard to regional/subregional co-operation or integration, central Asia is not yet as far evolved as could be theoretically possible. In reality, numerous obstacles, including security issues, political conflicts, informal charges at border crossings, transit taxes or visa requirements, have hampered the development of good cross-border relations and thus, also the flow and transit of goods within the region and toward other markets. The region's governments have, in fact, signed many agreements (bilateral and multilateral) with numerous lending and donor agencies or international organisations. There are more than five agreements within the central Asian and Caucasus region, all aimed at facilitating trade and transit in addition to the many international conventions. Unfortunately, more than once, these agreements stipulate different or contradicting sets of rules, procedures, mandates and institutional arrangements for the various projects or transit corridors.

In summary

Geography, i.e. being landlocked, is far from explaining everything about the current economic situation of Central Asia. Other factors and particularly the political climate and stability, have a major, if not more important impact. The example of this region also indicates clearly the need for a more concerted approach and more co-ordination between governments, donor agencies and international organisations. Agreements will only serve the purpose of facilitating transit and trade if they are

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harmonised, implemented and enforced. Being landlocked is certainly an additional burden on the central Asian republics, but many of today's problems could be alleviated if priority were to be given to moving sluggish reforms forward and improving regional co-operation to tackle the most urgent transit problems, reducing transport costs and accelerating access to world markets.

Being landlocked in Western Europe –the case of Switzerland

Switzerland is definitely the most successful landlocked country in the world and as the success of the Swiss economy and especially of the Swiss export industry indicates, a country that is neither suffering from nor affected by its landlocked status. The ingredients for such a success story are particularly “Swiss” and not readily transposed into other areas or other countries of the world. However, they are worth a closer look as they can certainly provide ideas of use to other landlocked countries. A striking result of the research undertaken within the framework of this study is that neither relevant literature nor Swiss authorities seem to consider their country a victim of landlockedness. Indeed, the geographical location of Switzerland is seen rather as a positive challenge and an incentive for creative solutions, both in transport, economic and trade policies. It should also be noted that Switzerland, an alpine state, is not only landlocked but also one of the most important transit countries in Europe.

Switzerland – The economic and trade answer to being landlocked

Switzerland is one of the world's leading export countries with very high export quotas, reaching up to 95% in the watch-making industry, 85% in chemicals and pharmaceuticals and 76% in engineering and vehicle manufacturing.⁷⁷ As early as the 19th century, watch and clock making, as well as the silk-ribbon weaving industries, were geared to export trade. Whereas the textile industry lost its weight towards the end of the 19th century, the watch-making sector continued to expand and the very profitable chemical and machine-building industries took an essential place in Swiss industrial production. Within a short period of time, Switzerland managed to develop export industries of major international importance,

⁷⁷ Osec, *Business Network Switzerland: Swiss Foreign Trade 2001/2002*

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despite being landlocked and despite a lack of mineral reserves, coal or other raw materials required in the chemical industry. Favoured by frenetic railway building and the opening of the Gotthard tunnel in 1882, as well as by free navigation on the Rhine, Switzerland, very early on, became both connected to the sea and a major North-South alpine transit country. The shift toward a service-based economy started during the two world wars and today, Switzerland is among the biggest exporters of commercial services with, in 2000, a 32.9% share in the total exports of goods and services⁷⁸.

Today, Switzerland is not only a leading supplier of watches, chocolate and cheese but also of machinery, elevators, escalators, high tech, pharmaceutical and biotech products and packaging equipment (with, today, many of the components produced abroad). These exported goods, and also services, have in common the fact that they are high value and high value-added. Therefore, transport costs matter much less for both required imports and subsequent exports. Switzerland has thus managed to develop economic sectors that perform very well despite landlockedness.

Trading in the middle of Europe

Industrial and trade developments, however, do not explain all. Switzerland has a very stable political climate and, although being landlocked, Switzerland is in the middle of Europe and in the middle of its most important trading partners, the member states of the EU with an export share, in 2000, of 62% of all foreign sales. Other important trading partners are the Americas and Asia, each with a share of 15%, the rest of Europe, i.e. excluding the EU countries 5%, Africa 2% and Oceania 1%.⁷⁹ Imports are mainly obtained from the EU countries (74.47% of all imports from industrialised countries) and to a lesser extent (10.82%) from the major overseas industrialised countries (US, Canada, Japan, Australia and New Zealand). Other important suppliers are in Asia⁸⁰. Thus, most of the Swiss trade takes place within the region but Switzerland is also trading with highly diversified trading partners all over the world.

⁷⁸ Idem

⁷⁹ Idem

⁸⁰ Idem

The Rhine – Switzerland's Natural Access to the Sea

Switzerland is located on Europe's most important inland waterway, the Rhine. In 1815, the final act of the Congress of Vienna established the principle of the freedom of navigation on international waterways and gave birth to the Central Commission for Navigation on the Rhine. In 1868, the Convention of Mannheim updated the main rules that had governed the Rhine navigation since 1831 and included the latest technical, economic and political developments. In 1963, the Mannheim Convention was again amended to become the Revised Convention for Rhine Navigation. The main principles contained in the Mannheim Convention and never abrogated by subsequent amendments are freedom of navigation, equal treatment of all fleets, exemption from navigation duties, freedom of transit for all goods, obligation of the member states to maintain the waterways, uniform safety regulations for vessels and navigation, uniform jurisdiction in navigation affairs and navigation courts for the Rhine and the establishment of the Central Commission for Navigation on the Rhine. The Central Commission (member states: Switzerland, Germany, France, Belgium and the Netherlands) is among the oldest existing governmental organisations and continues to ensure the freedom of navigation on the Rhine and to maintain a uniform legal regime, which governs the full length of the river.

Compared to the Danube, the Rhine has a much higher economic importance and a much larger transport volume. Furthermore, the technical standards and the transport capacities on the Rhine are more advanced, especially in the area of container transport. The states bordering the Rhine use this potential much better than those of the Danube do. A big advantage is, of course, the fact that the Rhine is navigable by ocean-going vessels until well into Germany and by river barges to Basel, Switzerland. Container transport, combined with road and rail traffic, has led to a boom in the construction of some 30-container terminals, as well as combined traffic terminals along the Rhine. In Switzerland, the port of Basel is one of the most important Rhine ports, with container terminals handling waterway-railway and waterway-road traffic links as well as other services, including storage and processing. In 1998, Switzerland was also granted navigation rights on other waterways within the framework of the Central Commission.

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Major trading customers and suppliers are today Germany, the US, Japan and China. Switzerland is a member of the European Free Trade Association (EFTA) and enjoys preferential trade arrangements with the EU, including the elimination of important customs duties and the integration into common customs procedures, which also aim at facilitating transit procedures. Since 1987, Switzerland is a party to the (EU) Convention on Common Transit, which was amended in 2001 to include the increased use of the New Computerised Transit System (NCTS), already launched in Switzerland, on a trial basis, in 2000. The important volume of trade between Switzerland and the EU made the conclusion of preferential trade, customs and transit agreements possible. The bilateral treaties between Switzerland and the EU are a further indication of this.

Switzerland – A landlocked transit country

Geography has not only made Switzerland a landlocked country but also a major alpine transit country. Indeed, there are not many possibilities for freight forwarders to cross the Alps in the North/South and opposite directions. Switzerland, together with France, Italy and Austria has, therefore, a very particular role as a transit country and its negotiating powers, with regard to transit permits and truck weight, are rather broad. The Gotthard railway tunnel, which opened in the late 19th century, marked Switzerland's beginning as a transit country. Throughout the last century infrastructure was improved and transit agreements concluded, such as the 1992 transit agreement with the then European Economic Communities (EEC), in which Switzerland committed to the construction of high-capacity axes for rail-goods traffic and the EEC accepted the 28-ton limit for transiting trucks.

In 1998, within the framework of the EU-Switzerland bilateral treaties, a new transit agreement was signed. For the EU, Switzerland has a strategic position with regard to alpine traffic and the alleviation of traffic in the EU member states of Austria and Italy. This new agreement foresees the gradual introduction of access to Switzerland for trucks of up to 40 tonnes; the establishment of an annual transit permit quota system and flat-rate charges for empty or lightly loaded trucks of 28 tonnes. At the same time, Switzerland undertook major investments to improve its infrastructure and especially the railway and tunnel network, to unburden land transport in favour of trains and the creation of more combined transport corridors. This

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new bilateral agreement has not only political, but also economic implications for Switzerland's freight forwarders and exporters. With information technology, e-commerce, supply-chain management and new logistics techniques, a secure and stable legal framework was needed that enables all players involved to use the available capacities optimally. The fiscal consequences, on the other hand, will ensure the financing for infrastructure development and maintenance. All this is expected to decrease the costs associated with the logistics process and increase the competitiveness of Swiss companies. The transit agreement is also a very good example of how governments are trying to match environmental, traffic and economic concerns, an equilibrium that is not easily found.

In Summary

The example of Switzerland leads to an important conclusion: being landlocked does not have to be considered a problem and does not necessarily have to be treated as such. Switzerland found solutions to transport bottlenecks by giving more attention to transport policy and transport alternatives. The country decreased the impact of possible high transport costs, which are often associated with being landlocked, through an industrial and trade policy that favours the export of high value and high value-added products as well as services. Switzerland sought alternatives and answers within the regional context, but without actually joining the predominant regional grouping. And very importantly, transport routes were traced and transport agreements were concluded according to economic and not political considerations.

What remains to be done – conclusions and recommendations

This brief overview shows clearly that geography is not destiny. Geography, or in this case, more precisely, being landlocked, certainly influences economic, infrastructure and political decisions. However, it cannot be blamed for all economic, social and political development problems that a country faces and it should not serve as an excuse for inertia and slow-moving reforms. There are examples of how even remote countries (e.g. Australia or New Zealand) have become successful traders and there are examples of landlocked countries that have found their very own way out of their geographical "handicap".

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The problems of landlocked countries can be overcome, in the long run, with the right mix of many, often rather country- or region-specific, ingredients. Adequate “compensation” policies and investments are one essential means, lowering the psychological barriers that often seem to block the definition and use of some measures. For landlocked countries it is, therefore, all the more important to get basic macroeconomic and trade policies right, to cut red tape in freight operations and to speed up customs clearance procedures. Governments have to accept that they need eventually to become, and act as, real “trade-enablers”, in order to facilitate the flow of goods. It is also very important to raise awareness and increase information dissemination both among landlocked and transit countries and among the private operators.

As landlocked countries are often also transit countries for their neighbours, the issue of carefully balancing environmental concerns, traffic and transport requirements is a high priority for them as well. On the other hand, being a transit country also opens new potential opportunities for landlocked countries. The development of a modern, up-to-date service infrastructure for transiting cars, trucks, trains, airplanes or ships adds value to the transit process, creates jobs and creates a whole new logistics sector, with distribution centres, warehouses, technical and even processing facilities.

This said, being landlocked in the heart of Europe certainly does not have the same consequences as being a landlocked country in the heart of Africa, Central Asia or South America. The landlocked status is very closely intertwined and linked with a complex set of challenges and problems and therefore, cannot be tackled as an isolated problem. Governments in landlocked and coastal countries, as well as the international community and donor agencies, should attach increased importance to this multifaceted mix of challenges and attempt to deal with these challenges in their many aspects. There are certainly priority actions to be taken and there are very particular region-wide measures to consider. But there is also ample space for more generic solutions that apply to all landlocked countries alike. Work would be particularly useful with regard to trade and customs facilitation measures, cross-border infrastructure development or coordination and implementation of regional or sub-regional approaches. The international community should also be open to monitoring, especially with regard to the

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implementation of agreements that guarantee better transit conditions and access to the sea.

In the following, some of the main points that we identified in this paper are summarised. This brief list of recommendations is by no means exhaustive, but it is intended to provide incentives for further discussion and, hopefully, for action.

Recommendations

Trade and economic policies

Assuming that there is an interaction, or even dependence, between being landlocked and appropriate economic policy or reform, it is important for a landlocked country to re-examine its composition and direction of foreign trade, its main suppliers and customers. Developing comparative advantages or attracting capital to develop export-driven sectors is only possible under certain circumstances, which might not necessarily exist in a landlocked country that is far from major markets and has no real access via viable transit routes to the sea. Copying an export-driven growth policy that was successful in one part of the world does not necessarily mean that it will work for a remote landlocked country in another part of the world. Reliability, speed and fast response are the required assets for export-oriented growth. When investors do not find these basic requirements, investment will move logically to other countries. Economic and trade policies in landlocked countries should therefore only follow this direction if the basic conditions actually exist.

Export-oriented growth is only one way to economic success. There is scope for developing sectors that are either high-value or high-value added, that are less dependent on lots of “expensive” imports or that no longer require physical transport, for example, telecommunications or IT, R&D centres. Also, for lightweight or low-volume goods, shipping costs are much less of an issue and air travel could even be an alternative. Also, developing a high-level logistics industry that can provide services to transiting operators might help increase the value to transit operations and help new sectors to flourish. Governments should consider such options and establish the best-suited trade and economic policy direction for their

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particular landlocked country, whenever possible in coordination with their region's markets and conditions. Growth should be equitable and broad-based and when export development goes hand in hand with infrastructure development, impediments to growth can be removed efficiently.

The development of coherent and comprehensive trade transportation policies to support the growing importance of transport issues, infrastructure and transit corridors will continue to rank high on government agendas. In a context where tariff barriers will, eventually, no longer hamper the flow of goods, governments have to make sure that, over time, other barriers disappear as well to ensure that goods reach regional and world markets alike. Being landlocked will then no longer be such a problem as land, sea and airports will become gateways at the origin and destination of real trade corridors.

Cost reduction

Many of the costs related to shipping, freight handling, transit or customs are the avoidable consequences of, for example, complicated and lengthy customs clearance procedures, poorly coordinated control services, high fees, too much red tape, inadequate capacities, poor infrastructure and poor packaging or loading technologies. Such costs are very much under the control of policymakers in a landlocked country. Corruption and fraud are other areas that require urgent action to decrease costs and, at the same time, install a climate of confidence, stability and security. Governments, either alone or in coordination with their neighbours, can therefore take concrete steps to reduce the high transport cost burden for local companies. It would, for instance, be useful to revisit regulations and procedures of landlocked countries and wherever possible, harmonise them with regional/international practice.

There is a general tendency for shipping costs to fall over time, as better technologies are developed and through the measures described earlier, reduce port and customs delays and eventually also create speedier sea travel. Containerisation and the resulting ease of moving goods from ships to trucks or trains has already reduced port costs and lead time in countries with such facilities. Shipping costs, which depend on the earlier mentioned issues, as well as other factors such as infrastructure and IT development, will certainly one day be much less a barrier than they are today.

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Legal action

An enabling environment that provides both stability and support for operators and investors, allows for fair competition and punishes abuse, is a prerequisite for economic growth and development in landlocked countries. There is a need to enact necessary concession laws to permit the participation of the private sector or to overhaul transport laws to harmonise them, whenever possible, with regional or international practice. Privatisation, liberalisation and deregulation should be fostered to establish more competition, improve efficiency and reduce costs.

However, in many cases, normative action, i.e. the adoption of new laws, might not actually be necessary. Instead, more focus should be given to the implementation of already existing laws and regulations, to the development of a conducive institutional framework, to strengthening the capacities of the judiciary, to continuing legal education for professionals and to the enforcement of existing laws, as well as bilateral or multilateral agreements.

It is very important to enlist the political will to address the issue of implementing laws, agreements and institutional reform. The signing of agreements will not change either the economic or the legal situation in a landlocked country. Therefore, subordinate agencies, charged with the actual supervision or enforcement of legal rules or agreements, need to be controlled and measures need to be taken to reduce fraud, corruption and the spread of the informal sector.

Infrastructure development

Infrastructure development remains a high priority for both landlocked and transit countries. This, however, does not only mean building new roads or railway lines, it means regular maintenance work, improving transport supply capacities, strengthening facility management systems, including through information technology in port or railway companies and a coherent transport policy. Attention has to be given to capacity constraints, i.e. out-of-date equipment, including rolling stock, ships, trucks or ports and handling facilities.

All this requires funds that often have to come from abroad and are channelled through bilateral or multilateral donor agencies. These financial

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resources are limited, time-bound and insufficient to finance infrastructure development in the long run. Replacing or supplementing them to achieve a sustainable system of financing infrastructure or maintenance works is, therefore, very important. Options certainly exist in the form of vehicle charges, road taxes, petrol taxes, road charges etc. The receipts of these charges should, in any case, go as directly as possible towards road construction and maintenance to avoid any additional administrative overheads. In this respect private sector participation and investment and the pooling of regional funds from public and private sources also deserve increased attention. Building real “trade corridors” to link landlocked countries with world markets, but in a first instance, particularly regional markets, will be the challenge of the coming years. Governments should be prepared to include such concepts in their transportation policies.

Regional/subregional coordination

Bilateral and multilateral agreements between neighbouring countries are central to any reform and any improvement of a landlocked country’s situation. The co-operation between neighbouring countries is the most essential ingredient in this regard, as it makes the coordination of cross-national issues possible. The natural unit for improvement in this setting is not the nation but the region or, for example, the specific transport corridor(s) in question. Integrated and targeted regional and international approaches, which broaden the scope of infrastructure or transport projects and which could, for example, be initiated by regional intergovernmental groupings that take a lead role, will encourage coordination and co-operation on a level that promises an actual improvement of a landlocked country’s situation. More regional support for such agreements, including monitoring and regular review mechanisms, for example, in the case of transit agreements, is an important aspect in this regard. Trans-border agreements should make borders less of an impediment to the movement of goods. They should facilitate the development of a more “international” transportation infrastructure.

Consultations or alliances with neighbouring landlocked or transit countries can help to share experiences, to economise on costs and to increase bargaining powers. International infrastructure or transport agreements, such as the TIR regime, have been very successful in facilitating transit

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procedures in the UNECE area and beyond. The development of such a regime might be a useful option for other regions as well.

Institutional framework and capacity building

The best computer system in a customs administration will not improve anything if the staff do not know how to operate it. Also, river navigation, especially large-scale navigation, is only safe and reliable if crews are well-trained in new navigation systems and the rules that apply. Port administrations and government institutions too need to be up-to-date with the latest developments. Therefore, institutional and staff capacity building is an important aspect in the improvement of a landlocked country's state. Public administration reform to improve the performance of all agencies involved, the development of a single-window concept, the streamlining to one-stop-shops for import and export clearance and the strengthening of the whole institutional framework should be given serious consideration. Concrete initiatives include the establishment of region-wide harmonised transit procedures, such as the (EU) Convention on Common Transit or trade facilitation measures. The latter are fundamental for any landlocked country and range across a broad analysis and structuring of the key constraints, to the definition of possible and adequate solutions, to computerised transit or customs procedures or to electronic documents (e.g. UN/EDIFACT). Trade facilitation, in the broad sense, requires: institutional capacity building, training measures, awareness raising on technical and broader aspects, the strengthening of trade facilitation bodies and the participation of the business community on the national level.

Other very important initiatives aim at increasing the level of service of all agencies involved and include such practical measures as customs clearance at company sites and on-board cargo trains to avoid lengthy delays and high transport costs. The SECI-World Bank TTFSE project, for example, includes a training and distance learning component also for transport operators. All these concrete and practical steps, if rigorously implemented and if backed at the senior political level will, without doubt, contribute to simplified procedures, shorter delays and better transit conditions.

Furthermore, certain institutional and organisational structures have to be in place in order to implement regulations, agreements and conventions. The transport sector in landlocked countries and the public institutions need to

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be adequate to ensure the smooth running of permit granting and documentary procedures.

Public-private co-operation and partnerships

The involvement of the private sector in infrastructure development, in consultations, in transit negotiations, in finance operations or facility management is not only useful, but also a highly recommended option for landlocked countries. A fruitful dialogue between private-sector representatives and law and policy makers will help to better define the real needs of the market and encourage the search for viable and sustainable solutions. It will facilitate reform efforts and help define transit routes that follow economic and not necessarily political criteria. Private operators might also be better equipped to manage certain facilities, which are in many instances still State-owned. Private companies can also play a substantial role in financing certain projects or in entering concession agreements, which can help governments in landlocked countries in many ways. The input of the business sector is also fundamental in defining and implementing trade facilitation procedures.

The public sector will always have to play the lead role as the regulator and initiator of infrastructure development. The public sector is the only possible supervisory body. In addition, the public sector has to provide an adequate and coherent framework policy, aimed at upgrading professional skills of the private sector in many landlocked and transit countries. A shortage of skilled labour can create bottlenecks that will deter potential investors. The private sector, on the other hand, has many competencies that help do things better, faster and more efficiently and for its potential to invest funds and for its know-how, should be used to help modernise national infrastructure.

International organisations

The plight of landlocked countries is no longer hidden and many international agencies within and outside the United Nations system are today addressing the issue of landlocked countries. The United Nations General Assembly holds regular progress reviews and the lead agency, the United Nations Conference on Trade and Development (UNCTAD), has a specialised unit dealing with landlocked countries. Regional commissions

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(e.g. ECA, ESCWA, ESCAP, UNECE) too, are paying increased attention to transit, development, customs reform and trade facilitation in landlocked countries. Multilateral donor agencies, including the World Bank and the EBRD are funding projects destined to improve the situation of landlocked countries.

What remains to be done is a better harmonisation of policies, practices and recommendations of all international agencies and bilateral donor agencies involved. Furthermore, there is a need for more funds; aid projects in landlocked and transit countries need to be better coordinated and in many cases, the scope of the projects (which international organisations can assist in defining and implementing) requires broadening and better focus to include the regional or sub-regional, as opposed to a country-specific approach.

Some of the more specific concerns of landlocked countries such as their vulnerability, insecurity and dependence on transit countries, need to receive heightened attention. Whether this is best done in a Convention that deals with the issues or whether other means are better suited, remains to be clarified on a case-by-case basis.

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Part Three:

**Defining the Trade
Facilitation Agenda for the
Twenty-First Century**

Policy-makers and senior executives in governments and international organisations made the contributions to the following section of the book, with the objective of carrying out a “reality check” of existing trade facilitation policies and promoting an open and inclusive environment for them. The focus is on the better understanding of the benefits of trade facilitation, which need to be shared across the various groups of countries; on the new challenges to security in the international trade flows; and on the importance of curbing corruption. The last contribution to this section emphasises the significance of functional cooperation in trade facilitation for confidence building in areas of conflict in the contemporary world.

Chapter 3.1

Trade Facilitation - everyone wins!

Baroness Symons, UK Minister of State for International Trade and Investment

The UK has always been a firm advocate of trade facilitation. We view improved customs management as a key component in global trade, with benefits for developed and developing countries alike. That is why the UK was pleased to contribute \$50,000 to the UNECE budget to assist developing country participation at this important International Forum on Trade Facilitation.

When the UK Government proposed this event last year, we were all working hard to ensure the launch of a new trade Round. At Doha we achieved agreement to that Round. And, as part of that, WTO members recognised that trade facilitation could play an important part in the development agenda. That is why Ministers in Doha committed themselves to ensuring adequate technical assistance and support for capacity building in this and other areas.

Now that the date of the fifth Ministerial has been fixed, we have a clear time frame for making progress on the whole Doha Development Agenda. Mike Moore has expressed some concern about our progress across the board to date and his concerns were reflected in the contributions of a number of my colleagues in the OECD and in developing countries when we met in Paris a couple of weeks ago. I agree that this is a real concern for all of us.

The next few months will be critical. And I hope that, with good will on all sides, we will begin to make substantive progress against those targets agreed in Doha. There has to be a real political will to do this. Those of us in political life really do have to impress upon officials our determination in achieving progress in the Doha Development Agenda.

Progress in the round should benefit all WTO members – and, indeed, we will not secure agreement if it does not. And nowhere is that more true than in trade facilitation.

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Perhaps I can explain what I mean by trade facilitation. It is simply about removing the economic frictions that get in the way of trading across borders. Why should it be *so much* more trouble for a manufacturer in Cape Town to sell to a customer in Colombia, China or Canada than to one in Johannesburg?

Trade Facilitation can be summed up in four words:

- Rationalisation. Reviewing existing measures and ensuring that outdated customs procedures are dropped or modernised.
- Simplification. We need to ensure that remaining controls are made easier to comply with - without diminishing their effectiveness.
- Harmonisation. International traders need a level playing field for all export markets or supply sources. In short, they need Clarity, Consistency and Certainty
- And, fourthly, Automation. Effective use of technology can save up to 90% in transaction costs.

Trade facilitation is a priority because it makes a reality of free trade which we in the UK believe is an essential component of raising living standards world-wide.

Over the past 50 years we have achieved impressive tariff reductions through successive rounds of multilateral negotiations. The Uruguay Round has helped us tackle non-tariff barriers. The time has now come to concentrate also on reducing procedural barriers which certainly add cost but certainly do not add value to the international trading process.

Why push so hard for this now?

Frankly, it is a priority because the voluntary approach has not worked. “Trade facilitation” may be a new turn of phrase, but work towards it is not. It has been an issue for decades. Indeed, it is entirely appropriate for this Forum to be hosted within the UN: the first steps to simplify customs formalities were taken by the League of Nations in 1923.

But progress has been slow, and patchy. This is a shame – and a lost opportunity. Improvements in trade facilitation could benefit the world

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economy by as much as \$70 billion every year. And much of this would flow to the developing countries.

Of course in absolute terms, major trading nations, such as the UK will stand to do well. But customs procedures apply regardless of the size of transaction: they act as a fixed-cost overhead to trade.

So proportionately, those with small trade volumes - typically poorer economies and Small and Medium-sized Enterprises stand to win most from trade facilitation. They are also usually the least well resourced to overcome barriers to their exports. The potential benefits for them are thus very attractive.

Efficient customs procedures allow goods to travel to customers cheaply, quickly and safely.

Unexpected delays in customs clearance – be it from a simple data-entry error, arbitrary or ambiguous interpretation or unpredictable opening hours – can lead to customer dissatisfaction and possible loss of future orders.

Governments can also gain by increased revenue and lower costs. Take Chile, for example. Faced with a major increase in external trade, the government of Chile overhauled its customs systems. It cost \$5 million to do so but this took less than one year to recoup. The benefits included a 75% drop in the average processing time and big reductions in costs both to the government, business and the ultimate customers. And, despite a reduction in tariff levels, customs revenue actually rose. There have been similar experiences in Peru, the Philippines, Sri Lanka, Panama and others.

These sorts of measures can be good news for governments who increase expenditure in priority areas such as health and education - or lower taxes helping to boost the country's economy. But the benefits go wider. More efficient procedures narrow the scope for customs evasion through illicit or contraband traffic; it also narrows the scope for petty corruption.

However, curbing corruption and bribery has a much wider impact. Illegal and dishonest trading leads to illegal and dishonest markets – which in turn risk undermining the fabric of domestic society.

TRADE FACILITATION

Trade facilitation is not about abolishing justifiable controls, such as those for dealing with drugs, arms, national security, pornography, hazardous materials or counterfeit goods – but ensuring their better enforcement. It is about removing unnecessary tasks and inspections – creating fewer but better quality and better-paid jobs and more knowledgeable customs officials.

It should be the role of customs officials to help, not obstruct, proper trade - and to be properly equipped and motivated to prevent fraud and contraband. And, above all, not to engage in it themselves. The better paid the customs officials, the lower the temptation to do so.

Trade facilitation is far from just being a customs matter: it fits squarely within trade policy, and as I said earlier, development objectives: investment in manufacturing will not materialise in countries where imports and exports are subject to very lengthy, unpredictable and costly delays.

That is why it makes sense to place it within the multilateral, rules-based, framework provided by the WTO.

I fully understand the concern among some about the short-term costs and the nervousness about committing to new rules.

As the EU has already made clear, it is vital that technical assistance and capacity building is an integral part of such a rules-based Agreement. It will be important for developed countries and international institutions to ensure that this assistance is targeted and co-ordinated to where it is needed most. The UK is keen to see this happen.

Some countries may not be able to adjust systems and procedures quickly. Of course, not all have got government access to automated procedures – to e-commerce, although its value to facilitation can be great, as a number of countries have reported to the WTO. But let me stress we should also be fully open to the possibility of special and differential treatment provisions for poorer countries and those with lower levels of international trade. This would allow them to implement progressively those obligations which industrialised countries were obliged to adopt straightaway.

But, in their own interests, the quicker those countries can progress, the better. Intra-regional trade can be as important as that with industrialised

TRADE FACILITATION – EVERYONE WINS!

markets. 40% of developing countries' exports of manufactured goods and 30% of their agricultural produce go to other developing countries.

WTO activity to support trade facilitation should not be confined to agreeing new rules and capacity building. Streamlined procedures are worth little if goods get held up for other reasons such as inadequate ports or poor transport infrastructure. The present GATS negotiations represent an excellent opportunity to provide a framework to improve some of these infrastructural weaknesses by opening services to new expertise and investment.

And beyond the WTO, work must continue in other fora. The World Customs Organisation, and UNCTAD and the UN Regional Commission all have very important roles to play.

Trade facilitation is not a theoretical abstract, but an important key to freeing the international trading process. But I must emphasise again, time is not on our side, neither for work on trade facilitation nor for the Doha Development Agenda as a whole. Much work has been done, but a tremendous amount remains to be done. This Conference can do much to inject the necessary momentum, to allow us, in 2003, in Cancún, to take the decision to move forward with negotiations on trade facilitation.

We have all seen some difficulties in the last two weeks – about steel, about agriculture. But I firmly believe that the Doha Development Agenda has the potential to bring greater prosperity to developed and developing countries alike. We are at an enormously critical stage of the round. We must all stay engaged and focused on what was agreed at Doha. Over the next three years we have the opportunity to make a difference. We have to offer our leadership to make it happen and to do our best to make the Doha Development Agenda a success.

Chapter 3.2

Trade facilitation in the new world trade environment

Pascal Lamy, Trade Commissioner, European Commission

It's important, at the outset, to get over the importance of trade facilitation with some solid, pungent, examples of the problems we are trying to address. For example: the average cargo ship carries a mass of paper, indeed 250 kg of paper, such as invoices, bills of lading, and so on, just to get through customs on arrival. And a recent UN study showed that the average transaction at a port involves 27 to 30 separate parties, all armed to the teeth with paper – from customs brokers to vendor suppliers, and so on. Of course, everyone has a good reason for being in the process, but we need to make it as efficient as possible.

And that is why, to be very short about it, the EU believes that trade facilitation is a key component of the WTO Doha Development Agenda and it is very high on our list of trade policy priorities, whether multilateral or regional. The decision at Doha in November 2001 to include trade facilitation in the Doha Development Agenda gives us an unprecedented opportunity, indeed, something of an obligation to move this subject decisively forward. The rationale remains as strong as ever. So, let us see what are the benefits to be gained and the practical aspects of what needs to be done.

What is the problem?

To begin with the problem, over one third of world trade in goods now takes the form of materials, components and products: items at all stages of manufacture, moving in and out of developing and developed economies, and within integrated supply, production and distribution systems. But the striking modernity of modern international trade is increasingly at odds with what we, the governments, do at frontiers, where for the most part we are still trying to handle the innovative trade of today with the rules and administrative methods of yesterday. Trade and production patterns may have gone global, but customs and other procedures in many countries

TRADE FACILITATION IN THE NEW WORLD TRADE ENVIRONMENT

remain mired in creaky, old-fashioned rules, applied across the board both to traders who play by the rules, and to what we might call “rogue traders” who do not. So, we do not have the right balance, generally speaking, between “control” and “facilitation”, even though there are plenty of ways we can inject the necessary amount of stringent security requirements, which are of course the inevitable outcome of the events of 11 September 2001.

The development dimension

If I have to give just one message, it is my absolute conviction that trade facilitation is one of the most important development tools available, both as a key aspect of the new Round of WTO negotiations, and as a tool to build regional integration of developing countries. Why?

Firstly, trade facilitation brings developing countries into the constantly widening circle of global production and sub-contracting. Many small traders are constantly frustrated by complex and often outdated official procedures. These problems apply of course in both developed and developing countries – but it is very clear to me that multinational companies are best placed to overcome these problems, and small trading companies from the developing world are not.

Secondly, trade facilitation can be a direct development instrument. Empirical evidence shows that countries that modernise import and export procedures can offset the loss of revenues arising from tariff liberalisation. As the new Round is likely to result in a general lowering of tariffs, this is an important point.

Thirdly, trade facilitation can bring real benefits to governments seeking to attract inward investment. The ability for business to export and import its inputs and finished products in a predictable, efficient and speedy manner is a key element in business decisions on investment. And given that most, if not all, of the most serious problems are in the developing world, we have to take action to prevent what amounts to de facto discrimination.

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So, what has to be done? A binding set of WTO rules.

Doha gives us the chance for the first time to create an overarching set of commitments on trade facilitation inside the WTO. Why the WTO? Hasn't the United Nations Economic Commission for Europe (UNECE) or the World Customs Organisation (WCO) solved the problem already?

My answer to this is that the groundwork has been both invaluable and complementary, but in order to make trade facilitation a reality, we need to apply political pressure from the top. In this context, the comprehensive nature of the new Round agreed at Doha creates the political leverage to secure a binding set of rules: rules which allow for coherent and complementary action between all the different organisations involved. Second key advantage of pursuing the WTO route is that it offers binding rules and monitoring mechanisms, and thereby real predictability for business.

Mapping out the work ahead, and particularly if we can establish binding rules in the WTO, it would then fall to the WCO and UNECE to establish the more detailed technical instruments. This is doubly vital, given that regular adaptation and amendment will be needed to keep pace with constantly changing commercial practices and requirements. Of course, UNCTAD will be a vital resource too, along with the World Bank and other development agencies, in mobilising and providing the necessary technical assistance to developing countries.

Conclusion

The international community needs to seize this opportunity to put its house in order. There is urgent need for action, starting in the WTO. We need to ensure a coordinated approach internationally and among international organisations. And if we get our act together, there is a major prize to be won in terms of development. So, we in the EU would like to see a strong and clear signal from the UNECE Forum on Trade Facilitation in support of this. I underline the importance we attach to obtaining practical, operational outcomes.

Chapter 3.3

Trade Facilitation in the Developing Countries

Rubens Ricupero, Secretary-General of UNCTAD

Introductory remarks⁸¹

Mr. Ricupero thanked the organisers and particularly the Economic Commission for Europe for inviting UNCTAD to share the opening session of the International Forum on Trade Facilitation, and highlighted its importance. He went on to say that trade facilitation should be seen as a long-term endeavour, in which developed countries had invested a considerable amount of technical and financial resources, citing, as an example, the Customs 2002 programme of the European Union. Developing countries were facing a new crisis of the world economy, which for most of them meant lower trade and also lower foreign direct investment. Their capacity to mobilize the required funds for new initiatives had consequently been diminished. The international community ought to undertake joint efforts to help these countries improve their trade performance including through the implementation of trade facilitation measures. Trade facilitation clusters, he said, could be created as a means to involve public and private trading and transport communities in improving the foreign trade environment in developing countries. The UN system as a whole could take the lead in this effort and cooperate in technical assistance and capacity building activities through an initiative to be launched at the highest level of the system.

Written presentation (translated from the original in French)

When one talks about trade facilitation, one thinks about the time wasted in useless administrative red tape and in excessive procedures in the

⁸¹ This is a brief summary of Mr. Ricupero's oral statement at the International Forum on Trade Facilitation in May 2002. It is followed by a written version of his presentation meant for distribution at the Forum.

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international flow of goods. One naturally thinks of ways to eliminate these obstacles. Awareness about these problems led the developed countries to advance measures for the assessment of the operation of international trade. The progress made by these countries helped the overall understanding that it was possible to register, classify, measure and monitor international trade flows without slowing down movements. Such measures, however, remain fragmented and insufficient in the developing countries. They do not take into account the necessity to create an environment conducive to institutional reforms, and this can actually hamper the realisation of the objectives of trade facilitation, i.e. the better management of international trade flows.

I will go into the details of the specific issues of trade facilitation, but I will put forward some proposals on how facilitation can be made an instrument for development.

Facilitation and information

In 2003, the United Nations will organise a World Summit on the Information Society. Information and knowledge are at the core of any enterprise in today's world, and initiatives in this sense emanate from various sources. One tends to forget that administrative and commercial procedures and formalities are the old version of what we call today the gathering, processing, storage and exchange of information.

Trade facilitation should be examined in this context, as a subject that relates to information and information technology. It aims at the same time at removing obstacles to trade and at enhancing trade mechanisms. In other words, the idea is to facilitate in order to better control and to better control in order to achieve better management. This is the objective of both the ASYCUDA system for customs clearance of goods and the ACIS project for tracking these goods, which have been developed by UNCTAD. The systems not only contribute to the development and dissemination around the receiving countries of a know-how that is linked to new technology but are also key elements in the process of administrative reform. In many countries, ASYCUDA is the principal instrument of reform and customs modernisation. It helps increase national revenue and, moreover, creates the

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necessary conditions for trade growth, based on transparency, harmonisation and the simplification of procedures at border-crossing.

Facilitation and its environment

Trade facilitation cannot be restricted to control procedures. If it were, this would mean imposing on it certain constraints, or even dooming it to failure. Factors beyond the usual suspect, customs procedures, actually constitute important obstacles to trade. One can quote divergent regulations on both sides of a frontier, incompatible characteristics of means of transport, inefficient procedures in ports or restrictions to the free exchange of data.

It is now clear that only a systemic approach to these problems can create an environment that would decrease transaction costs and speed up the movement of goods. Transport and services in support of international trade, which we, in UNCTAD, consider under the common name trade infrastructure, constitute one single entity. Such an approach is based on the concept of the supply chain in industry, which handles the sequence of interventions from beginning to end as well as the whole range of supporting infrastructures.

Necessary means for facilitation

The implementation of trade facilitation requires a favourable cultural, institutional and technological environment. Trade facilitation did not accidentally find a particularly favourable ground in the industrialised countries. They benefit from well-trained and well-remunerated employees, tested and established methods of work, modern and sufficient infrastructure and inventories, and advanced and constantly improving technologies. In order to achieve these results, considerable time, effort and resources were necessary. Institutional structures, human capital and technology cannot be achieved overnight. The developing countries will need considerable resources and time to eventually reach a similar level.

Thus the European Union, which has already made significant achievements in the area of trade facilitation, has planned an investment of 260 million

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euros in its Customs 2000 programme. This programme, initiated in 1996, will most likely be extended to 2007.

The rules of trade facilitation

If the implementation of trade facilitation remains a time- and resource-consuming task, one can easily imagine the difficulty in elaborating multilateral rules in this area.

On 23 April 2001, for instance, Canada and Costa Rica signed a Free Trade Agreement, which included not only texts referring to customs procedures in terms of trade in goods, but also a whole chapter on trade facilitation. This seems to be an innovation in international trade agreements, with far-reaching implications. The agreement concerns on the one hand a member country of the G7 and a developing country on the other hand. With this agreement, the two countries undertake to progress most issues concerning trade facilitation, which are currently discussed by the international community. The combination of the two factors above make this bilateral instrument a model. The text of the agreement actually provides for technical co-operation and a programme of work, with a view to establishing common processes of administration of bilateral trade. Moreover, the commitments are legally binding, as they are part of the signed agreement. This is a fundamentally new norm of co-operation, from which many developing countries may benefit with the help of bilateral and multilateral agreements with developed countries.

As mentioned in the excellent background paper prepared by UNECE for the International Forum on Trade Facilitation in May 2002, “the priority requirements for trade facilitation appear to have changed, what is required today is a dual-track approach that focuses on harmonising and implementing existing standards.” There exists a necessity for a totally different approach on behalf of the organisations dealing with trade facilitation and greater commitment and support from individual governments and the business community.

I would like to conclude by putting forward an idea that may better define the role of international institutions in the provision of technical assistance for trade facilitation. The implementation of trade facilitation measures

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requires close co-operation of all actors in international trade, at international, regional and national levels. It might be relevant to envisage new forms of co-operation in the field of trade facilitation.

A new form of co-operation could be the establishment of clusters (or groups) for trade facilitation, training programmes, structures for capacity building, and data interchange systems in the developing countries. The first step has already been initiated: in April 2002, at the request of the High-Level Committee on Programmes (HLCP), UNCTAD organised a first coordinating meeting of the United Nations agencies dealing with trade facilitation. During that meeting, it was agreed to set up a network for co-operation among international agencies. A further step could be also involving other institutions outside the United Nations system, which could contribute to the international trade facilitation efforts.

Chapter 3.4

The Challenges of Facilitating the Flow of Commerce in a Heightened Security Environment

Kunio Mikuriya, Deputy Secretary General, WCO

As one of the main focuses of trade facilitation has been on customs procedures, I am happy to associate our organisation, the World Customs Organisation (WCO), with the UNECE in its efforts to promote this important issue. I would like to begin by pointing out the recent events that have deeply affected the environment of the global customs community. The first was naturally the WTO Doha Ministerial Conference held last November. The second was the terrorist attacks of 11 September.

In relation to the first event, the Doha Declaration identified four areas related to customs: rules of origin; customs valuation; trade facilitation; and capacity building. Of these four topics, trade facilitation is a new agenda item and the WTO Council for Trade in Goods (CTG) has just started to review relevant aspects of Articles V, VIII and X of the GATT 1994. The CTG has also been tasked to identify the trade facilitation needs and priorities of WTO members. We welcome this undertaking by the WTO as this is an area that the WCO has been committing resources to and championing for the past 50 years.

To elaborate, the WCO is an intergovernmental body, whose mission since 1952 has been to enhance customs co-operation and the effectiveness and efficiency of customs administrations. The WCO has 161 Member administrations worldwide, accounting for 97 % of world trade. To fulfil its mission, the WCO sets international standards by developing and maintaining instruments and recommendations for the standardisation and simplification of customs systems and procedures governing the cross-border movement of goods. We also provide our members with training and technical assistance to implement trade and customs instruments and best practices, and encourage co-operation with other agencies to ensure the smooth flow of goods across borders.

Needless to say, the role of customs is not limited to trade facilitation - other functions such as revenue collection and protection of society are also

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highly important. Many least-developed and developing countries still heavily depend on customs duties to ensure their national revenue. Customs also assumes the protection of society from the inflow and outflow of hazardous goods, such as illicit drugs and weapons of mass destruction. We offer solutions that allow countries to meet their legitimate goals of revenue collection and protection of society, while at the same time delivering practical trade facilitation dividends.

The WCO has developed and circulated instruments, which provide the key principles for simple, effective and modern procedures. The uniform, predictable and transparent application of these instruments facilitates international trade, while also ensuring compliance with national laws and regulations. These modern principles for simplification of procedures to provide trade facilitation were later incorporated in a single instrument as “The International Convention on the Simplification and Harmonisation of Customs Procedures”, or the Kyoto Convention, adopted in 1973. We continuously update our instruments to keep abreast of developments in information technology and in customs techniques such as risk management, and to take account of the highly competitive business environment. After lengthy and detailed examination by our members and our private sector partners taking into account the vastly changed international trade environment since 1973, the revised Kyoto Convention, adopted in 1999, contains international standards that will deliver to international commerce the predictability and efficiency that modern trade requires. Indeed, a Working Party to the OECD Trade Committee recently described the revised Kyoto Convention as the most important reference on the simplification and harmonisation of customs procedures. Many countries have already incorporated the principles of the revised Kyoto Convention in their national legislation, without waiting for its formal entry into force.

In addition, we are currently working on a number of supporting initiatives, including the WCO Customs Data Model to establish standard data sets and electronic format for most commercial declarations, as well as Guidelines for the immediate release of consignments by customs. Moreover, we have just completed the first version of the Unique Consignment Reference (UCR) system that will provide each consignment with a common reference number to enable authorities to control the whole logistical chain, thereby further promoting trade facilitation. We have put both the Customs Data

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Model and the UCR number project on our public Web site to invite public comments. With the strategic importance of the “single window” concept in mind, we have agreed to include the development of that concept in our future work plan.

As stated at the outset, the WCO welcomes the Doha Ministerial Declaration’s recognition of the case for further trade facilitation and the need for enhanced technical assistance and capacity building in this area. We see our role as being complementary to the WTO in developing instruments to support the WTO rules. All the legal provisions and the principles in the WCO instruments are compatible with and complementary to the three GATT Articles referred to in the context of trade facilitation in the Doha Ministerial Declaration. The GATT Articles set out the high principles for formalities and procedures for movement of goods, transit of goods and publication and administration of trade regulations. On the other hand, the instruments of the WCO, including the Kyoto Convention through its legal provisions and implementation guidelines, provide the basis and practical guidance and information for the implementation of these high principles. We are committed to contributing to the WTO process, together with other stakeholders such as the trade community and other international organisations.

Moving on to the second event, the terrorist attacks of September 11 also have far-reaching effects on customs operations. They have been a reminder of the expectations of our member governments for customs services to contribute to the protection of national security. With the importance of trade facilitation in mind, the WCO in consultation with its members has sought to reconcile the need to facilitate legitimate trade and to increase the effectiveness of border controls. This has resulted in the WCO Action Plan to improve security at frontiers and borders in order to combat international terrorism. Most of the concepts contained in the Action Plan - including risk management, advanced transmission of passenger and goods data, co-operation with the private sector, and exchange of information - have already been well developed and incorporated in WCO instruments.

Risk assessment and the targeting of consignments constitute the basis of security measures. The active use of risk management techniques enables customs to identify high-risk consignments for a thorough inspection, while ensuring smooth flow of legitimate trade. We have developed the concept of

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risk management in the revised Kyoto Convention and are currently developing guidelines in the form of a handbook on risk management.

In order to carry out risk assessment prior to customs clearance, information exchange on consignments is vital between countries involved in the transport chain. The Customs Data Model under development will provide the electronic means to convey essential information on cargo to allow customs to effectively screen and target suspicious shipments, without damaging facilitation for legitimate trade. In addition, the UCR number will also provide improved access to information for customs at exportation and importation, thus enabling them to offer traders with good compliance records end-to-end premium procedures.

To further assist our members in identifying high-risk cargo, the WCO also promotes the exchange of information at bilateral, regional and multilateral levels that goes beyond the exchange of data on consignments. These include information from investigations, audits and other sources of intelligence supplied by customs administrations and other enforcement agencies. To provide the framework for this at the bilateral level we have adopted, earlier this year, the model Bilateral Agreement on Customs Mutual Administrative Assistance. At the regional level the WCO encourages the establishment of Regional Intelligence Liaison Offices (RILOs) which receive seizure reports from regional Member Customs electronically by means of the Customs Enforcement Network (CEN). The RILO in turn disseminates intelligence analyses based on Member reports to regional Members and other RILOs. At the multilateral level the WCO is currently reviewing its International Convention on Mutual Administrative Assistance.

As security is a common concern in a highly globalised world economy, a multilateral approach is imperative to address this worldwide issue. The WCO will support the global customs community to join the multilateral efforts by offering a forum to exchange views on the way forward. Several initiatives by individual countries will be highlighted at our June Council sessions where we will shape our future orientation on the security issue. At the same time, as all of these measures on security require enhanced partnership with the trade community and organisations involved in trade and transport, we will also increase our co-operation with other stakeholders in the efforts to enhance trade facilitation at this time of heightened global security.

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Another important topic for customs is integrity. The two events of Doha and September 11 reveal how multifunctional a modern day customs service is and provide convincing evidence that customs is a critical institution to good governance, prosperity and the protection of society. However, in order to discharge the various missions in an efficient and effective way, it is essential to safeguard integrity in customs. The presence of corruption can destroy the legitimacy of a customs administration and severely limit its capacity to effectively accomplish its mission, including trade facilitation. We know that, unfortunately, corruption can be found in any economic system and that it is one of the major obstacles to economic and social development. Although it is uncommon to see corruption in customs and not in other sectors of society, customs alone is often criticised for possessing integrity problem because of its visibility. Customs is not an island and the WCO knows from its experience that poor integrity in customs often mirrors similar problems throughout the parent community. However, it is also true that customs is particularly vulnerable to corruption, because of its wide range of discretionary powers to discharge its multipurpose function and often extremely low level of salaries compared to what can be acquired through illegal activities.

The WCO has provided leadership in the fight against corruption and has developed a range of tools to assist our members to tackle the issue in a practical and sustainable manner. Our efforts in the early days resulted in the adoption of the Arusha Declaration in 1993 where the WCO Council identified measures to prevent corruption and increase the level of integrity in our Members. The WCO later developed the Model Code of Conduct to set out the minimum required attitude and behaviour expected of all customs officers. We have also devised the Integrity Self-assessment Guide to help our members to examine their anti-corruption strategies and identify areas for improvement.

These tools now require effective implementation. The WCO has developed a comprehensive training course to assist Members to elaborate and implement comprehensive anti-corruption strategies. There have increasingly been many echoes and initiatives from various regions in this regard. A milestone achievement came from Africa in March 2002: the Maputo Declaration issued as an outcome of the Conference “Integrity in Customs: the African Response” jointly organised by the WCO and the

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government of the Republic of Mozambique. Heads of all customs administrations from the African continent were represented and committed themselves to the fight against corruption.

We can confirm that safeguarding integrity needs commitment at the highest level within a customs service and has to be supported by the political leaders and the trade community in the country concerned. This provides the platform for customs to develop its strategy for modern customs administration with the highest possible level of integrity. The strategy and the practical measures that the Arusha Declaration had recommended were later incorporated in the revised Kyoto Convention – the principles of simple, effective and modern customs procedures. These include the publication of information on national requirements to ensure transparency, reduced human intervention in completing trade transactions through the increased application of information technology, and an independent appeal procedure to provide predictability. In this area as well, the reform and modernisation of customs through the implementation of modern customs techniques contained in the Kyoto Convention is the key to solve the problem in the long term. We are committed to assist our members in tackling this important issue in order to achieve sustainable development.

I have so far talked mainly about customs. However, customs alone cannot achieve trade facilitation. Albeit important, customs is only a part of the global trade chain. The modern customs approach is based on the partnership with the trade community and other relevant sectors. Co-operation with other border agencies, especially through joint intervention, is also highly important to secure the smooth flow of goods. Moreover, adequate infrastructure is necessary to maximise the benefits of trade facilitation. Here, I clearly recognise the need for better co-ordination with other international and regional organisations working in this area. We should enhance information sharing on who is doing what in each trade facilitation field to ensure more coherence, avoiding duplication and exploring ways of helping each other. I appreciate the International Forum on Trade Facilitation very much, as it undoubtedly provides us with an excellent opportunity to build the coherent approach for international organisations that the WCO desires.

Chapter 3.5

Fight against Corruption in the Sphere of Customs as a Trade Promoting Factor

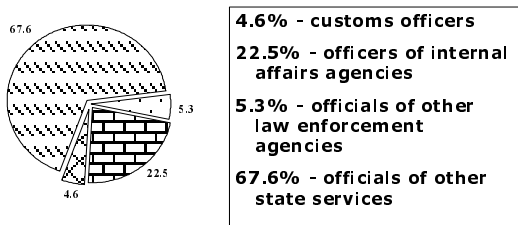
Leonid Lozbenko, Head of the Russian Customs Academy, Major-General of Customs Service

Corruption as bribery of officials in the state machinery and venality of public office-holders, that has a demoralising and corrosive effect on the powers that be, has become widespread. It endangers the security and hinders the economic development of every country.

Historical experience has shown that corruption is by no means a purely legal issue. It is driven by multiple factors - social, economic, political, and ethical. Corruption is found in all the models of society and state; and Russia is no exception.

There is corruption, unfortunately, in foreign economic activity as well. In Russia, foreign economic activity is leading in terms of rates of growth of the number of offences (33% growth against 3.2% growth of total number of offences). Customs officers, found guilty of acts of corruption, account for 4.6 % of the total number of government officials found to have abused their office by receiving bribes.

Figure 3: Acts of corruption in Russia are committed by:

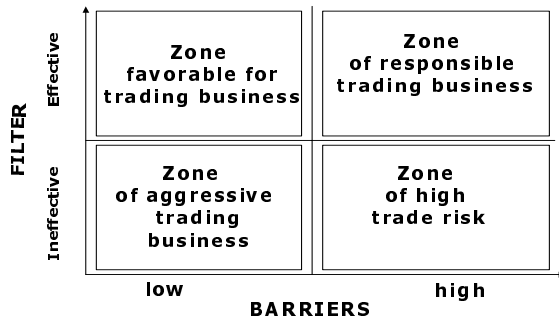


FIGHT AGAINST CORRUPTION IN THE SPHERE OF CUSTOMS

The size of the world's shadow economy reached 8 trillion US dollars in 2000 or one fourth of the global GDP. In Russia, the size of shadow trade in tobacco products, illegal exports of seafood products, illegal oil exports amounts to billions of dollars. During the past decade, up to 10 tons of gold, over one ton of silver, a great amount of other precious metals, and up to one million karats of gems were involved annually in shadow trade.

What do customs do? The key task of the customs service is control over compliance with tariff and non-tariff regulation of foreign economic activity, which every nation establishes for itself, with due account of its international commitments. All international transactions consist of uniform stages, and the customs are involved in them at least twice – at the import and export stages. By exercising its control function, the customs help promote trade, national economic and social development, influencing, to the extent possible, the level of corruption. The customs serve as a filter for cutting off illegal trade flows. The filter, by itself, may be effective or ineffective, and the barriers erected by it, given the degree of “clogging”, can be categorised as high or low.

Figure 4: Matrix of attitudes of the customs toward trade

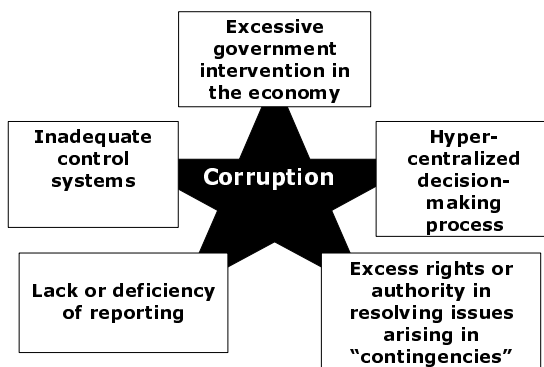


Among the causes of rapid growth of corruption are lack of an effective fight against it and the low level of crime clearance. The customs can work best against corruption, primarily by upgrading their performance. However, one country, on its own, cannot successfully curb corruption. The key to success is co-operation and interaction between all international organisations, regional unions, national governments, and businesses in

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designing joint programs in this sphere. Quite interesting conclusions can be drawn through comparison of government corruption in various countries with the prevalence in those countries of ISO 9000 international standards relating to “Management of the quality of products and services” Such analysis reveals that the greater the number of companies, organisations and institutions applying such standards, the lower the government corruption index in those countries.

Figure 5: Factors driving corruption

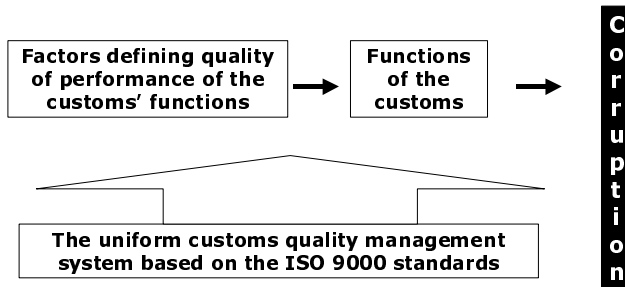


This is not a coincidence, but a function of a higher work culture, optimised work processes, identification and stage-by-stage traceability of work results, and introduction of other TQM principles and international standards. Greater transparency of operating procedures serves to discontinue or narrow the channels of corruption, and is essential for preventing corruption in any area, including foreign economic activity. Given some experience that Russia has in introducing ISO 9000 standards in the customs service, it is proposed to align the systems of administration of the customs services and their agencies with TQM principles and ISO 9000 standards, as a key method of reducing corruption levels. This would allow the customs services to improve their performance and implement specific reform and upgrade programs, with guidance provided by WTO and other international organisations.

FIGHT AGAINST CORRUPTION IN THE SPHERE OF CUSTOMS

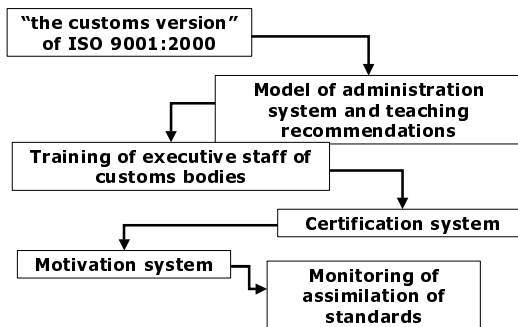
The block diagramme in Figure 6 shows the way the customs affect the level of corruption through the quality level of the customs' operation. Today, a new buzz-word is "the ideal customs", meaning a situation where there is full compliance with customs regulations, with foreign economic players, at the same time, not being subjected to any pressure on the part of the customs. "The ideal customs" are such customs that have mastered a self-improving management system based on ISO 9000 standards. Based on Russia's experience, we have concluded that the general sequence of introducing ISO 9000 standards should include a number of stages.

Figure 6: Impact of good customs service on corruption level



The sequence proposed in Figure 7 can serve as a tool to implement Conventions of the WCO on effective customs administration, which donor organisations often request from the organisation.

Figure 7 : Stages of assimilation of ISO 9000 standards in customs



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Systems of administration of customs agencies, to be created in keeping with the programme, can become a workable model to be emulated by other international and regional organisations. What can the World Customs Organisation do to implement the programme to create systems of administration of customs agencies in keeping with ISO 9000 standards? It can, first and foremost:

- develop a “customs version” of ISO 9001:2000;
- develop a model of the administration system and recommendations on the procedures of its introduction in customs services;
- develop programmes and organise training of the customs staff on administration issues and assurance of customs quality;
- develop a mechanism to assess the conformity of customs administration systems to ISO standards (evaluation or certification), train experts for the system and organise its operation;
- provide targeted and coordinated practical assistance and guidance to national customs services to improve administration systems on the basis of the WTO-recommended model.

It is advisable for the World Trade Organisation to develop and put in place arrangements encouraging national governments to help the customs services of their countries introduce ISO 9000 standards. We would ask the World Bank and the IMF to focus on the need to fund programmes to introduce ISO 9000 standards in the customs services, which would help reduce the level of corruption. The United Nations, the UN Conference on Trade and Development (UNCTAD), the UN Economic Commission for Europe, the organisation of Asia-Pacific Economic Co-operation, and the EU could develop their own programmes to help assimilate ISO 9000 standards, as part of the programme of work against corruption, thereby promoting awareness and wide dissemination of this positive method of curbing corruption. The governments of WTO member-countries could develop their own programmes for their customs systems to assimilate ISO 9000 standards and render them all-round national support. National customs services should be interested in full implementation of the proposed programme and could apply to WTO for guidance and practical assistance in this matter, as they may need.

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If such a programme of work against corruption is to be implemented, international research centres of customs service quality management should be established with one or several national institutes of customs staff training and development. The Russian Customs Academy has some experience in this matter. It has been working on this since 1996; it has skilled staff trained for these purposes (including members of faculty); it has developed models of major documents for customs service quality control, teacher's and learner's materials. On the initiative of the Russian Customs Academy, it has been decided to establish, within the Russian Academy of Quality Issues, a specialised Department of Customs Service Quality, which would provide practical assistance and guidance to the proposed international research centre of customs service quality management.

Conclusions

1. Preventing corruption in the customs system and foreign trade requires comprehensive, systematic and coordinated work of all international and regional organisations and national governments.
2. In the work against corruption, priority should be given to enhancing the quality of customs administration and methods to improve work ethic.
3. It is advisable to establish one or several specialised international research and methodology centres for customs service quality management.
4. An inter-governmental programme of combating corruption in foreign trade should be developed.

Chapter 3.6

Costs and Benefits of Trade Facilitation

*Anthony Kleitz, Head, Trade Liberalisation and Review Division,
Organisation for Economic Cooperation and Development (OECD)*

Tariff liberalisation has made considerable progress since the end of World War II. Once the results of the Uruguay Round are fully implemented, the tariffs of developed countries on industrial goods will have fallen to a trade-weighted average of 3.9%, while those of developing countries will be at 12.3%. While serious efforts are warranted to reduce tariffs further -- particularly in high-tariff sectors such as agriculture and textiles -- attention is increasingly focusing on the need for liberalisation of non-tariff measures. Among such measures, it is widely thought that procedures relating to the international delivery of goods are one of the major bottlenecks. The Doha Development Agenda, agreed to in late 2001 and launching a major new effort at multilateral trade liberalisation, has identified trade facilitation as an area in which negotiations should begin in 2003, after consensus is reached on negotiating modalities.

It is in this context that OECD is interested in trade facilitation. While other organisations have long experience conducting important technical work relevant for trade facilitation, OECD undertakes analysis to deepen understanding of today's major trade policy issues and to support policy makers. OECD is an intergovernmental organisation with a broad mandate for policy co-operation in the whole range of economic and social policy areas. One of the organisation's major objectives is the *expansion of world trade for the benefit of all and support of a strong multilateral trading system*.

In the light of current interest in trade facilitation and its identification by the Doha Development Agenda as an area in which negotiations should begin in 2003, the present paper will try to deepen understanding of the issue and its implications by:

- defining what we mean by *trade facilitation* and *trade transaction costs*:

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- examining what can be said about the nature, level and effects of *trade transaction costs and the benefits of trade facilitation*, both qualitatively and quantitatively;
- finally, commenting on some of the directions in which this points and which deserve further reflection and research, touching in particular on ways to reduce excessive customs-related transaction costs, so as to achieve the benefits of trade facilitation, and on capacity building.

Definitions

Trade facilitation

Trade facilitation has been on the WTO's agenda since the First WTO Ministerial Conference in Singapore in 1996. The WTO website explains it as "the simplification and harmonisation of international trade procedures... for collecting, presenting, communicating and processing data required for the movement of goods in international trade". A slightly different focus emerges from the Doha Declaration which, in looking forward to future negotiations, refers to "expediting the movement, release and clearance of goods, including goods in transit". In any case, it should be noted that in different contexts, such as APEC and the World Bank, there is a tendency to use the term in a much broader context, including TBT issues, competition policy, government procurement and transparency in general.

Trade transaction costs

Most attempts to look seriously at the costs and benefits of trade facilitation have in fact focused on *trade transaction costs*. These are seen to involve:

Direct costs:

- Compliance costs related to supplying information and documents required for the movement of goods or related means of payment.
- Charges for trade-related services (e.g. trade insurance, port management); these may be affected by government policies, e.g. limiting entry or restricting operations and competition.

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Indirect costs:

- Procedural delays, e.g. time for customs clearance and cargo handling. These costs are related to the market life of products (spoilage of agricultural products; product cycles for technology-intensive products, etc.).
- Lack of predictability in the nature, application or interpretation of regulations, formalities and contracts. This derives from factors such as the lack of transparency of arbitrary interpretations.
- Lost business opportunities: Although difficult to calculate, these may be significant since delays in one country may have negative effects along the whole global production chain. Suppliers of trade-related services may also see their business reduced.

Costs and benefits of trade facilitation: qualitative analysis

The above definitions can help think more precisely about the components of trade facilitation and their impacts. Certain general observations can be made before looking at costs and benefits for the economy and for the public sector.

It should be recognised that there will always be transaction costs and that they will generally be higher for international trade than for domestic transactions. The benefits of trade facilitation are typically seen as equivalent to trade transaction costs that can be saved - in other words, they will be smaller than total trade transaction costs because there is part of these costs that is unavoidable. Nevertheless, even if avoidable costs are small, they can represent a significant bias against trade. Moreover, the savings that might be achieving by reducing or eliminating such avoidable transaction costs can have a big impact, due to the dynamic effects of supply chain linkages. Although trade facilitation measures will typically entail some costs (e.g. for training and for implementing new procedures, equipment (especially for information technology) and even infrastructure, it can be assumed that the overall net effects of trade facilitation over time will be positive.

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For the economy

From the perspective of a national economy and, by extension, of the *economic actors*, excessive transaction costs represent economic rents to the domestic sector. As with non-tariff barriers (NTBs) in general, inefficient procedures are equivalent to a trade tax, providing a bias against foreign economic activity. In contrast, more efficient procedures and lower transaction costs provide significant benefits to the economy in both static and dynamic ways by:

- increasing trade in goods and services;
- promoting competition, thus enhancing efficiency in the use of resources, encouraging technology transfer and the realisation of productivity gains;
- increasing the incentive for international investment, contributing to economic growth and higher living standards.

In assessing the validity of this analysis, account should be taken of the arguments that have recently been raised questioning the benefits of economic globalisation. Does trade always bring the benefits claimed, or are they overtaken by socially and economically undesirable side effects? Does trade contribute to development? Is it compatible with other national objectives, such as environment, health and safety?

These questions are serious and deserve to be answered seriously; but they go well beyond the scope of the present paper. From a macroeconomic and medium-to-long term perspective, the answer is liberal trade is most likely to produce the best results for the economy and for economic actors. But even if there turns out to be some validity to the questions, inefficient trade procedures have no redeeming value: they represent a discriminatory tax on foreign economic activity and are a *deadweight loss*. Their elimination, and replacement by efficient regulations and procedures, can only be a positive-sum game.

For the public sector

A different perspective on costs and benefits of trade facilitation emerges with respect to the public sector. Here, trade transactions entail costs due to the need to operate customs and other trade-related public services. The

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basic costs are unavoidable and, as already mentioned, any changes in these services could entail additional costs, although they may be mainly short term.

Trade facilitation can nevertheless bring benefits to the public sector through more efficient implementation of customs and related regulations. This could involve, for example, a reduction in paperwork or in numbers of customs officials in ports of entry. Greater efficiency may also reduce possibilities for traders to avoid fees (including through arbitrary collection and possible corruption) and thus increase public revenue collected from customs procedures and from tariffs. It could also reduce the cost of new procedures that may be felt necessary, e.g. to respond to security concerns.

Quantitative analysis of costs and benefits

So far the analysis of costs and benefits has been descriptive and based on the logic of classical theory concerning markets and trade. To try to support this by actual measurable experience, we should consider, first, what methodologies are available for empirical measurement?

Methodologies

The most basic approach for attempting to analyse the costs and benefits of trade facilitation comes through *inventories of business complaints*, listing particular procedures considered excessively costly or inefficient. Such inventories are a useful starting point for understanding the scope of the issue but they may not provide any usable quantitative information about costs and benefits. Moreover, any systematic analysis needs to go beyond anecdotal information.

A fuller and more systematic picture of administrative and procedural barriers can be provided by *detailed firm-level surveys*. In this case it is possible to take account of a wide range of pertinent factors, such as particular cost elements, special characteristics of each country, product life (which provides an indication of sensitivity to delays), the size of international trade business (this is more indicative of sensitivity to trade facilitation than the size of a firm), and the extent of intra-firm trade (which can be instrumental in reducing transaction costs).

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In order to be generally useful, surveys need to have extensive coverage. They must also provide accurate information collected systematically across companies and countries. It is thus usually necessary to combine written questionnaires with interviews. This tends to make the approach time-consuming and costly, which in practice limits the possibilities for adopting it and, when it is adopted, requires its application within only limited parameters.

Developing a template for assessing costs and benefits

OECD is co-operating with an important project being undertaken by SITPRO of the United Kingdom to devise a template or methodology for measuring and comparing the regulatory costs of international trade. This is based on identifying the requirements imposed on importers or exporters that entail costs, and what those costs are.

Methodology: To confirm the elements of a template by conducting systematic interviews with a limited range of companies in a number of markets.

Initial results: Expected in late 2002.

A third approach to empirical measurement is through **modelling trade and welfare effects**. So far, significant data problems have limited work along these lines.

However, there have been some interesting efforts to use computable general equilibrium models, in particular Global Trade Analysis Project (GTAP) models, e.g. to quantify the impact of automating customs procedures or to assess the cost of delays in particular countries.

Results of quantitative work

Having now reviewed briefly the available methodologies, what can we say about the results of quantitative work on trade facilitation? First, it is disappointing to the extent to which most existing studies are based on unclear data and methodologies. In many cases they rely on past work

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whose basis is questionable. Those that seem most valid have limited their focus to particular costs in specific circumstances, generally drawing on limited surveys. The results are diverse and reflect the restricted scope and parameters of their studies. Nevertheless, some interesting results have been obtained, e.g.:

- compliance costs in intra-EC trade estimated at 1.5% (Cecchini);
- each day saved in shipping time can be equivalent to a tariff reduction of 0.8% (Hummels);
- customs automation can lower the price of traded goods by 0.2% (Mitsubishi Research Institute).

In contrast, a few studies exist that provide overall estimates, for example:

- Trade transaction costs are frequently estimated to be in the range of 7-10 % of world trade value (basis unclear); customs compliance costs would be somewhat less;
- Benefits of trade facilitation typically seen as 1-5 % of the value of total world trade (1994 Columbus Ministerial Declaration on Trade Efficiency cited the figure of 2.5%).

Recent work raises the question whether these figures are misleadingly high. The figures that emerge from different analyses depend on the measures that are considered and on the actual changes that are implemented. Even if estimates of costs and benefits may be too high, this probably will not significantly alter the overall conclusion about the value of trade facilitation. Apparently small benefits (less than 1% of the value of world trade) will still have significant trade and welfare impacts, due to supply chain linkages within the globalised economy.

An important outcome of work conducted to date has been to show the asymmetrical effects of trade procedures and trade facilitation on SMEs and on enterprises in developing countries. This is because small-value consignments tend to attract a disproportionately high cost burden, due to the fixed costs that must be paid in any case. In addition, well-trained human resources to carry out and implement necessary procedures efficiently may be at a premium for small firms and developing countries.

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Emerging reflections that merit further research

The analysis sketched out above leads to several observations relating to the need for further research and reflection.

First, more empirical research is clearly needed to understand the nature and major components of the problem.

Next, the potential benefits of trade facilitation can only be realised if effective means are adopted to reduce excessive trade transaction costs. In this light, what policies or approaches will be the most effective for firms and governments? As already indicated, benefits of trade facilitation are typically seen as equivalent to the “trade transaction costs” that can be saved. In most cases these costs will be reduced but not eliminated.

Three approaches available to the *private sector* have shown particular promise in securing the benefits of more efficient trade procedures:

- exploiting economies of scale: e.g. greater efficiency can often be achieved by grouping trade transactions, especially for low-risk shipments;
- making use of information and communications technology, including through the integration of information systems for logistical, financial, fiscal data, etc.;
- making use of global logistic chain supply services, e.g. involving international express carriers and similar services to draw full efficiency benefits from globalised production and marketing.

From the viewpoint of governments, effective *national and multilateral policy* approaches include:

- simplifying and harmonising customs procedures, e.g. so as to reduce filing frequency by using risk assessment techniques and audit-based controls;
- benchmarking and definition of minimum standards; and
- ensuring effective dispute mediation mechanisms.

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Finally, reflections on approaches to trade facilitation such as those above inevitably lead to the issue of *capacity building*. On the one hand, SMEs and firms in developing countries may be particularly susceptible to certain costs, especially indirect costs such as the lack of predictability and lost business opportunities, which may lock them into low growth. On the other hand, cost savings approaches, as identified here, are likely to be more accessible for larger firms, especially firms that trade more, since they are in a better position to take advantage, and to do so more rapidly, than smaller firms (SMEs or firms from developing countries).

Nevertheless, because trade transaction costs are relatively greater, the benefits of trade facilitation are likely to be relatively greater as well. Special efforts therefore seem warranted to help these firms obtain the capacity and adopt methods that will effectively realise these benefits. For example, this would include facilitating the use by developing countries of:

- risk assessment techniques that could improve efficiency by underpinning more selective control of imports and exports;
- greater separation of documentation from the physical movement of consignments; and
- greater separation of release and clearance procedures.

Conclusions

There exists a significant volume of business complaints and compelling qualitative arguments for addressing trade facilitation, both at the national and multilateral level. Nevertheless, available studies and information on the costs of inefficient trade procedures and the benefits of trade facilitation are frankly disappointing. Quantitative information is patchy, imprecise and unconvincing. Partly because we are talking about the sum of a large number of relatively small costs, it is hard to generalise about the overall level of costs and benefits. But it should be recognised that even if these costs and benefits turn out to be fairly small in percentage terms, they can still have big effects through global supply chain linkages.

There is clearly great potential for further empirical research and modeling in this area, including through work on methodologies, to demonstrate the importance of the trade facilitation agenda. In pursuing such work, it will be

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important to pay special attention to the weaker members of the international economy to ensure that, through capacity building, they also are able to reap significant benefit from trade facilitation.

Chapter 3.7

Trade Facilitation and Post-Conflict Confidence-Building

Jani Bogoevski, Chairman of the Working Group on Trade Liberalisation and Facilitation of the Stability Pact for South-Eastern Europe

We live in a complex and inter-connected world. There were many initiatives launched by the International Community, planned to help South-Eastern Europe but not supported by the countries of the region. There were also ideas coming from the countries of the region that were not supported by the international community. It is not enough to have an idea, no matter how brilliant it is. It is a must that this idea should fit in the environment, it must be supported by the countries of the region, and it must be supported by the international community. Unfortunately, in the near past there were only a few such successful stories.

In January 2000 the countries of South-Eastern Europe, together with the international community, decided at their meeting in Skopje to establish the Group for Trade Liberalisation and Facilitation. At the very beginning it was difficult to answer questions like, what exactly should our work be, who should be involved, and how should the work be performed. This uncertainty was compounded by the fact that we were created under the auspices of the Stability Pact for South-Eastern Europe – a brand new international organisation that was itself trying to clarify its role, tasks and modus operandi and its relationships with individual governments and multilateral organisations that comprised its membership.

Therefore, like many other groups, we struggled to determine the range of our responsibilities, the best way to meet these responsibilities and what resources we required to undertake our tasks. It took us the best part of a year to get clear answers to these questions. In October 2000, on the meeting of the Working Table II in Istanbul, the Chairman of Working Table II, Mr Saccomanni, instructed our Working Group to accelerate trade liberalisation in the region. It is my pleasure to report to you today that we have done exactly that. In January last year we convened a high-level Trade Policy Forum in Geneva followed immediately by a Ministerial meeting at

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which seven countries endorsed a **Statement of Intent** to liberalise trade in the region. They requested the Working Group to prepare a Memorandum of Understanding on Trade Liberalisation and Facilitation before the end of the Swedish Presidency.

The Working Group completed its work on the Memorandum in Tirana at its May 2001 session. On 27 June 2001 the Stability Pact Office hosted a special Ministerial meeting in Brussels. This meeting concluded with a formal Signing Ceremony for the Memorandum of Understanding on Trade Liberalisation and Facilitation. The Republic of Moldova and the Signatories to the Memorandum also signed a Statement of Intent on Trade Liberalisation and Facilitation. The EC Commissioner for Trade, Pascal Lamy, and the US Ambassador to the EC, Richard Morningstar, attended the event along with representatives from the World Bank, and the WTO, and officials from Hungary, Slovenia, Switzerland, Turkey, the United Kingdom and the USA. This Memorandum is an ambitious document. It commits the Signatory Countries to take concrete trade liberalisation and facilitation measures. These include:

- completing a network of bilateral free trade agreements (FTAs) between all countries of the region by December 31, 2002 in accordance with specified provisions;
- identifying and abolishing non-tariff barriers to trade;
- assessing the potential for regional co-operation in trade in services;
- harmonising legislation across a number of trade related areas;
- increasing co-operation in areas such as standards and accreditation, competition and intellectual property rights; and
- maintaining an open trade regime and pursuing further trade liberalisation within the context of the WTO.

The task now facing the Working Group is to facilitate the implementation of these commitments by the Signatory Countries. This acceleration in trade liberalisation and facilitation in South East Europe will increase investment and economic growth in our region.

At the recent Working Table II meeting in Washington D.C. we reported on the concrete progress being made by the Signatory Countries in meeting the terms and conditions of the Memorandum. We focused in particular on the

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status of the various free trade agreement negotiations and on the assistance being made available to facilitate this progress. The countries are making a special effort to ensure that a network of bilateral free trade agreements is in place by the deadline of December 31, 2002. On 19 April 2002, the Former Yugoslav Republic of Macedonia signed FTAs with Albania and Bosnia in Skopje. The countries that still haven't opened negotiations have committed themselves to starting them by the trade ministerial meeting in June 2002.

So, how did we make the transition from a bunch of individuals from different countries and organisations, all committed to improving trade in the region, but all with different ideas on what to do, to an integrated team, focused on specific goals and with a clear strategy to achieve this? I believe that the following factors were critical to our success:

1. Political will

Trade liberalisation is vital for economic growth in our countries but it is not an easy option. From the outset, there was broad agreement among the countries of the region and the international community that improved trade liberalisation would contribute to economic and political stability in the region. The Memorandum of Understanding was negotiated **BY** the Signatory Countries **FOR** the Signatory Countries with support and encouragement from the international community. This shared ownership is important.

Our governments must maintain their commitment to the process. Political support and encouragement from the multilateral organisations, particularly the European Commission, and individual third countries has a valuable role to play in maintaining our governments' resolve.

2. Appropriate representation / Membership of the group

Following the Trade Policy Forum of the Stability Pact in Geneva, the participating governments, in response to the Stability Pact's request, appointed high-level representatives to the Working Group. Thus we have high quality and consistent input from the senior trade policy officials who are responsible for advising Ministers on trade policy and conducting the various trade negotiations. The representatives from the region have to be

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commended on their hard work and their willingness to go the extra mile in order to make progress.

We have also benefited from the participation in the Group of trade experts from the European Commission (DG Trade), the World Bank, the World Trade Organisation and other international bodies. These technical experts were complemented by the active involvement of the Chairman and Director of Stability Pact Working Table II and officials from bilateral governments. The availability of “on-the-spot” advice and guidance during our meetings, as well as their encouragement and commitment to the process throughout, has been invaluable.

3. Technical and financial support

Another crucial factor for the success of our Group is the management, technical and financial support provided by donors specifically for Group activities. Thus, for example:

- The United Kingdom’s Department for International Development has been our main supporter since the establishment of the Group. It funds technical, management and administrative support to the Secretariat of the Working Group. The Secretariat provides the Group with timely, efficient and effective technical, management and administrative assistance through a small core team of management and technical staff, supported as necessary by specialist advisers.
- The Commercial Law Development Programme (CLDP) of the US Department of Commerce is delivering a series of trade-related seminars and workshops as well as providing ad hoc technical advice. The CLDP also provides practical financial support for Working Group meetings by covering the travel and accommodation costs of the representatives from the Signatory Countries. This contributes greatly to the consistency of representation. In the spring of 2002 there were trade consultations in Washington D.C. for the representatives of the countries of the region.
- The Swiss government has funded a study on non-tariff barriers to trade in the various countries and is considering further support on this issue.

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- The European Commission and the Slovene Government agreeing to co-fund a seminar for ministry and customs officials on this complex but critical area.
- Department for Trade and Industry of the UK has organised a seminar on competition in London in January this year.
- We are in discussion, with the Swedish authorities, on the preparation of a comprehensive study on trade in services in the region. The Working Group is specifically charged under the MoU to commission such a study.
- France, Germany, Ireland and Switzerland have also indicated their backing for our efforts and we are discussing how to make the best use of this support.

The remit of the Working Group – trade liberalisation and facilitation – can be interpreted very broadly and we suffered initially from confusion among representatives as to the exact role and responsibilities of the Group. I believe our decision to focus on trade liberalisation and to define “a road map for liberalisation” in the form of a Memorandum of Understanding was vital to our success. It allows us to devote our scarce resources to “doing a few things well” instead of trying to be “all things to all men”.

The Stability Pact Working Group on Trade Liberalisation and Facilitation provides the countries of the region and the international community with a unique forum for dialogue, exchange of information and ideas and coordination of assistance for trade liberalisation and facilitation in South East Europe. Yes, there will be obstacles and bottlenecks to overcome in the coming year as we seek to negotiate MoU compliant FTAs and yes, we must also ensure that progress is made on the other elements of the MoU. However, I am confident that if we can maintain the momentum on the factors listed above, we can maintain our success.

Finally, what was the most important outcome of the work of our Group? Was it the Memorandum? Maybe yes. This Memorandum, which has been negotiated through the Stability Pact Working Group, is an ambitious document. It commits the Signatory Countries to taking concrete trade liberalisation and facilitation measures. Yet, maybe even more important outcome was the fact that we have shown that we can co-operate. Therefore, I would like to thank once again the representatives from the region for their hard work and their willingness to go the extra mile in order to reach

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common solution. If our Group has become a family, is it possible that the region of South-Eastern Europe could grow as a family, overcoming the past misunderstandings, conflicts and clashes?

I have spoken about the way towards this outcome. Is this experience exportable for other initiatives, groups or even countries? Maybe it is too optimistic to say yes. But, if all people gathered in the open forum for trade facilitation are sharing this feeling, I think we have a chance, in the same way as the region of South-Eastern Europe has a chance!



Part Four:

**Implementation – the Role
of the Business Community**

The contributions to the following part were provided by senior executives from companies and international trade associations with a stake in the facilitation of international trade. They present the views, concerns and objectives of the business community, with its strong support for multilaterally negotiated rules on trade facilitation. A major theme is the ability and readiness of the business community to contribute to trade facilitation with practical and technical solutions for the facilitation of international trade.

Chapter 4.1

The Importance of Trade Facilitation to Business

Maria Livanos Cattau, Secretary-General, International Chamber of Commerce (ICC)

The fact that intergovernmental organisations and many governments have existing working relationships with the trade community illustrates that it has already been recognised that business is a valid and valuable partner in achieving those aims.

Business can also be looked on as a resource, even an indispensable resource, to achieve real progress in trade facilitation.

How can we help? I can think of four main ways. First, by sharing useful firsthand experience. We have already seen how hard it is to measure trade facilitation and how difficult it is going to be for us to find out how successful the texts and solutions we devise today will be at providing real benefit on the ground. When it comes to trade facilitation, business is right where the action is. Companies have a unique perspective from which to compare the relative successes of different customs' initiatives worldwide. Businesses can assist in properly identifying problems, the first step to finding the best solutions.

Second, dialogue. Dialogue is key to compliance. To put it bluntly, without the cooperation of the majority of traders, it will be impossible to enforce border controls. On the other hand, good relations with traders will result in mutually compatible processes and agreed standards that will increase compliance at minimum disruption and costs to business and governments. New requirements are likely to be costly to install for business, and understanding is the best way to overcome resistance. Dialogue can also help relieve the burden on over-stretched customs resources. In too many countries mutual suspicion between customs and the trading community prevents valuable collaboration in areas such as combating fraud, performance measurement and data collection. On an everyday level, discussing with operators can be invaluable in identifying any significant changes in the location and size of key commercial activities, and thus help the deployment of customs' resources.

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Third, business can share its expertise. Business has already had to develop solutions to move its goods internationally. Sharing information and experiences on using technology, logistics processes and data management, for example, will not only allow mutually compatible, therefore less costly and more effective, solutions to be found; but constant dialogue will allow governments to better keep pace with latest developments in business practices and technology tools.

Finally, business can help by providing practical assistance. I can cite two excellent examples of business working with customs to facilitate trade in a very concrete way: the ATA Carnet system, jointly administered by the WCO and ICC's World Chambers' Federation, and the innovative Business Anti-Smuggling Coalition or BASC initiative. Business can also directly assist governments on a national level; for example, by participating in training programmes in developing countries.

Further in this paper, I would like to focus on the relationship between trade facilitation and business and the importance that business attaches to this issue. Since ICC's Commission on Customs and Trade Regulations has been actively promoting trade facilitation for over 20 years, and indeed facilitation was one of ICC's first areas of activity –being on the agenda way back in 1947, I could be accused of bringing you old news. Still, this is news that bears repeating. Circumstances have changed – and it is all the more important to convey our message today, and to all who are involved in the process, in one way or another.

Why is trade facilitation important to business?

It is difficult to put a price on trade facilitation – both for business and for governments. A recent OECD study concluded that the cost of poor border procedures stood at anywhere between 2 and 15% of the total transaction value. Even the more optimistic of these estimates highlights the wasteful costs involved, especially considering that the average post-Uruguay tariff on industrial goods amounts to a mere 3.8%.

Luckily, we need not rely on figures to know that trade facilitation is important – not only to business but also to governments and especially to

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consumers – anecdotal evidence and common sense suffice. For instance, you may be surprised to learn that Botswana has had the fastest growth in income per person over the last 35 years. One of the causes: this landlocked country realised early on that a simplification of customs formalities with its neighbours was essential to its economic development, and established a customs union to encourage trade with its stronger neighbour, South Africa. Also, we are developing tools to measure if not in dollars, but in minutes, the costs to business of inefficiencies – the WCO’s time-release study guide is already producing useful indicators of problem areas.

Why is trade facilitation of importance to the world economy? I would like to mention six points in this respect:

1. More and more industrial products sold throughout the world are assembled in one country from components manufactured in several others. As complexity in the supply chain increases, the delays and costs caused by slow and inefficient border procedures are multiplied.
2. Increased reliance on just-in-time production and just-in-time delivery makes just-in-time customs clearance a major issue for business.
3. Customs needs to modernise to manage the exponential growth in volumes of cross-border trade in goods
4. Small and medium-sized businesses particularly in developing countries, as Mr. Ricupero pointed out at the International Forum on Trade Facilitation, stand to suffer most. Costs and delays in exporting can deter even the largest companies from undertaking a transaction – smaller companies with less capital and personnel to deal with these administrative burdens are first in line to forego these business opportunities. Conversely, the rise of multinationals has made it easier to spot the costs due to border delays and administrative burdens.
5. Trade liberalisation and the resulting reduction or elimination of tariffs has drawn attention to non-tariff barriers and practical obstacles to international trade, particularly cumbersome customs

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procedures. These obstacles must be overcome to fully realise the benefits of negotiated agreements.

6. Most important - investment decisions are often based on the ability of a country to ensure a reliable, low-cost flow of raw materials and components into and out of a manufacturing facility. Efficient customs procedures have become a national competitive advantage, especially in terms of attracting foreign direct investment.

All these factors led ICC to produce in 1997 its International Customs Guidelines (recently revised), a blueprint of those features of a modern customs administration important to business. Since 1996 WCO and ICC have developed cooperative relationships to find mutually compatible tools and strategies to promote trade facilitation. We work together on such important initiatives as the Revised Kyoto Convention, the Harmonised System of Classification, among others, as well as with UNECE in UN/CEFACT and its International Trade Procedures Working Group (ITPWG).

Trade facilitation has for too long been the poor cousin of more attractive trade issues, and if it finally got on the agenda of the World Trade Organisation at the first WTO Ministerial Conference in Singapore in 1996, this was because of the successful business campaign, led by the ICC. In reality trade facilitation is complex, it is technical and it is mundane. One of the greatest difficulties of proponents of trade facilitation has been to secure the required political attention and commitment to their cause. The call for negotiations on trade facilitation in the Doha Ministerial Declaration of the WTO and the attention directed to security controls since the tragic events of September 11 have changed this. Although work remains to be done, in particular in convincing developing countries of the value to them of trade facilitation and assisting them in reaping its benefits, for the first time trade facilitation is high on the agenda of governments.

What challenges remain?

The success of the UNECE International Forum on Trade Facilitation was an indication of another, equally important development - the recognition of

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the need to coordinate the variety of interests represented in this complex area. This is not an easy task - trade facilitation touches on many fields of expertise – transport, technology, customs procedures – and of government activity – security, revenue collection, statistics, trade. A clear and coherent strategy for trade facilitation is essential. Simplification and modernisation will not be achieved if all those involved do not work together to make proper use of their strengths and resources. This is particularly important in the case of capacity building, rightly identified as a priority. Political attention is not without risk. We must be sure to make the most of the opportunity that we currently have.

A clear message must be sent to governments that:

1. Trade facilitation is important in its own right – to business, to governments, to consumers. It must not be used as a bargaining chip. All countries stand to gain from trade facilitation – it's a win-win situation.
2. Security and trade facilitation are not conflicting goals. Modern and efficient border controls do not just facilitate trade, they improve security and even increase revenue.

Whilst we want political commitment, we do not want theoretical debates to detract from real work to be done. Once agreed, we must assess the practical impact of the texts and tools we produce. This evaluation needs to be constant, as trade is constantly evolving.

What role should business play?

The business community, on a national level and through organisations like ICC, is an important partner in trade facilitation. Its concrete contributions to trade facilitation include the ATA Carnet System and the BASC initiative, mentioned above. It is a source of expertise on trade practices, technology, and effecting change and can therefore contribute to policy solutions and practical tools. It can also provide direct assistance, for example by participating in training programmes to illustrate the latest manufacturing processes or the devices used by companies in anti-counterfeiting. It can provide useful first hand experiences of problems faced at the border and of how any solutions affect them.

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Dialogue with the business sector is the best insurance that innovations will facilitate trade – that we do not reinvent the wheel or put in place a flat tyre. Continuous dialogue is essential to keep pace with a constantly evolving economic and business situation.

ICC as the world business organisation has been part of this dialogue with all of those institutions represented here today, and is also working on a national level through its national committees to foster productive relationships between business and governments. We will continue to work with you to ensure that today's opportunity is translated into efficient, effective, transparent and predictable border controls and the increased economic prosperity that this entails.

Chapter 4.2

How to Achieve Maximum Trade Facilitation in a Regulatory Environment

Rolf M. Jeker, Executive Vice President, SGS Société Générale de Surveillance S.A.

From the perspective of a service provider, this paper attempts to provide some practical and concrete solutions to the problems facing the trading community and then to draw from these some policy conclusions.

What does the trade community want?

In an ideal world, what would trade want? Obviously, the strengthening and maximisation of free, global, transparent and fast foreign trade exchange as a principal condition for commercial success. In short, total trade liberalisation, with no interference from government, no tariffs, no delays, no bureaucracy and maybe even no rules of origin. This, however, is not the real world. In order to understand the limits to total trade liberalisation, we must ask, also, what do governments want?

What are the government objectives?

Governments look for the compliance of trade with government regulations. They ensure the realisation of all macro and micro-economic benefits from trade as stipulated by the respective laws and other trade regulations in the country involved – the “protection of national interests”. The functions of such regulations are clear to all of us: revenue from customs and V.A.T., safety, health, environment, consumer protection and the important issue of security. These regulations demand total compliance from trade and are here to stay and most likely, to grow. Given this situation, the first important conclusion that must be drawn is that these government objectives are legitimate. Trade facilitation is not a challenge to government interests, but seeks to optimise its objectives, whilst protecting these legitimate interests. It is, therefore, important that governments should not fear a move to the left because they think that they are losing something on

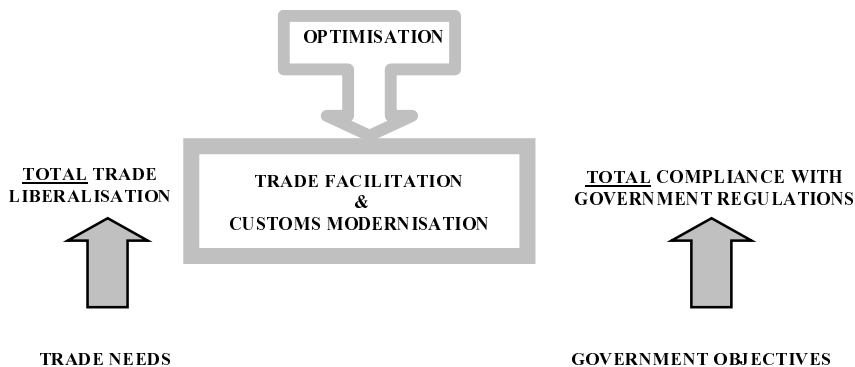
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the right. We must emphasise and reassure governments that such a move is possible and that the relations between trade and government can be characterised as a trade off, not a zero-sum game.

The trade off between trade needs and government objectives

To simplify somewhat, trade facilitation can and should take place within two broad categories. These two issues are complimentary and not competing. The first objective is to remove obstacles and regulations that hinder free trade through negotiations and rule making. There is a need for fewer and more harmonised regulations. Many current practices are unnecessary, impractical and vastly time consuming. They take time to complete and we do not have such time. Many of these practices may have to be removed. The second objective is to find practical solutions, in order to expedite trade flows in the context of existing and, importantly, new regulations, in the short term. It is important to stress here that these measures must include exports, lest countries continue to 'shoot themselves in the foot'.

Figure 8: Trade Needs and Government Objectives



Why do we need these practical solutions and why do we need results now? The first reason is that Industry has no time to wait and will adjust. The concept of 'just in time' does not allow for licence procedures and controls that take weeks – so Industry moves on, seeks other locations or may

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increase its prices significantly. Secondly, these practical solutions are important because they have to address specific issues and problems. There may be certain situations in which you cannot have a single solution for all concerned. You might be able to work on 'best practice', but you still need a specific answer to your own problems. Thirdly, we need these because, as mentioned above, regulations are here to stay and grow. When one looks at today's environment, traders, consumers and governments suffer uncertainty and are all in need of a framework of procedures and controls. We need to learn how to deal with existing regulations and not to dream of a world in which they cease to exist. Fourthly, and lastly, trade facilitation is possible, and only possible, if the political will of a government is behind it.

What kind of practical solutions can we envisage to minimise the impact of regulations? Clearly, this paper does not allow for an elaboration of programs, but certain criteria may be outlined:

- Apply controls where most efficient to avoid congestion (pre-shipment; post-entry audit);
- Avoid multi-layered control chains for departing and arriving goods;
- Use available technology efficiently.

Figure 9: Areas and Types of Customs Intervention

	No threat	Concealment	Misdescription	Split Shipments	Excess Quantity	Unfair Competition	Dumping Duties	Undervaluation	Counterfeit Goods	Misclassification	Intl. Security	Public Health
Full Insp.		X		X	X						X	
Sample			X						X	X	X	X
Price Only	X					X	X	X				
Examine			X							X		X
Scan					X						X	
Green	X											

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One thing must be noted. Utilising technology is often seen as the only solution and this is not the case. Technology must be applied properly and integrated into a solutions package, so that it does not become an alibi for a coordinated programme. Above all these criteria, however, is the need to move to selectivity through risk-management techniques. With today's huge and growing volume of trade, it is vain to assume that a country can control everything that crosses its borders. Smaller numbers of goods may be checked, but these goods must be checked more efficiently and with greater attention to the enforcement of regulations and procedures. Risk management involves transforming data into usable information, in order to identify risks. Obviously, the items that you wish to identify, whether in terms of valuation, quality, brand protection or origin, must be defined in terms of the factors of risk involved in their transaction. Such intelligence has to be validated and updated and in order to maintain an efficient system; such information cannot only be obtained locally. Relevant information about the goods must be obtained both nationally and internationally and stored in a powerful database. Such a system would be able to manage different types of threat and identify differing areas of intervention, whether internal or external to the country.

The system would help authorities focus on high-risk transactions, while simplifying legitimate trading transactions. This would lead to fewer delays, fewer obstacles and lower transaction costs for trade participants whilst:

- Protecting the collection of customs and tax revenues;
- Providing a level playing field for local industry;
- Protecting local consumers; and
- Stimulating foreign direct investment.

Such measures will be even more successful if accompanied by an improvement in valuation. Taken as a whole, this is a win-win situation. With lower costs to trade and governments from selective controls, trade participants can be involved in paying for the implementation of the solutions envisaged above. If it can be proven to the trading community that transaction costs will be reduced, then they will be prepared to pay a proportion of the costs, in return for an improvement in their overall situation. One such project, which is trying to achieve this, is the Global Alliance for Trade Efficiency (GATE). This is an industry driven initiative to reduce transaction costs and facilitate legitimate cross-border trade.

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Companies participating in such ventures would expect that they, when complying with the regulations of importing countries and under third party verification and certification, could obtain green-channel facilities and would also be prepared to pay for it. The advantage for customs is that they may be able to use the limited resources available to them to focus on and control higher risk shipments.

Why use a private sector support and service provider? There are three principal reasons: First, they constitute an independent third party to validate procedures. Second, they can bring experience of the 'state of the art' and knowledge of best practice to the operation and last, they may be a company with global reach. Customs are always limited to their own territory, whilst outside service providers have a greater reach in obtaining information.

To draw some final conclusions: governments should not be afraid to engage in trade facilitation. They can protect their legitimate interests, possibly at lower costs and with greater benefits than they do today. They should embrace the possibility of industry driven and financed initiatives to achieve trade facilitation objectives, in parallel with WTO negotiations. Time is of the essence and countries need to act if they want to compete in today's globalised economy.

Chapter 4.3

The Impact of Trade Facilitation on a Standard Supply Chain

Vratislav Kulhanek, Chairman of the Board, Škoda Auto

Industry worldwide is undergoing a period of intensive integration. The global economy and tremendous pressure on efficiency, cost reduction and delivery variability trigger constant waves of mergers, acquisitions, forming of alliances and joint ventures. Even if only such sectors as finance, IT and key utilities underwent these consolidation processes in the first phase, nearly all industries and services are affected nowadays. In the early stages of the process, companies merge into larger national units, with foreign capital simultaneously entering local markets, thus facilitating the entry of domestic producers to foreign markets.

The companies can also benefit from know-how transfer, overall rationalisation and higher efficiency. Gradually, international ties become stronger, and give birth to closer and closer organisational and capital alliances. The number of companies controlling large parts of the market on a long-term basis, therefore, steadily decrease. In addition, the leading companies in individual industries and spheres extend their presence on the market during a permanent redistribution of market shares, with multinational companies playing a key role in this process.

The efforts to reduce costs result from the will to reach greater product competitiveness: for example, companies within groups cooperate on the basis of a sub-delivery system. Besides interconnections of entities of the same nature, referred to as horizontal integration, vertical integration is gradually gaining ground. In recent years, most car manufactures have been integrating requirements from their production spheres with regard to cost, efficiency and quality into the product development. As a result of these specific requirements many concepts drawing on theory and practical life have emerged, for example “design for manufacturability”, “design for assembly”, “design for producibility”, “design for testability” and “design for quality”.

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Another concept that drew upon the above-listed concepts is the “design for modularity”. It promotes a modular build of a vehicle enabling assembly according to a building block principle, with many advantages, such as lower number of suppliers; reduction of office work and red tape; lower variability and complexity of parts as opposed to an even higher number of possible product versions; small increase in costs when the product is changed or new versions are introduced; lower production time due to simultaneous module pre-assembly; opportunities to automate operations not automated before or whose automation was costly.

Modularisation significantly changes the vehicle production structure, production depth and integration of modular suppliers pre-assembling their modules within the framework of a production chain. Such a trend gains ground especially because of the assembly segmentation concept, with a “fractal plant” being an obvious example. The fractal plant concept at Škoda Auto is based on an idea of a production plant made up of many independent production units with specific functions. These production units, referred to as “fractals”, have a similar work organisation. The fractal can consist of individual teams, modular suppliers or supplier consortiums. The assembly flow therefore goes through pre-assembly zones without any buffer stocks towards the assembly line. Acceleration of the supplier-customer interconnection of producers and in the case of consumables interconnection of manufacturers and trade companies is closely linked with acceleration of process thinking.

It is vital to realise the key role of process continuity and profitability, and endeavour to achieve it not only within the company (which is the fundamental aim) but also in material and component supplies. Implementation of the modular strategy in ŠkodaAuto results in significant reduction of direct suppliers and logistics contacts between as and the purchase market. While European producers currently cooperate with 1,000 suppliers on average, their number can decrease to 50 in the future, based on the vehicle design and depth of production. These suppliers form supplier consortiums or assembly companies because a traditional supplier does not possess complete extensive know-how. One of the advantages of these consortia is that time-critical nature of cooperation of suppliers on a one-off project has a positive impact on the structure transparency, innovations and competitors.

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ŠkodaAuto attempts to speed up, simplify and streamline purchasing and supplier selection processes. With the fast development of IT, e-business, as understood in this context, does not include only business to final customer trade (B2C), but also business between individual suppliers (B2B) and last but not least internal process management (B2W). In the beginning, e-business at ŠkodaAuto was also just used as a one-way channel to share and not to receive information. Therefore, customers were only informed about our activities, products and services, but could not communicate with us or provide feedback.

Another phase, the so-called transactional phase, required top-quality technology and logistics preparation in order to establish completely new sales channels competing with the already existing ones. The last phase, currently under way, sees the existing and to a certain extent time-proven supplier-customer relationships being changed; information and payment flows will free themselves completely from standard approaches and limitations.

This is why ŠkodaAuto is currently using a constantly expanding range of information technologies and is developing them further. For example, with the implementation of information technologies supply chain management can improve to the extent that the ŠkodaAuto can connect to the on-line system all levels of the supplier network, from material and part procurement to the final user, thus enabling constant monitoring of the demand for a certain part directly by the supplier. Purchasing processes are accelerated through IT and internet, while single activities are integrated.

The application that is used by ŠkodaAuto is called Electronic Supplier Link (ESL). This tool enables very fast and secures data the transfer of, and request documentation to potential suppliers. It is important that nowadays, when the purchasing processes are so global and the conventional way of sending of documents, detail drawings, norms or logistic layouts used to take several days; the term is shortened to minutes. ESL is applicable also as a universal means of communication and serves as mutual communication among ŠkodaAuto and its suppliers. For potential suppliers there exists a way to download online CAD – data or technical norms. This application is very simple to apply and for the users is very convenient. ŠkodaAuto stresses on “online price negotiation” in its purchasing process, which has a lot benefits in comparison with the traditional process. This

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negotiation can be called auction. The auction is held in an assessed time, during a limited period and using a web site, which is protected by a password. Each supplier has his own ID number and password. We started by negotiating simple and norm parts, for example screws, but today we order more complex parts such as bumpers or seats. The supplier can see on the display of E-Breviate application only his own bid and of course the best competitive bid. The application E-Breviate is very simple and the auctioneer, in this case is ŠkodaAuto, can program very easily the auction. The auctioneer can also select the time of duration, number of extension periods and the duration, minimal price step and others. The suppliers do not need any special equipment or software; they only need access to the internet and to a common PC.

Material flow optimisation is closely linked to production management and organisation. ŠkodaAuto uses hi-tech production methods. In 1994 we introduced the JIT delivery system for complete wheel supplies. More than 50% of our supplies nowadays are JIT or KANBAN deliveries. This approach enables us to retain very low material stock levels, thereby reducing the amount of blocked funds as much as possible.

The classic trade model of yesterday was as follows: on the one hand was the carmaker and on the other the customer. In between there existed several intermediaries, such as importers, dealers, distributors, etc. But for the customers it is crucial to obtain the product, in our case the car, with the best quality, in the shortest delivery time and for the best price. ŠkodaAuto extended the way of selling its cars and established a direct distributive channel, which presents a “car configuration” and an online internet order. The customer can configure type, class, engine, colour or kind of interior and other features, and then consequently order the chosen car.

B2B will play a bigger role than B2C in the future, because the processes generate a bigger cash flow or revenue. Focusing more on physical transportation of material, I would divide suppliers into two groups: those delivering material and goods within the Czech Republic and those delivering supplies from abroad. Unlike domestic suppliers, foreign suppliers have a disadvantage of a border separating them from their customer. It is very difficult for the customer to estimate the time needed by the supplier to actually deliver the parts. The reason being that it is extremely complex to estimate the truck waiting time at the border. To this

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can be added customs clearance, issuance of uniform customs declarations and other time-consuming, administration-intensive and, last but not least, cost-intensive processes.

Let me demonstrate the complexity of the administrative processes by the following facts:

- 31 employees work in the custom department in three shifts;
- Customs clearance is executed from Sunday 10 p.m. to Friday 10 p.m, and on Saturday from 7 to 12 a.m.;
- Approximately 200–300 trucks delivering production material are cleared daily;
- 4 trucks with spare parts per day are cleared;
- Trucks supplying material for investment building are cleared also during weekends and public holidays;
- 1-2 whole trains for our Polish plant are cleared per day;
- Approximately 70 truck consignments transported under a common transit regime are cleared per day, together with up to 10 complete railway consignments within the 24-hour vehicle export system;
- Guarantee of appropriate origin of goods for the range of products manufactured.

Presumably, there is even more hidden potential, which can help simplify the processes and, hopefully, the Czech Republic's entry into the EU will play a significant role in moving ahead in those directions. Ultimately, simplification, reduction or cancellation of customs duty should speed up and streamline material deliveries, simplify manufacturing management and have an overall positive financial effect. Obviously, we would welcome a simplification of the procedure not only for material import, but also for the export of our products. The Czech Republic levies almost no export duty, but there are countries with an extremely high level of import duty, e.g. 50% or even higher. Therefore, producers have to adapt and alter their products according to these conditions; manufacturing of CKD or SKD vehicles can serve as an example. These modifications are extremely costly, as it is necessary simultaneously to organise manufacturing of these products in parallel to the existing production lines, and this represents an unnecessary financial burden.

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Information technology and the internet have made it possible for us to change the way we select our suppliers. Online electronic auctions, during which the supplier is selected, are becoming more and more common. Purchasing processes are speeded up dramatically and they are made significantly cheaper in comparison to classic and conventional supplier selections. It is possible to say that another step establishing real supplier-customer relations (save for the development phase) is the conclusion of business contracts. First of all, parts and components must be ordered. The order could be also undersigned using an e-signature, which would make the whole process much easier and much faster. The Czech law in this area authorises local certification companies to enter into agreements with foreign certification services, thereby allowing for mutual recognition of certificates across international borders. The Act represents the first and most important step to facilitating the development of e-commerce. It is expected that the Act will contribute to expanding e-commerce between local and foreign entrepreneurs. Conceived to harmonise local regulations with that of the EU, thus facilitating the Czech Republic's admission, the law is also expected to have a broad-reaching effect on how businesses conduct themselves on the world stage. The Electronic Signatures Act, passed in late 2000, put the Czech Republic in an elite category of only a handful of countries – mostly, European Union members – which have already granted full legal status to e-signatures. Taking full advantage of the Czech Republic's e-signatures law is more convenient than simply typing your name at the bottom of an e-mail.

In conclusion, on one hand, it seems that various processes accelerate to a breathtaking speed but, on the other hand, there are still outstanding barriers and obstacles that hamper development. Therefore, we should all endeavour to significantly reduce such unfounded bottlenecks, thus facilitating business and trade throughout the world.

Chapter 4.4

Supply Chains and the Facilitation of Payments

John Hammond, Head Supply Chain Services B2BeX, Standard Chartered Bank, Hong Kong, SAR China

Making the whole supply chain more efficient is a key way to improving and maintaining competitiveness for most companies. Business-to-business activities have never been easy. From sourcing, to procurement, to financial transactions, and to goods delivery, errors and other problems create substantial business losses. Electronic Data Interchange (EDI) solutions developed in the 1970s, although they had some success, proved difficult and expensive for most companies. Recent Internet based initiatives that required organisations to make radical changes to their normal business processes have also failed. Effective supply chain solutions can be implemented without significant investment, or disruption of existing business processes, simply by use of new trading techniques, new Internet based technologies and co-operation by all sectors of business in a global e-business supply chain. The banking and Insurance sectors have an important part to play, but they are just a part, and must be drivers in the switch to a collaborative model for the future of cross-border trade.

The major issue for the Banking and Insurance sectors is that they are heavily regulated in terms of what they can and cannot offer by way of services and for a bank in some jurisdictions the offering of what the regulator might see as “non-banking” services, is prohibited. Other jurisdictions regard the extension of a bank’s banking services into the supply chain activities of their customers as being complementary or ancillary, and indeed an aid to trade facilitation.

From a bank perspective the offer of services including insurance and logistics, in partnership or simple collaboration with the insurance and logistics sectors enables integration and use of common data to achieve greater efficiencies for all traders. The banks see this as reducing risk through a closer and deeper relationship with the customer, offering greater visibility. The delivery of these services over the Internet also offers a new channel to a new market. Since the costs of service are lower, a previously marginally viable customer segment can now be served profitably. That is a

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very important factor in Asia, where the majority of suppliers are SME or mid range enterprises servicing the multinational corporations (MNC) in the OECD area. The ability to reach a new market segment is vital in this day and age where markets are global and the demand for financial services to support trade and industry on a competitive basis is increasingly a global undertaking.

For an international trade bank such as Standard Chartered, just as with any other business large or small, the use of modern techniques is another important factor in the battle to remain competitive in a global market. More so for a bank since banks are expected to be the model for business efficiency through the very highest standards of corporate governance. The specialist trade banks have always been much involved in the movement for improved trade processes and see themselves as trade facilitators between their customers and the customers of their customers, and their trading partners

The experience so far

In past years more and more companies, including banks and insurers, invested money in trying to improve the efficiency of their value chain processes through in-house networks with a messaging based extension to their trading partners. These were the traditional VAN based EDI networks which first appeared in the 1970s. EDI ensured data accuracy, lowered data entry costs, reduced order time, etc., in the just-in-time approach to procurement. It was cost effective for some but was also extremely difficult to implement and manage consistently. The complexity and costs of establishing and maintaining a traditional EDI network are very high as each participating organisation must manage their own software, direct links, and data mapping. Additionally, the inflexibility and lack of total cross-sector industry support explains why only a very few organisations are using traditional EDI nowadays or plan to continue that use over time.

The advent of the Internet brought in new technologies that made simple but secure communication outside the in-house network possible and an imperative if the competitive cost savings and benefits were to be effectively attained.

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In Asia, growth in the use of the Internet and the rate of adoption of broadband services is amongst the highest in the world. The economies of Asia are certainly not lagging in their enthusiasm for investment in, and the use of e-commerce which is being driven by both government and all sectors of the services and manufacturing industries. The challenge is to ensure a sufficient flow of reliable and positive information about implementations to ensure that investment is sustained and coordinated in such a way that the benefits are seen to flow quickly to the bottom line through demonstrably improved trade processes including trade facilitation at all levels.

There is a rather patchy story to tell in terms of implementations to date! Companies such as Dell and Cisco were very successful in building a network that linked their Intranet and Internet communities, but, by and large, most companies' early Internet initiatives for supply chain management were seen to have failed. Companies attempted to leap into new technologies that would create new business models and industry "paradigms" which called for real changes, and for the most part, have resulted in tremendous disappointment. In Asia smaller companies have also been left with the impression that B2B solutions are risky and are driven only by the "big guys" with deep pockets.

However, most Asian traders can now see that by use of the Internet and Internet Protocol (IP) technologies and standards such as ebXML, it is now possible for many of the traditional EDI software and mapping requirements to be centralised, rather than placing the complexity and cost burden on them to comply in order to satisfy the buyer's individual demands. This was the "do it my way or not at all" approach to business efficiency. Recognising the opportunity, many on-line programs were developed by Application Service Providers and other Internet-based B2B service providers claiming easy solutions and offering standardised services. They brought in new technologies and new terminologies that required businesses to radically change their daily operational procedures to fit with the particular solution on offer. However, while most companies do not require their own private exchange, they do have some unique requirements, e.g. the ability to integrate with their own systems and local practices that need to be accommodated. Additionally, many companies could not trust the security and reliability of the platforms offered by the .com exponents which had little substance and often even less business sector foundation experience. A

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number of independent B2B exchanges popped up offering new ways for companies to deal with each other on-line. These so-called “paradigm-shift” initiatives, although often making good theoretical cases have not yet proven sufficiently robust or compelling enough to radically change the way companies do business. The fact is that these exchanges are really more about price discovery, using auctions, market making and other tools, than they are about supply chain management.

The general inexperience that investors (public and venture capitalist alike) had with Internet commerce in the late 1990s was at the time sufficient to attract enough excitement and dollars to account for the dotcom boom at the end of the millennium. However, the inadequacy of the “services” that those so-called solutions offered was clearly demonstrated when the market looked for substance, did not find it, and share prices bottomed out as the “dotcom” bubble burst in early 2000.

The business model to take supply chain activities “on line” is still too complex for the many companies with not-so-deep pockets to be able to handle on their own with any degree of success. This does not detract from the fact that B2B e-commerce is a very effective medium for improved Supply Chain Management and despite the mistakes evidenced by the boom to bust dotcom phenomena there is a clear business benefit to be had. In fact the experience of the dotcom era has probably shown the way to the real B2B solution that is often simple, affordable, and does not involve radical change to existing business procedures.

What is needed in a good supply chain management e-commerce solution?

Let’s start with what is not needed! In the race to take advantage of the now recognised opportunities for companies to implement far more than an electronic substitute for their various supply chain functions, Application Service Providers came up with hastily developed software solutions to service what appeared to be a high demand market. Typically a “solution” offered little more than an outsourced accounting and or ERP system. Partly due to their participation in the race to take advantage of the boom, the resulting software did not have the benefit of being business driven with a proven design, proof of concept builds, and thorough testing. The

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developers would have benefited more from a calculated mix of traditional business driven requirements gathering and IT project management disciplines, and the new alternative “Xtreme” programming techniques employed in Internet developments. They fell at the extreme end of the scale and therefore failed to address many of the key issues that would make a good B2B e-commerce solution actually work and demonstrate value add or measurable savings.

And what is needed? What companies actually needed was a reliable and secure system that could integrate the key functions in the supply chain process, including sourcing, procurement, compliance, logistics, payment and settlement. A simple solution that could solve the data exchange and communications issues and offer value added features is what was required. The system must enable data inheritance across the whole supply chain process so that, for example, product information data from a document used in one function could be mapped and inherited into other documents in a different function, e.g. from procurement, the RFI to the purchase order (PO), and the PO confirmation to banking for the Letter of Credit (LC) application and payment, to logistics for the customs compliance and the Shipping Instruction, etc, and all with little or no manual input.

This way, data re-keying errors that are common to manually input data are minimised or eradicated. When applied to cross-border trading activities where over 100 documents can be involved in a single transaction, the advantages gained cannot be overlooked. Analysis and reconciliation of different activities, e.g. purchase orders against invoices and payments, could then be made much easier for all participants. Other data including minimum inventory levels to trigger auto replenishment, and status reports on an exception basis to flag problems, can be shared with multiple parties to facilitate collaboration across the entire supply chain.

Streamlining the data exchange process within a company need not involve a total re-engineering of all operating procedures. Current procedures and workflow can be adjusted, with each department conducting its routine functions in a similar manner as before, except for the fact that electronic forms could replace paper documents. In fact, because manual data input is reduced to the bare minimum, effort will also be greatly reduced through the generation of data as output that is also communicated automatically. Without the need for a physical delivery mechanism, documents exchanged

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as data become faster and far more reliable and can be re-used to enable companies to better manage their supply chains.

A good supply chain solution should be able to help companies communicate with their trading partners at all levels, whether in standards based EDI or non-EDI proprietary format; via any specified delivery method, such as EDI, email or fax. General use of the low cost Internet option is favoured for communication now that the issues of security and certainty can be addressed right down to the Browser level with solutions such as PKI and multiple encryptions.

Large multi-national enterprises may still choose to build their own B2B exchange or network, while, I trust, adhering to open standards allowing them to interact with other communities of trading partners. For most companies, however, from mid-range scale down to SMEs, this sort of complex IT project is not a core competence and cannot be justified financially. These companies may opt for an Application Service Provider type service, but one that still can offer some degree of customisation. They can enjoy similar benefits from the Application Service Provider approach but may have a different cost model and less control. The Application Service Provider demonstrates that these benefits have real value if delivered with minimal implementation effort, and by using a globally deployable flexible solution, which can be subscribed by a simple and fully automated on-line registration.

For the SME the basic browser can be employed to deliver the type of thin client application, which can be maintained, supported, continuously developed and deployed from a centralised distribution point as is now common in an Internet environment. Automatic checks of the system, download and installation of new releases of software and usage instructions or updates of on-line training modules are now routine features of an Application Service Provider service or even the larger Exchanges.

The solution in practice

This B2B exchange concept is no longer academic theory as a number of enterprises now offer such services. Standard Chartered B2BeX, is a service launched in January of this year and is one of a number of examples of what

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can be achieved for the benefit of all parties in the supply chain through collaboration. The solutions are built on the data inheritance and any-to-any messaging principle allowing all the documents and data transactions generated in the process of many trading activities involving multiple participants to be re-used and easily carried forward to the next related task. For a bank it is all about visibility, risk management, and integrated use of common data across many functions.

In a B2BeX application and simply using a browser buyers / merchandisers can source a product from multiple on-line catalogues, generate multiple enquiries (RFIs), take the catalogue and enquiry data to the PO from the B2BeX Trade Document Manager module with the product profile automatically inherited from B2BeX Catalog. Using that same data drawn from multiple POs they can then create an LC application. The original product information can be carried forward all the way down to LC line items and then forward again into the payment and logistics functions. Little or no re-keying and little or no room for error is introduced. The documents and data can be linked together for more efficient business analysis and reconciliation of all activities. The prospect is for real visibility across the physical and the documentary processes through tracking and ad hoc reporting in real time. A click on a PO reference should bring up data which could include dates and functions associated with activities such as invoiced, paid, delivery ex stock, shipped, BoL prepared, issued, name of SSCo, POD, POA, ETA, etc This facility will also offer a degree of process integration in that tracking a shipment at the PO level is possible without having to identify associated BoL and shipping co or logistics provider data.

The document delivery options are also broader and can be customised for each trading partner so that a partner requiring a fax, an EDI message, an email attachment or perhaps a web form, will get exactly what they need by the media and in the format that they determine. The trading partners can make their own decisions to suit their business needs. They do not need to be a Customer of Standard Chartered Bank (the trading partner can be another bank and can be just another address to which data is sent!) and can take data to or from a Browser or to any in-house back office or ERP type system for further processing and business management.

Companies can use a third party Application Service Provider or Exchange system without having to develop anything themselves, although some

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customisation, e.g. document types and media channels, and some back-end integration, will create additional benefit. B2BeX can import or export data in any format so Application Programme Interfaces and Message Implementation Guidelines are readily available. The security and operational standards applied to a bank in a regulated environment that also governs the standards for its use of the Internet are extremely rigorous to satisfy both bank and local monetary authorities, companies can feel at ease with moving their key business processes to the Internet.

Conclusion

Simplicity and certainty with savings is the formula for success that has emerged only in recent months since the fall of the .com empire. As with most major historical events the survivors have learned a lot and will put that learning into practice and profitable practice. What they have learned is that improving supply chain process efficiency does not require that millions of dollars be spent in isolation. The solution can be simple and affordable for all sizes of company but it has to be built on a collaborative and transparent partnership model where the value from more than the sum of the parts can be had by all.

An end-to-end solution with data inheritance and any-to-any messaging is basically what most enterprises, large or small, actually need. Of course it has to be secure, have a solid business model and be operated by a “trusted third party” with a proven track record and a long-term future. Given that, then collaboration is possible and a community of users can be built to share information across the supply chain creating the efficiencies from which they all benefit. That way the e-supply chain can be used as a means to improved and speedier trade processes that in themselves will contribute to the facilitation of payments. Supply Chain Management is ultimately a means to effectively manage for least cost and derive highest value from a trade. The payment is simply a component part of that process as is a bank or insurer. Prompt payment is facilitated by efficient processes.

Chapter 4.5

Public-Private Sector Cooperation in Trade Facilitation: Community Networks for Trade Facilitation – an Implementer’s Perspective

Raymond Wee, Senior Vice President, Information Security, BTI, Singapore and former manager of Mauritius Network Services Ltd.

Information and communication technologies (ICT) have often been used and perceived by many enterprises, administrations and governments as a “cool” tool or way to attain competitive or “comparative advantage”.⁸² Some even go further to embrace and promote that ICT is essential for “economic survival”.

Community networks (e.g. those between buyers and sellers) had been around for over 30 years for commercial efficiency purposes. From trade to logistics to finance to regulatory compliance requirements, various communities and countries have used different methodologies and technologies to achieve the same end - facilitate business and trade by reducing the documentation effort and time. However, the more successful models took the opportunity to streamline their processes and automate as much as possible. Like any ICT implementation, most benefits are achieved not by those mimicking the manual processes or blindly adopting so-called “international best practices” but by those who are able to apply only relevant “best practices” and, if necessary, adapt them to suit local context and development pace.

This paper hopes to share with policy makers a few insights drawn from past experiences with the one model of community network implementation. They are presented from an implementer’s perspective with special focus given to the role of public and private sectors.

⁸² Carl A. Nelson, “International Business: A Manager’s Guide to Strategy in the Age of Globalism”, 1999.

Elements of a successful development of community networks for trade facilitation

To an implementer, a successful community network for the purposes of trade facilitation should bear some, or better yet all, of the following characteristics (in increasing level of success):

1. Achieve the basic objectives that such networks bring at a nation-wide or community level: process automation (through the use of real time selectivity or risk management tools), reduction in the errors by reducing human intervention and paperwork, and reducing the need for physical trips to various agencies and stakeholders so as to achieve faster processing of trade/regulatory-related documentation. The even more successful ones achieve it at the shortest time possible with the lowest costs and causing minimal social uneasiness, while involving as many stakeholders in trade. This means more action and results, but less argument.
2. Built on a flexible, proven technology platform complete with as much as possible source codes, training, transfer of technical know-how including finally taking over of the systems, support, operations and management. The self-accountable network is then “totally free” to develop and enhance the technology platform to keep pace with the ever-changing business environment. Infrastructure investment is optimal, benefiting from “technology shifts” in the long term.⁸³
3. Deliver benefits in terms of on-time, real-time information and in terms of returns on investments to both public agencies and private sectors. The latter may be in the form of costs savings or increased revenue as a result of better international competitiveness or information needed for formulating fiscal/budgetary policies.
4. Self-sustainable in the long term (5 - 7 years and above) with its own operations and profit centre without the need for additional technology support, investments, public funding or international financial assistance, after its launch. In some instances (e.g. after being profitable for a good number of years), the network should also be in the position to consider fulfilling its social responsibility by reducing its fees or

⁸³ Stefan Van Overtverldt, “Creating an infrastructure for e-Business: Computing in the e-Business world”, IBM Corporation, April 2001.

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apportioning part of the profits to generate more savings to the community it serves.

5. Export of know-how, sharing of experiences with other communities, administrations or countries in need of such network systems, skills, experiences and methodologies; while continuously innovating and extending and expanding the benefits to the other local business community or sectors (e.g. taxation, legal, healthcare, etc).

Three models of community network implementation

In order to achieve the “promised land” of community networks that actually facilitates commerce by serving the needs of both the trade and government, there are possibly three main models or approaches:

1. Public sector initiatives where the government undertakes the responsibility of setting up, funding, maintaining and enhancing the community network consisting of both public and private sector users.
2. Private sector enterprises where one or more companies, usually stakeholders in trade with or without participation from technology solutions provider/s. Users are likely to be existing or new customers of the enterprise and primarily set up to offer a “comparative advantage” against their competitors and with the objective of generating profits directly or indirectly.
3. Hybrid or cooperation model with participation from both public and private sectors, with even foreign participation – solutions providers and/or international institutions.

Public sector initiatives

Countries or communities that subscribe to this model usually have a strong and stable government, with an established public administration consisting of well-educated and well-salaried civil servants. They also tend to have built a strong and reliable infrastructure (telecommunications, high level of education and ICT skills, etc). With a high level of civic awareness, strong legislation and strict enforcement, the trading community understands that being compliant will facilitate its trade. Non-conformance will be dealt with by the rule of law and ignorance of the law is generally not accepted as an

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excuse. The level of inter-agency cooperation within the public sector also tends to be high. This model is also used by some agencies which feel that they want to fully control the facilitation process and/or can rely on international funding institutions to support its initial set-up. However, with the passage of time, the number of users and the volume of transactions increase, and with technological obsolescence always imminent, such initiatives can gradually become a financial burden to the public sector agencies and to the government. It may in some cases deteriorate to the point where trade is obstructed because of the delays caused by the obsolete system or network.

Private sector enterprises

Those who implement trade facilitation on the basis of this model normally have a well-established free-market oriented government. The public administration is also one that is consisting of very well educated and good-salaried civil servants who may even be pioneers in setting clear standards and technical regulations. The public sector approach is usually “non-interventionist” and fully supportive of the free enterprise concepts.

The trading community is also one that is innovative and enterprising. With appropriate legislations and enforcement, the trading community also understands that being compliant will facilitate their trade. These enterprises are purely market and profit-driven and will set up almost immediately if there is a market and close down (or divest) if it is loss making.

This model is used by some administrations who feel that they may not have the means to set up such community networks and wish to rely mainly on foreign direct investments and/or international funding institutions to support its set-up and upgrade.

However, since duplication of products and services is inevitable, such networks may not be suitable in countries or communities where resources are scarce. It also cannot guarantee long-term sustainability and continuation of service. There may also be little incentive to return additional savings to the community after the initial investments for its set-up has been paid off or to build local capacity for its continuous operation.

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The community may also grow to be more reliant rather than being more self-sufficient.

Hybrid or cooperation through joint ventures

Countries or communities that implement using this model usually have a mixture of factors: relatively stable government with reasonably efficient and effective administration and an infrastructure that is in the process of being built up. The level of education and availability of ICT skills also tend to be moderate or low.

The trading community, through past experiences, sometimes does not see the benefits of being compliant, as they see their competitors benefit from the “gaps” and inefficiencies. They make use of the fact that processes and legislation may be non-existent or unclear, enforcement not always consistent due to the long lead-time in trial hearings (and convictions).

With the implementation of a trade community network, its introduction presents an opportunity to both the public and private sector (especially those striving to stay within the rule of law) to cooperate and establish a common platform that is mutually beneficial in the long term. The government benefits by having accurate, real time information for policymaking and execution, while trade enjoys shorter document processing times, because of being responsible and accountable for the information and because of being compliant.

Such cooperation can be frequently helped by experienced solutions, technology implementers or change agents who are able and willing to share their experiences and know-how. It is particularly the responsibility of the country and community to evaluate carefully the options available (e.g. visiting countries implementing the various models) and decide if the particular model or solution suits their needs in the long term.

Cooperation as a prerequisite

An example of one such successful public-private cooperation model resulting in a successful community network implementation as defined earlier is Mauritius.

Factors that contributed to a successful implementation

Public-Private Sector Cooperation

The company, Mauritius Network Services Limited, was set up to uphold cooperation in the best and worst of times. Four government-related companies represented the public sector and the chambers of commerce represented the private sector with funding from stakeholders in the trade. The foreign partner is another government-linked company who is providing the technology solution. All have long-term interests in ensuring its ultimate success.

This setup was put to the test and proven in times of political uncertainty where within 3 years of set up, the company saw 4 Ministers of Finance and a total change in government (plus another split in a coalition). Originally the first Minister of Finance had wanted the pilot to be ready within its first year of set up. However, the trade community network was only finally launched (with a locally-developed automated customs system) after 3 years.

With greater public sector confidence, private sector acceptance and political stability, the network ultimately achieved total cutover within one year handling over 1,000 electronic declarations or Bills of Entries a day.

Strong National vision or Public-Private sector conviction to deploy ICT as a key enabler for business efficiency and trade facilitation.

During its early days of community network implementation, there was already a strong inclination from both the public and private sectors to replicate the economic success of other resource-scarce but developed economies such as Hong Kong, SAR, and Singapore. As such, ICT and Internet deployment was widely perceived as an important enabler to better

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business and comparative advantage. The economy was in the process of a transition from agricultural and low-skills based industries (e.g. textiles) to higher value, knowledge based economic sectors.

During the implementation period, the government lowered its normally high duties and taxes on imports for computer and communications-related items such as personal computers and modems. In the private sectors, ICT jobs became the “dream job” for some tertiary graduates. However, the problem then was the lack of quantity and quality of local ICT professionals that could be trained to undertake the operations and maintenance of the network systems. Fortunately, there were enough overseas graduates or returning IT professionals to fill the gap. By launch date, over 80% of the local IT staff were graduates from France, Russia, South Africa, and the United Kingdom.

Phased approach with clear and achievable objectives

While the concept of such community networks may seem simple (e.g. exchanging structured messages), its implementation is not (especially if process automation to bring about true facilitation and paperless operations is envisaged). Working in an environment where structure, consistency and compliance is not always prevalent, the team had to start from scratch – from defining existing processes and procedures to job description and personnel reallocation.

The initial set-up assumed a particular timeline that was not possible to achieve, as the implementers did not then realise the magnitude of the work involved. There were 3 attempts to fully launch the community network but they were not successful because of one or more factors beyond their control. Some policy decisions originally thought feasible were later found to be neither practical nor desirable from the Government's perspective. In the end, equilibrium was reached where trade documentation was sufficiently facilitated without the Government ceding too much “transactional” control.

Basic Infrastructure and Legal Framework

Another important factor in the success of such networks is the availability and reliability of basic telecommunications and other infrastructures (e.g. banking and port community networks). The implementation team had to

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work with regions where the telephone still uses the pulse dial and old switches; and with communities that still uses manual processes and procedures. There was also a lack of the necessary legal framework for enforcing the trade community's electronic transactions with the government agencies. Existing trade-related regulations, which were based on a combination of French and English law, were also in need of review and change.

As part of the business streamlining and re-engineering process, a legal committee consisting of public sector officials and private sector professionals was set up to review all affected and relevant legislations. As the process of going through Parliament for a major legislation or change was thought to be too onerous and time consuming, minor changes and subsidiary legislations were enacted instead. In addition, while the network system was fully equipped to handle fully paperless transactions and processes, some manual processes had to be maintained (e.g. supporting documents submission). Today, Computer Misuse Act to control illegal access to computer materials is in force while the Electronic Transaction Bill to make contracts via electronic means enforceable is being discussed. More legislation is being considered to enable the electronic transfer of funds in time to introduce the automated clearing system for the banking community.

Strong sense of urgency for Change at the community and national level

Another key factor that enhances the success of trade community network implementation is the collective motivation for change. There must be enough "driving force" for such change, as people are naturally resistant to change. There are many in both the public and private sectors who have benefited from the status quo and would feel out-of-place and out-of-pace with new technologies and methodologies. Some public officials and non-complaint traders are known to dread such implementation where learning of new skills, process transparency and information and decision accountability is inevitable.

There has been more than one occasion where the implementers were asked whether cargo clearance would really be faster if the port and banking community are not yet automated and online. The implementation team put in a great amount of effort to build the awareness that without one initiative taking a lead and showing the results of the new possibilities, others will not follow.

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The Mauritius model possibly exemplifies the commitment and importance of cooperation between the public and private sectors. Without a strong commitment to manage change, sufficient funding and policy execution in the face of political changes, the trade community network would not have been a reality today. While loss-making during its initial set-up, the community network is now profitable and sustainable for the long term. See Figure 10 below.

Figure 10: Some financial indicators during set up and upon full implementation in year 4-5.

Key Financial Figures (Local Currency)	End of Year 1 (1995)	End of Year 4 (1998)	End of Year 5 (1999)
Income	2,083,781	15,542,851	39,002,713
Expenditures	(8,914,926)	(15,719,086)	(13,240,722)
Profit/Loss	(6,831,145)	(176,235)	25,761,451
Dividends Paid	-	-	(2,500,000)
Cumulative Profit/Loss	(6,831,145)	(23,988,838)	(727,387)

The Mauritius model is currently being replicated in Ghana and again in this instance, cooperation among the public and private sectors will enhance its chances of success. There are certainly other models of successful community network implementation that resulted in true facilitation for trade in terms of reducing paperwork, errors, time and costs, and reducing the number of trips to government agencies and stakeholders.

However, those implementations that are sustainable in the long term by being self-reliant and truly flexible in their technology platform will likely have a slight comparative edge over those who continuously rely on foreign funds, expertise and/or tax dollars to upgrade or maintain their community networks. The latter may also be forgoing rare opportunities to help grow the local ICT expertise and industry.

In conclusion, this paper seeks only to share those experiences and observations that illustrated how a cooperative climate among the public and private stakeholders, coupled with proven implementation methodologies can deliver benefits for the community.

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It is hoped that the lessons learnt here will be of use to various policy makers and decision makers for their own implementation of trade community networks.

Chapter 4.6

Fulfilling the Promise of E-Commerce Through Trade Facilitation

Richard Herve Sicard, Head of Trade, Microsoft Europe, Middle East, and Africa

We have witnessed, over the last decade, the birth of the Internet, the WWW, the struggles of the dotcoms and, in the past few years, the emergence of a new way of doing business – e-business (a.k.a. e-commerce). Ordering and paying for products online has now become nearly as common for some as a quick trip to the local shop. This phenomenon is not restricted to the economic powerhouses. Statistics indicate that by 2003, over 60% of Internet usage will be outside the United States, and this number will grow to well over 80% by year 2005. With this in mind, the base of e-Commerce participants grows ever larger and demographically more diversified. Unsurprisingly, facilitating the use of this new method is becoming a major global imperative. The Ministerial Declaration, agreed by WTO members in Doha, recognised specifically “*the importance of creating and maintaining an environment which is favourable to the future development of electronic commerce.*”

This environment exists within each trading community in two parts – the legal framework, upon which trading terms can be agreed upon and the actual delivery of goods and services to the consumer.

The legal framework is relatively well developed – thanks in great part to UN leadership. Specifically I call out UNCITRAL’s:

- Model Law on Electronic Commerce, which has formed the cornerstone of most e-commerce legislation throughout the world, embodying important principles such as technology neutrality and a light-handed regulatory approach, so as not to hinder the development and use of new technologies. This is an important development, given the cross-border nature of e-commerce;
- Model Law on Electronic Signatures – giving more specific rules on their use and recognition;

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- Current development on a Convention on Electronic Contracts to help resolve remaining cross-border issues.

Challenges on the physical delivery side of the e-commerce transaction, as these goods actually cross the border, form the next part of the e-commerce trading environment requiring facilitation.

An online transaction can be thought of as a promise. That promise can only be fulfilled, in many cases, when an express package arrives at a consumer's door, or when parts arrive at a factory. In the world of global e-commerce, those will often be cross-border deliveries. Consider the obstacles:

- Manufacturers employing “just in time” methodologies that find their deliveries frequently and unpredictably held up at a border will be less likely to want to rely on cross-border supply chains – no matter how easy it is to order and pay online;
- SMEs, finding that customs compliance costs are excessively high, will not be in a position to access freely the global markets that e-commerce affords;
- Consumers whose express packages, ordered online, languish at the border, cannot be blamed for preferring more costly alternatives.

In all of these cases and more, delays at the border can seriously undermine the benefits of global e-commerce. To deliver on the promise of global e-commerce, customs authorities everywhere must be ready to meet consumer demand for procedures that are efficient, transparent, and predictable. Trade facilitation is a crucial element in **enabling** businesses and consumers to capture the full potential benefits of e-commerce.

I'm pleased to say that information technology can play an important enabling role in trade facilitation – directly within customs organisations and indirectly through providing emerging markets/economies with direct access to global markets and new industry.

In direct terms, customs authorities have been looking to software and hardware solutions to address the need of trade facilitation for more than 20 years. This makes perfect sense when one considers that (According to an UNCTAD report) the average trade transaction involves:

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- More than 200 data elements;
- As many as 30 different users (brokers, regulators, shipping companies, and banks, among many others);
- In a paper environment, this can generate up to 40 separate documents, each one of which requires manual preparation and processing.

Just as in the private sector, introduction of technology in the public sector is much more than the mere automation of existing procedures. Ideally, shifting to an IT-supported process creates 3 major direct enabling opportunities to:

- Revise old ways of working – eliminating redundant activities, eliminating multiple touch points etc., increasing cost efficiencies and consumer satisfaction;
- Free personnel from low value work, allowing customs officials to focus on core functions and core mission objectives such as law enforcement, rather than paperwork;
- Decrease the burden of the ever-increasing volumes of traffic through borders by use of electronic delivery.

The resulting improvements in speed and efficiency clearly benefit every section of the trading community.

Indirectly, IT and specifically e-commerce, also plays a role in developing new markets and opening the existing global market place to countries and economies large and small alike – a step forward in levelling the playing field. More on this later.

I draw your attention to two significant examples of customs IT infrastructure projects that can serve as shining examples of a focus on trade facilitation through partnering.

In Yugoslavia, a remarkable change is under way. Following the recent political changes, Yugoslav customs leaders developed a fresh vision for a new IT system that would go far beyond traditional systems. Using a Single Electronic Window, the new system will unify three key processes – transit oversight, nationalisation of goods, and payment enforcement – and link together all of the key institutions involved in the customs process,

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including the administration itself, the inspection authorities, the tax administration, and the police.

With advice and loans from the World Bank and support from public and private donors, this vision is rapidly becoming a reality. Late last year, a team of 25 young developers began work in a strategic partnership between the Yugoslav Federal Customs Services and Microsoft, using Microsoft's DOT NET platform. They are building a customs system that is open and standards-based. It uses Web services, a web browser for client access and standard data formats based on Extensible Markup Language, or XML – the World Wide Web Consortium standard that enables active display and manipulation of data and documents.

Secure public key infrastructure and SmartCard technologies will permit unique authentication and authorisation. Digital signatures on all transferred documents will enable compliance tracking, while also ensuring traceability, integrity and accountability across the entire system.

The open architecture allows easy, secure access for customs officers, inspectors, traders, freight forwarders and others. This will foster integration in three dimensions:

- “C2C” cross-border integration between customs authorities;
- “G2G” integration across responsible governmental agencies;
- “B2B” integration between businesses and customs.

The first element of this project is set for completion in mid-2002. Other modules will follow at regular intervals, with the last set for delivery in early 2003.

In the Czech Republic, another equally remarkable change is underway. Today Czech customs employ approximately 9,000 personnel. There are well over 2.7 million lorries transiting through its borders – it is not unusual for their drivers to be waiting some 12 hours in a border-crossing queue. Through the internal development of web-based applications, the Czech Republic has already achieved full automation of customs duties collection and product registration, with 80% of customs declarations submitted electronically.

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This major change having been achieved, Czech customs have not stopped there. They have understood that customs solutions must be ever growing to absorb new technologies and to provide continued trade facilitation and all its benefits.

Not unlike their Yugoslav counterparts, they have opted to migrate their systems vision to a “One Window to Customs Initiative”, employing EDIFACT protocols based on XML to provide full interactive services, including electronic financial transactions.

In addition to this major overhaul, Czech Customs have become not only a signatory to the European Convention of Common Transit, but have committed to being the first Eastern European country to pilot the NCST (New Common Transit System), using e-commerce technology to create end-to-end procedures and clear lorries automatically through customs in each participating country.

Today, most online data is still presented in static formats that the user can access easily, but cannot manipulate easily in regard to content or display. The emerging new approach to this is to display information in an active format using XML. By separating actual data from its manner of presentation, XML creates the possibility for the same data to be displayed and manipulated through different devices, in different formats and without reprogramming. For customs, using XML means that instead of filling out perhaps dozens of documents, traders can generate one document. Once the data in that document exist in XML format, they can easily be displayed and reformatted to suit the particular needs of each group of users.

Under the heading of trade facilitation, one of our main goals must be to do everything possible to help customs authorities focus, without compromise, on their core mission. Customs authorities are, after all, part of our line of defence against a wide range of threats, including the overriding threat of international terrorism. This concern alone justifies a redoubling of efforts to ensure that customs authorities are as vigilant, efficient, and well informed as they can possibly be.

At the same time, we also continue to face a host of secondary threats at the border, including smuggling, piracy, and counterfeiting. These are areas where the IT industry has been working with customs officials for many

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years in trying to ensure that officials have the information they need to crack down on intellectual property crimes. It takes time and a long-term commitment on both sides to make real progress.

A review of the situation in Eastern Europe late last year showed good signs in terms of training and legislation, including new laws on border enforcement of IP rights in Lithuania and Slovenia. But disappointingly, the review uncovered no recent examples of major software seizures at the border anywhere in Eastern Europe – quite surprising given the fact that independent research consultants place the piracy rate in Eastern Europe at 63%. This far exceeds the 34% piracy rate in Western Europe, where seizures at the border occur much more frequently.

The dangers of piracy and counterfeiting are not insignificant. They contribute directly to money laundering and arms smuggling crimes that may be used to support terrorist activities.

In addition to its contributions to customs processes and procedures, information technology also contributes to easing the burdens on customs authorities created by the volume of transactions. An ever-growing number of products and services that once crossed borders in “hard” form, now travel in virtually instantaneous digital transmissions through the WWW. This is becoming the dominant method of delivering certain types of software and is increasingly common for music and books. Many other items, including plans, designs, photographs and documents, can today reach their destinations in seconds by way of email, rather than in days or weeks by way of regular mail or an express package.

Consumers and businesses alike are now prepared to accept – and even demand – deliveries in electronic form of products they once expected to receive in hard copy. This displacement surely makes a difference in terms of the sheer volume of shipments crossing international borders. It also opens a door for deliveries that never would have been made in hard form, simply because of the high transaction costs of international shipment.

It is especially important to avoid any misguided trade rules that discriminate against digital delivery. A product capable of being delivered in digital form should receive treatment that is no less favourable than the same product delivered in physical form. Any other approach creates a

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disincentive to use the most efficient method of delivery, a burden for all concerned at a time where our energies would best be spent on our core mission.

Slightly less direct is the impact that technology, specifically e-business, can have on emerging economies. Whereby, traditionally for a SME, the market place (demand and supply) extended no further than beyond one's hometown, and at best one's own country, with the advent of the Internet and the new mode of doing business, the physical boundaries have been blown away. Demand for SMEs products is no longer governed by the tyranny of distance nor is supply constrained to known sources, but open to the provider of the cheapest and/or best quality of goods and services, regardless of location.

With the growth of the internet and e-commerce has been born an entire raft of new digital-based service industries – Web site hosting, outsourced IT services, memory farms, games hosting, etc. Additionally, and as previously mentioned, many economies are taking the opportunity to stop and even reverse the “brain drain” they have experienced by developing local industry that can deliver content cheaply over the Global Network, thus giving them a distinct cost advantage. A case that comes to mind is India, now known as a global hub for such industries as Software Development, Architectural Design and Legal Drafting, these being but a few examples.

Clearly our focus today needs to be on decreasing burdens, not adding to them. Broadly speaking, the relationship between technology and trade facilitation is one of mutual dependence and mutual benefit. If we manage this relationship properly, we can expect to achieve four winning results:

- First, modern and efficient customs authorities will be responsive to the demands of global e-commerce for efficient, transparent and predictable procedures, by allowing active cooperation and data sharing. Technologies such as XML – the same technologies that enable e-commerce – will make this possible;
- Second, the time and effort saved through modernisation can be used to enhance the ability of customs to focus on its core mission and respond to critical threats;
- Third, the same technology, including e-commerce utilised by customs, can be put to use by emerging businesses and markets to

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access global markets that would otherwise be closed to them and/or develop new digital service industry opportunities where physical location is no longer of consequence;

- Fourth and finally, wise trade rules will encourage digital deliveries by means of e-commerce whenever possible, reducing the flood of physical shipments across borders.

These important benefits will be the public's reward for the dedication of customs authorities; for wise policies established by governments and supported by the private sector and for the co-operation fostered by international bodies such as UNECE. These benefits will also be an important step towards realising the broader, long-term benefits of global e-commerce.

It is through partnerships between governments, customs authorities, businesses, consumers and technology alike that trade facilitation, for the benefit of e-commerce, can best be achieved.

Chapter 4.7

Addressing the Implementation Challenges

Bill Maruchi, Chief Operating Officer, TATIS S.A.

TATIS is an independent Swiss company engaged in developing comprehensive and easy-to-use e-government solutions and services that address, equally, Revenue Compliance and Trade Facilitation requirements. TATIS has developed a partner network to address large-scale government and trade facilitation projects in almost any country in the world. TATIS and PricewaterhouseCoopers (PwC) are jointly developing and delivering products and services. PwC also provides legislative change guidance, and their full range of additional professional services. Hewlett-Packard is the primary systems, implementation and on-going services partner of TATIS and can provide project finance, if donor funds or other direct financing is not available. Oracle provides embedded software products and supports country implementation projects. In this network of partnerships, each company has a record of conducting successful, large-scale projects at national and global levels, as well as taking the lead on contracts.

There is a traditional problem of balancing revenue compliance and security with trade facilitation. The TATIS and PwC approach is to improve both elements of this balance. They work towards increasing the benefits to both sides at the same time and implementing the products and services to do this as fast as possible. Improving this balance, first and foremost, requires a collaborative government and business partnership with regularly scheduled working sessions and agreements between governments, trade associations and chambers of commerce. Secondly, it may require some “clever” technological assistance and that is where TATIS believes that its input can be helpful.

For TATIS, the guiding principles for helping this collaborative process are “simplicity” and “transparency”. Simplicity applies to the usage of the most widely available and internationally accepted, cost-effective technology and standards, such as internet-based e-government solutions. The complexities lie in simplifying the difficult challenges, so that real governments and real people can use them. Transparency implies using this widely available

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technology to present, collect and process information in an open and accurate way and to measure subsequent actions and results.

In order to promote stable trade facilitation, there is much detailed and balanced work to be carried out in each of the three broad categories, defined as: good governance and accountability; border controls and governmental procedures and infrastructural development. TATIS has to add to each of these broad categories. It has developed, or is developing, the means mentioned below, while using globally agreed recommendations in this field as the specification. TATIS divided good governance and accountability challenges into three categories: transparency, accountability, and human resources.

Transparency can be facilitated quickly and economically by implementing a public website portal, which acts as a single window and is accessible to all via the Internet. The portal contains rules, policies, fees, forms, and other official information on all countries. This helps eliminate arguments at the border, missing paperwork and inefficiency. Customs declarations can also be submitted via this same “single window”. All other governmental departments’ requirements can also be included, depending upon the current realities in each country and certain special categories of shipment. This can be implemented quickly, at low cost and with dramatically reduced additional training and administrative requirements, using the technology that is already on everyone’s desktop or at home.

Accountability can be established, using a different portion of the same internet-based system, by recording shipments before they arrive, as they arrive and as they move to a different customs regime. In addition, any intervention is recorded, and the individual actions of line officials are logged. For the shipper’s accountability, an integrated bond or guarantee management system is provided. A complete shipment audit-trail can be created.

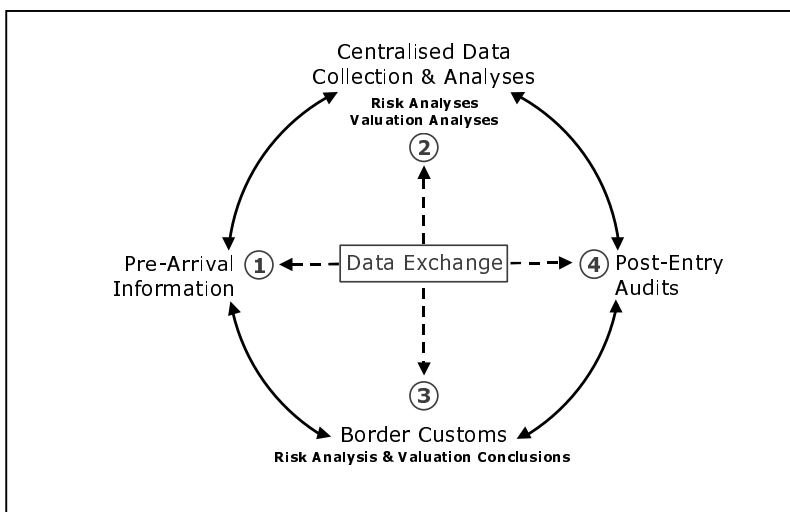
Concerning human resources, additional professional capacity can be built through the use of a system whose processes require the step-by-step usage of internationally approved best practices. The problem of inefficient procedures and controls at the border is not, however, resolved at the borders. It involves the creation of a customs information system with global access that also includes the borders.

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1. The solution should provide for pre-arrival declarations and very simple remote filing – as world organisations have determined;
2. The solution should incorporate risk-analysis functions to focus and guide customs controls. It must then monitor the actions actually taken. Modern data-mining tools can be applied to enhance greatly and update continuously both risk assessment and ACV valuation support tools;
3. Border customs locations then have clear instructions, which are pre-approved; and
4. Establishing a post-entry auditing programme further removes the pressure on customs to capture everything at the border or not at all.

Through efficient data exchange and by combining these four elements, customs then has a blueprint for operations - with modern tools designed for efficiency and for relieving the pressure at the borders. Fraud will be detected and compliant companies will be rewarded with increased trade facilitation.

Figure 11 : Addressing the border challenges



ADDRESSING THE IMPLEMENTATION CHALLENGES

One of the guiding principles of TATIS is “simplicity”. At any point in time, the most modern and appropriate solution should be applied to each problem. Here follow three examples:

1. Providing broad and simple access to systems. There is no more modern and broadly accepted electronic information forum than the Internet. It represents the lowest cost and most efficient means for informing the public, submitting customs declarations, addressing other governmental department requirements and processing trade information. It should be exploited fully;
2. Because telecommunications are not always reliable at border locations in many countries, customs systems must be able to perform and clear traffic, whether the existing network is operating or not. By encrypting official shipment details and risk assessment instructions into a two-dimensional bar code that is fixed to the documentation travelling with the shipment, a permanent, on-line connection to a central system is not required. The bar code can be scanned to give complete information;
3. By incorporating the whole range of international best practices and processes into an overall customs system’s software design, a country can have a one-step transition to “best practices”, and can be assured on virtually every transaction that these practices are being followed, with minimal training and on-going supervision. Capacity building inside the country can occur on-the-job and every day. A five to ten year transition plan is not required.

To sum up, a lot of thoughtful people around the world have spent a lot of time in exploring, researching and documenting international challenges and the solutions to those challenges. This documentation has been turned into software system specifications and pragmatic solutions can now be implemented relatively quickly. The implementation of these solutions, including products, processes, methodologies and services, to address trade facilitation implementation issues, can begin today. The benefits result in cost savings in the areas of compliance, time, business opportunity and unpredictability costs. The savings potential is enormous. If “political will” exists and there is cooperation between governments and businesses, the implementation tools are available.

Chapter 4.8

Public-Private Partnerships for Trade Facilitation and E-Business

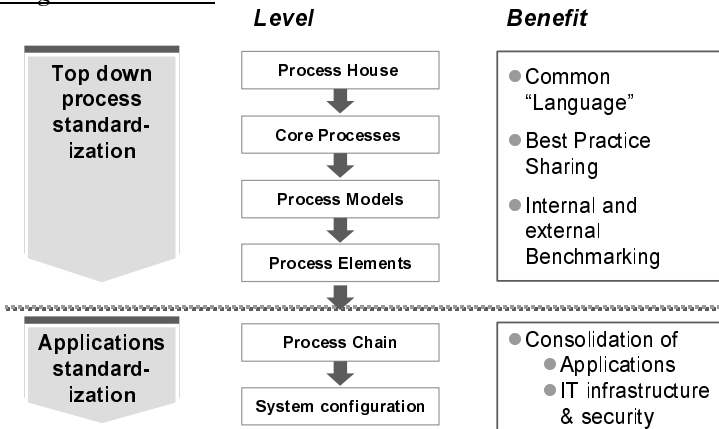
Christian Frühwald, Chairman of UN/CEFACT and Vice-President, Supply Chain Management and Process & Data Management, Siemens AG

I shall briefly describe two issues: the business processes of Siemens and the structure and activities of the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT).

The Siemens business process

With about 10,000 interfaces communicating with each other, standardisation is a necessity for Siemens. The company has, therefore, adopted a top-down approach, aimed at setting a global framework for standard processes. Trade facilitation deals with several fundamental business processes: supply chain management, which also includes procurement; inbound logistics, production and outbound logistics and distribution.

Figure 12 : Standardisation Needs a Top Down Approach with Each Level Becoming More Detailed



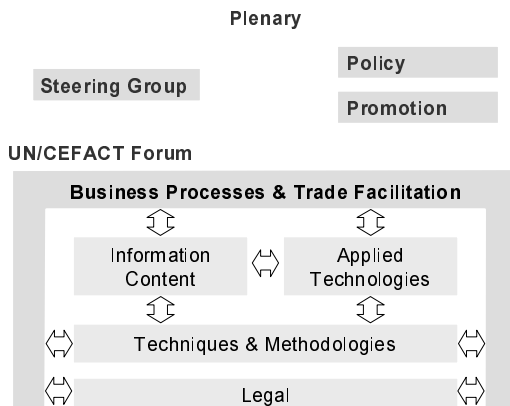
PUBLIC-PRIVATE PARTNERSHIPS

Standardisation starts with processes and all areas where standardisation should apply should be measurable. This covers data information flows, software, methodologies and other elements. The design, modelling, analysis and control of business processes help achieve the goal of trade facilitation, which is to improve trade processes and procedures and to speak a common language throughout the business community. Siemens's policy is to use the various available standardisation tools, which relate to process standards, business transactions and business data that are provided by a number of international organisations.

UN Centre for Trade Facilitation and Electronic Business (UN/CEFACT)

There is a need for leadership in standardisation in the area of trade facilitation and electronic business, in order to avoid duplication of activities. UN/CEFACT can be the focal point for the content in this standardisation process. A new organisational structure of UN/CEFACT is in force as of September 2002. The focus is clearly on business processes and trade facilitation. The figure below presents a proposed draft of the future working group structure of UN/CEFACT.

Figure 13: The structure of UN/CEFACT



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This structure gives priority to the promotion and implementation of existing recommendations on trade facilitation and electronic business and to the assessment of this implementation in various countries and industries. This matters more than the development of new recommendations. Cooperation with other standardisation bodies, on a global level, will also allow the speaking of a common language and avoid duplicating activities. Finally, the analysis and rationalisation of processes, rather than technology, should be the main focus of the new structure.



Part Five:

**Achieving an Open and
Inclusive Environment –
the Role of the International
Organisations**

Senior executives and directors in international organisations dealing with trade facilitation wrote the chapters in this section of the book. Each of them presented the specific area of work of his organisation and suggestions for further improving the coordination among the various institutions. Some of the major issues discussed are: the state of affairs in the WTO multilateral process with regard to trade facilitation; UNIDO's assistance for building laboratories at border crossings; the recent initiatives of the European Union on facilitating customs procedures and of the World Bank on promoting public-private partnerships; as well as the work of the economic commissions for Western Asia and for Latin America and the Caribbean on trade facilitation in their regions. The authors of these chapters made suggestions for a coordinated approach involving their various institutions in handling the issues of trade facilitation.

Chapter 5.1

Enabling Market Access – Practical Measures for Future Trade Facilitation

Alberto Di Liscia, Assistant Director-General, United Nations Industrial Development Organisation (UNIDO), and Director of the UNIDO Geneva Office

For many years, the United Nations Industrial Development Organisation (UNIDO) has been working to build up the institutional and technological infrastructures that developing countries need if they are to successfully access international markets. But we recognise that the challenge of trade facilitation is one of such magnitude and is so multi-dimensional that it requires a multi-agency/player response by the international community. For some time, and especially since the Doha and Monterrey conferences, UNIDO has been advocating an integrated approach.

The challenge that we face is: How can we, together, facilitate trade in a way that will enable developing countries to access the markets of the developed world. For long, trade facilitation has meant developed countries getting easy access to developing countries. We believe it is time to make trade facilitation a genuine two-way process.

Let us look first at the international trade context. We are living in a world of rapidly increasing trade liberalisation. We all know that this can bring valuable benefits to developing countries. It can bring opportunities to achieve economic and social development. However, it has not yet happened. Instead it has presented these countries with major new challenges. This is particularly so with least developed countries (LDCs). Their share of global trade, both in exports and imports, has fallen by about 70 % over the last decades. A share of 1.52% in 1970 fell to 0.58% in 1998.

Why has this happened? These countries have comparative advantages in natural resources and of lower wages. Why have they not increased their trade? There are two main answers: one lies within the countries themselves and the second, is an external one. Firstly, developing countries have serious shortfalls in the capacity needed to access markets. Secondly,

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developing countries face major non-tariff obstacles to accessing international markets.

They lack the supply capacity to produce goods that will be competitive, in quality, in developed markets. They lack the capacity to produce them in sufficient quantity to access the logistics of large-scale market trading movements. Their standards are often incompatible with international ones. They do not have recognised laboratory capacities to certify their goods for these markets. They have little say in international trade agreements. They lack the resources to identify and attract target consumers. The capacity shortfalls of developing countries are the following:

- Supply: unable to produce goods of competitive quality and quantity;
- Standards: often incompatible with international standards;
- Metrology and testing: no recognised laboratory capacities;
- Trade: little say in international trade agreements;
- Marketing and export promotion: unable to identify and attract target consumers.

The second cause, the non-tariff barriers to trade faced by developing countries, are many and complex. They can be presented in six categories:

- Technical barriers to trade (TBTs);
- Sanitary and phytosanitary measures (SPSs);
- Registration and documentation, customs valuation and procedures, and licences and other procedures. These, we all know, affect the trans-boundary movement of products, causing serious damage to trade;
- The transportation, particularly because of bureaucratic procedures and port and airport services, has similar effects, and aggravates these problems;
- Regulations governing financing, direct investment, exchange measures and other related subjects. These have led to disputes in the World Trade Organisation because many countries do not use explicit rules to protect their exports; and

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- International trade rules, in particular those agreed in the World Trade Organisation, are not well understood by most developing countries.

Although we present these non-tariff barriers in separate categories, they are highly inter-related. To give just one example, enabling countries to overcome TBTs and SPSs requires upgrading laboratories - but customs too needs upgraded laboratories to test goods. These are six inter-related categories that need an integrated solution, which we will consider further in this paper. Of all of these barriers, the most controversial are the TBTs and the corresponding SPSs, in the field of food safety. These add to the product specifications that exporters have to meet. They increase costs and require greater institutional and personnel resources to access the regulations, to establish and meet conforming standards and to present accredited certification that products meet their requirements. In fact they are often misused as non-tariff barriers to trade.

Steps are being taken to ease the burden of these difficulties in market access. The Doha Conference envisaged launching a new trade negotiating agenda in 2003, which aims at rectifying some of these imbalances. The WTO has already undertaken technical cooperation and awareness building efforts. The successful WTO Pledging Conference, last March, for the Doha Development Agenda, affirms the need for coordination and coherence amongst agencies and between agencies and the bilateral donor community. These are welcome first steps, but in the meantime there is an urgent need to help developing countries acquire the institutional and technological capacities that will enable them to deal with TBTs and SPSs. All of these obstacles, both external and internal, are so great that many Least Developed Countries cannot even take advantage of the removal of trade barriers that has been put into practice, for example in the EU's Everything But Arms (EBA) and the Africa Growth Opportunity Act (AGOA).

This is the complex and multi-dimensional challenge of facilitating developing country trade. Clearly it is a challenge that requires an international multi-agency response – and UNIDO has proposals for delivering this. But first let us look briefly at what UNIDO can contribute.

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UNIDO can make a twofold contribution:

- It can contribute its own expertise to assist developing countries in upgrading their productive capacities and to provide quality, standardisation and accreditation/certification services. At the recent General Conference, the UNIDO member states endorsed the Director General's initiative in this direction;
- It can pursue a cooperative approach, particularly with WTO, UNCTAD and ITC, to provide the technical assistance needed to overcome Technical Barriers to Trade.

UNIDO already has several trade facilitation and market access programmes under way, all of which share a clear common vision. This vision is formulated in a three-point strategy to:

- Engage with regional economic integration processes to encourage cooperation within and between regions;
- Focus on specific sectors and products with high export potential but with conformity problems in external markets, especially in relation to Technical Barriers to Trade;
- Draw on strategic alliances with other organisations such as WTO, ITC, UNCTAD, UNECE and technical organisations such as ISO, International Laboratory Accreditation and Cooperation (ILAC), International Accreditation Forum (IAF), PTB, AFNOR and others, in order to bring together a wide range of resources to bear on the challenge.

In Latin America, UNIDO has proposed an important trade facilitation programme for Central America. In Asia, we have developed a programme for ASEAN Mekong Delta countries and one for LDCs, which has already received initial funding from India. For the Middle East, a programme is under discussion with the Economic and Social Commission for Western Asia (ESCWA) and the Arab Industrial Development and Mining Organisation (AIDMO).

But it is in Africa that we have most concentrated our efforts. One regional programme is already in operation in the West African Economic Union (UEMOA) and has received 12.5 million euros from the European Union.

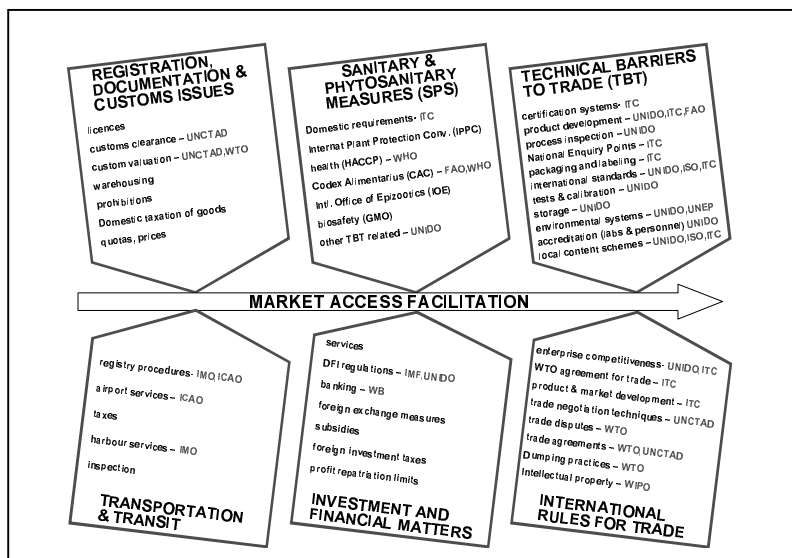
ENABLING MARKET ACCESS – PRACTICAL MEASURES

Programmes are under advanced development for the ECOWAS and SADC sub-regions.

This is how UNIDO is applying its special expertise. But, as we have seen, the problem of trade facilitation is actually a complex of inter-related factors - I gave you the example of the customs offices needing laboratory facilities – a complex of factors that requires a cooperative, integrated response. We feel that this response should take the form of an intensive multi-player approach.

The box below illustrates what UNIDO envisages. This is a “cause and effect” diagramme, which shows the six factors that can give rise to unnecessary barriers in the export process. Clearly this complex of factors requires that everyone undertake a role appropriate to their comparative competence and experience. These are the specific areas where we suggest they might do so.

Figure 14: Non-Tariff Barriers Affecting Market Access



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UNIDO believes that this cooperative initiative can best be delivered as a joint service package of programmes, which draw on each organisation's specific comparative advantage. This package will address the six sets of non-tariff barriers that we have just identified. The integrated approach will provide services such as export promotion, strengthening negotiation capacities, and streamlining customs procedures and mechanisms. Partner agencies would include the WTO, ITC, UNCTAD, UNECE, ISO, or the EU. Other partners may come from the private sector and civil society, as for example the International Chamber of Commerce (ICC), the consumer protection advocacy organisations such as Consumer International and bilateral institutions such as the German Metrology Institute PTB.

Because market access facilitation raises complex questions, its effects on trade have not yet been measured. It is estimated that the developing countries lose from 8 to 10% of their total exports because they fail to comply with the factors indicated in the first two groups. This estimate could increase considerably if the other factors in the diagramme are taken into account. It also demonstrates the complexity of the subject of trade facilitation and market access under the rules agreed by the World Trade Organisation.

What is at stake?

Greater access by developing countries to international markets can make an enormous difference to their fight against poverty.

The export earnings of LDCs are already about US\$ 25 billion, more than double the annual aid flows of US\$ 12 billion and five times the annual FDI of US\$ 5 billion.

This is what the figures are in the present configuration of trade barriers. Conservative estimates by the World Bank, UNCTAD, the WTO and others suggest that further trade liberalisation could lead to an important increase in export earnings.

The World Bank estimates that the European Union's 'Everything But Arms' Initiative could bring LDCs a growth rate of 15-20% or about US\$ 5 billion per year. It is estimated that, for developing countries as a whole, a

ENABLING MARKET ACCESS – PRACTICAL MEASURES

50% reduction in worldwide in barriers to trade would provide welfare gains of over \$100 billion per year.

These very attractive figures show how much is possible when tariff barriers are removed *and if* developing countries can access international markets effectively – for the critical issue is whether developing countries can take advantage of the opportunities that trade liberalisation offers. We, acting together, can have a major impact on their trade and through trade, on their economic and social development. For that is what this is about – improving the lives of people. UNECE deserves to be congratulated for organising the International Forum on Trade Facilitation, which allowed us to broaden the discussion of trade facilitation towards a new concept – a recognition that the obstacles to trade facilitation are not only many and varied, but are also inter-related and being inter-related, call for an integrated, cooperative response.

Chapter 5.2

Trade Facilitation in the Multilateral Trade Negotiations

Andrew Stoler, Deputy Director-General, WTO

The *negotiating* part of the title of this article may bear the risk of being misinterpreted as a report on trade facilitation *negotiations*, which are not (yet) under way. In the framework of the new round of multilateral trade negotiations, launched at the WTO Doha Ministerial Conference in November 2001, trade facilitation was one of the topics on which Ministers agreed to start negotiating after the next Ministerial in 2003. We are, therefore, *preparing* for future negotiations on this subject and this article contains an update on progress made so far. In addition to outlining the current state-of-play, I would also like to delineate the roadmap ahead, in order to give an idea of where we are heading.

First of all, where are we coming from? Trade facilitation was added to the WTO's agenda at the first Ministerial Conference in December 1996, when the Council for Trade in Goods was mandated to "*undertake exploratory and analytical work...on the simplification of trade procedures in order to assess the scope for WTO rules in this area.*" A great deal of exploratory and analytical work was undertaken in the course of the following five years, with the main objective being; to identify the principal obstacles encountered by traders in cross-border transactions and to develop possible ways to overcome those barriers.

In November 2001, we launched the Doha Development Agenda – the first multilateral trade negotiation since the creation of the WTO at the end of the Uruguay Round. The new round is characterised as a development round and trade facilitation is a very important piece in the development round puzzle. It is largely accepted that development is promoted effectively through the creation of an open market economy that allows the optimal allocation of resources. Progressive trade liberalisation and rule making under the GATT and the GATS has proven to be the most effective way of establishing such open markets. But open markets can only function properly if, among other things, procedures designed to facilitate the flow of

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trade are put in place and if a country's capacity to regulate economic activity on its territory is made effective.

Trade facilitation, notably customs reform, directly improves tax returns by enabling effective collection of import duties. Customs revenue is still often the major contributor to national budgets in several countries, but as studies and national experiences have shown, there is a correlation between those countries with the greatest dependence on (high) import duties as a source of revenue and systematic tax evasion, fraud and under-collection. Developing countries, with a combination of high import duties and non-modernised customs, thus face the greatest haemorrhaging of revenues. Reforming customs procedures, notably through automation, harmonisation of information requirements and risk-assessment methods, reduces levels of evasion, under declaration, fraud and collusion with customs officials and allows comprehensive, correct and prompt duty calculation and tax collection; with obvious benefits for the public purse. This is an important aspect to the development dimension of trade facilitation. The Doha Ministerial Conference of the WTO introduced a new phase for WTO work on this issue, by providing for possible negotiations after the Fifth Ministerial Conference in 2003 and by mandating the Council for Trade in Goods to embark on a comprehensive and challenging work programme.

The Doha agreement was preceded by intense discussions among Members on how to proceed with future work on trade facilitation. While there was broad agreement on the necessity of removing distorting red tape and on the overall benefits of embarking on such a process, there were divergent views on how to go about it within the framework of the WTO.

We had a number of delegations that considered trade facilitation as being ripe for negotiations. They held the opinion that, after more than four years of exploring and analysing the scope for WTO rules on this issue, it was now time to move to the next stage and enter the negotiating phase. A group of Members, advocating the negotiation of binding facilitation rules, proposed what they called an integrated "two track approach", centered on commitments on border and border-related procedures to expedite the movement, release and clearance of goods. Such rules were suggested to build upon existing WTO provisions

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On the other hand, there were many developing country members, who, while supportive of the objectives of trade facilitation, objected to the idea of taking on new legal obligations in the WTO at this point in time. Those Members were concerned that additional rules would exceed their implementation capacities and expose them to dispute settlement. Some indicated further a preference for trade facilitation work on the national, bilateral or regional levels.

The text finally agreed on in Doha, therefore constitutes a compromise, which tries to find a balance between the conflicting positions. Paragraph 27 contains their agreement “... *that negotiations will take place after the Fifth Session of the Ministerial Conference...*” This commitment is, however, tempered by the clarification that such negotiations are to take place “*on the basis of a decision to be taken, by explicit consensus, at that Session on the modalities of negotiations.*” The underlying motif for future negotiators is identified as the recognition of “*the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area.*”

For the time until the Fifth Ministerial Conference, paragraph 27 sets out an extensive work programme. The Council for Trade in Goods is not only mandated to:

- (a) “*review and, as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994*” , but also to
- (b) “*identify the trade facilitation needs and priorities of members, in particular developing and least-developed countries.*”

Furthermore, Ministers committed themselves “to ensuring adequate technical assistance and support for capacity building in this area.”

As you can see, we will have a lot to do in the coming months. And, as we are aware that the time frame set for the completion of these tasks is fairly tight, we have already started by getting the groundwork done.

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In a series of informal consultations in February and March, Members expressed divergent views on what they consider to be the appropriate forum for future discussions on trade facilitation, (that is, whether to have dedicated or regular sessions of the CTG in formal or informal mode) how many meetings were required and of what duration. After intense discussions, delegations managed finally to agree on a trade facilitation work programme for the remaining part of this year.

The work programme provides for four formal meetings of the Goods Council, of 1 1/2 days duration. A first one has already taken place (23 – 24 May). A second one is scheduled for July, followed by a third one in October and a final one in December. Following the July meeting, members will decide if additional time needs to be devoted to trade facilitation, to ensure fulfilment of the Doha mandate.

With respect to the substance of future work, Members agreed to deal with the following three topics as core agenda items:

- (a) First: GATT Articles X, VIII and V; the idea being to have each of the first three meetings focus on one of these Articles, while at the same time allowing delegations to address questions related to the other two respective provisions; (the focus on these three Articles follows from their mentioning in the Doha mandate, reflecting members' shared conviction that future trade facilitation work should be geared to build on those three provisions);
- (b) Secondly: Trade facilitation needs and priorities of Members, particularly of developing and least developed countries. Like the third topic, this will be a standing item in all meetings;
- (c) And finally, issues related to technical assistance and capacity building. The incorporation of this item in the CTG's trade facilitation work programme reflects the Membership's shared conviction that technical assistance and support for capacity building are essential for the effective participation of the developing world in WTO trade facilitation work. (Clearly, the capacity of resource-constrained members to engage actively in the debate is a condition of further progress in our work).

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At last week's meeting, the discussion focused on GATT Article X, as well as on the specific trade facilitation needs and priorities of Members, particularly of developing and least developed ones. Closely related to these two issues, the meeting dealt further with trade facilitation-related technical assistance and capacity building questions as a third agenda item.

Six delegations⁸⁴ and two observer organisations⁸⁵ had submitted communications in preparation for that meeting, most of them being proposals related to the review and possible clarification or improvement of GATT Article X. Among the most frequently proposed measures were (i) the installation of inquiry points, (ii) the introduction of an advance ruling system and (iii) the establishment of effective appeal procedures. Several proposals also suggested the granting of a reasonable time-period between the adoption of a regulation and its entry into force. All communications highlighted the importance of trade facilitation for the reduction of trade transaction costs, (especially for SMEs), as well as for a country's economic development.

Following a request by Members, the Secretariat further prepared a background document on GATT Article X, to support delegations' deliberations on this matter. The paper outlines Article X's main provisions from a legal perspective and takes a look at how they have been interpreted in the GATT and WTO jurisprudence so far. (Additional papers on Articles V and VIII have also been prepared and will be issued soon).

After a brief introduction to these papers, Members engaged in comprehensive and constructive discussions, expressing general support for

⁸⁴ The European Communities, Japan, Korea, Canada, the United States and New Zealand. With the exception of New Zealand, whose paper outlined their current trade facilitation-related technical assistance activities, all other communications proposed measures to clarify and improve GATT Article X.

⁸⁵ The World Customs Organisation and the OECD. In their communication, the WCO examined the compatibility of WCO principles with GATT Article X and the Article's reflection in both the various WCO instruments and national customs legislations. The paper further analysed whether some of the proposed measures to strengthen Article X are already embodied in those instruments. The OECD introduced their survey of trade facilitation provisions in regional trade agreements and discussed their relationship with the WTO. A second paper highlighted the business benefits of trade facilitation.

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the advancing of trade facilitation work. While most delegations described trade facilitation as a “win-win” scenario with positive impacts on development, some also raised concerns with respect to cost implications, both in terms of human and financial resources. Reference was further made to different levels of development and related different needs. A number of developing countries were also concerned about trade facilitation measures infringing upon their national sovereignty.

On the issue of technical assistance and capacity building, Members were in agreement on their utmost importance for the advancement of trade facilitation work. Coherence, coordination and thorough needs assessment were flagged as necessary elements of any successful assistance activity. Developing countries pointed to the many challenges that they are facing in their endeavours to facilitate trade and underlined the importance of having assistance programs reflect development objectives.

This leads me to another point, regarding the relationship between development and trade facilitation, which I would like to make before I close. Simplification measures by customs and other agencies allow significant reductions in administrative costs. The introduction of electronic customs clearance systems, risk assessment techniques (rather than inspection of individual consignments) and pre-arrival processing and post-release audit, all reduce time, resources and levels of error. As trade flows increase greater than public resources, trade facilitation measures of this type are necessary. At the March 1998 WTO Symposium, Chile estimated savings of US\$ 1 million each month, through automation and a greater use of risk assessment. Some countries are concerned over the start-up costs involved, in introducing for example, computerisation and associated training in the use of risk assessment and so on. However, the experience of Chile and others showed that costs are recovered over time through greater operating efficiency and increased tax collection. This makes it well worth doing.

So, this is where we now stand. Good first steps have been taken; we are on schedule and in agreeing on our work programme for this year, we made solid progress. This of course does not mean that we don't still have an enormous amount of work ahead of us – but I am confident, that we will achieve our goals. Bertrand Russell once said that “*Organisations are of two kinds: those which aim at getting something done, and those which aim*

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at preventing something from being done.” The WTO undoubtedly belongs to the first category.

Chapter 5.3

New Instruments Simplifying Trade Procedures

Alfred Komaz, Director for General Affairs, Directorate General Taxation and Customs Union, European Commission

The contributors to this volume, and especially EU Commissioner Lamy, outlined that trade facilitation is a key component for the community who adopted the Doha Development Agenda – although trade facilitation negotiations start only after the fifth WTO Ministerial Conference in September 2003. However, it is important to get this preparatory phase right and to advance on substance as much as possible.

In view of the interest of the EU in further expediting the movement, release and clearance of goods, including goods in transit, the preparatory internal work is moving forward in parallel with the negotiation issues. In line with EU strategy, to cover the ground across the board for the Doha Development Agenda negotiations, the EU has already submitted a paper on trade facilitation (Article X of GATT on transparency). Other papers are in the pipeline. We hope that this Forum will be another important step in the right direction and will increase the international support for an ambitious result on trade facilitation in the WTO.

The Trade Ministers also recognised, in Doha, the need for enhanced technical assistance and capacity building in the area of trade facilitation. The EU commitment, in this respect, was highlighted by the EU (the European Commission and the Member States), which pledged 24 million Swiss francs at the Pledging Conference that took place in Geneva, on 11 March 2002. The importance of the EU's pledges, in support of WTO and UNCTAD programmes, confirms its commitment to aspects of trade facilitation, technical assistance and capacity building. By doing this, the EU recognises clearly that these aspects are, in the short, medium and long term, key elements of the decisions taken in Doha. To ensure effective action in the medium and long term, we are working to integrate the trade policy dimension into our bilateral development aid policy. We encourage other developed countries and multilateral donor agencies to do likewise. In this respect, I am grateful that Mr Di Liscia, from UNIDO, mentioned the

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community's commitment in facilitating trade in "Everything But Arms" and this commitment is supported, in particular, by Commissioner Lamy. This paper addresses further the issues of creating an open and inclusive environment for trade facilitation, the new instruments simplifying trade procedures and the role of international organisations. Of course, the EU is not an international organisation in the general sense, but the world's largest customs, economic and monetary union, comprising at present 15, and soon, in all probability, up to 28 member states.

We have, as a customs union, a common customs tariff (since 1968), a common, directly applicable customs code (since 1994), a Single Administrative Document (since 1988) and a single internal market, without any regular controls at the internal borders of our Member States and administered through the customs administrations of the 15 member states. We also know that the process of trade facilitation, in particular when it comes to customs, is a difficult, time-consuming and costly exercise. We, as a customs union, needed ten years (from 1958 to 1968) to come to a common customs tariff and it has taken us another 20 years to arrive at the Single Administrative Document, which, with its 50 boxes, replaced some 150 different papers back in 1988. So it is understandable that it was a complex and difficult exercise. We now consider replacing this Single Administrative Document with a Single Electronic Message. Then it took us another six years to arrive at the voluminous Common Customs Code, which is directly applicable throughout the whole Community. It is not the European Commission that is administering and managing the concrete imports and exports, but the customs administrations of the 15 member states. The application of these provisions is the same throughout the Community, so it is of no relevance whether an import or an export takes place via Rotterdam, Antwerp, Athens or Helsinki. This is one of the problems, or challenges, that we are facing in the context of enlargement. We have to ensure that the new member states have the same state of 'preparedness' as the customs administrations of the current member states. The new member states will have to take on board all the legislation, but also have to have the administrative capacity to apply this legislation in daily practice.

For the purposes of management and administration, the EU Member States and the Commission have in place a number of computerised systems – for example, TARIC, QUOTA, EBTI, VIES, TRANSIT – which are already up

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and running, throughout the Community, to guarantee the equal treatment of imports and exports.

Customs authorities have to do a rather complicated and delicate balancing act: to facilitate trade between honest, law-abiding economic operators and to protect consumers and society in general, against possible risks to their health and safety. There is also the task of revenue collection, but this has become 'somewhat less important' compared to the tasks mentioned above, even if it still contributes some 13% of the Community's budget.

The creation of the legislative acts in the customs field (common customs tariff, common customs code, implementing provisions) has been done in an open and inclusive environment. At the level of EU Member States, national authorities (customs, trade and veterinary inspections) and economic operators and their respective organisations have been involved. At the Community level, it is the Commission that prepares the proposals and the Council that takes the final decision, together with the European Parliament. The economic operators' organisations, throughout Europe, have also been involved and will remain major players when it comes to further development and the evolution of legislation, as well as daily business. As Ms Livanos Cattau said, no efficient control can take place without the cooperation of traders. The idea of trade facilitation, when it comes to customs, is that compliant traders will be rewarded with more facilitation and non-compliant traders will have facilitation taken away. This should be one of the incentives for compliance.

As to new instruments, we are thinking in terms of post-clearing and audits to replace, to the largest possible extent, controls at the borders. Statistics controls should be moved inland and should not create more hindrance than is absolutely necessary for the quick admission and clearance of imports. Post-clearing audits should be performed on the basis of clear risk analysis. What we have in mind is the avoidance of multi-level controls at the border and for this we are also trying to use the available technology as efficiently as possible. This gives better results than random controls at the border. Such developments are, not least, influenced by our bilateral trading partners and international organisations, such as the WTO and the WCO, where the European Community is a full member, or at least in WCO, an observer.

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The European Community is signatory to such important conventions as the WCO Convention on the Simplification and Harmonisation of Customs procedures (the so-called Kyoto Convention) which entered into force in 1974 and which was recently revised as a blueprint for modern and efficient customs procedures. Modern concepts have been included into the revision, such as the application of new information technology, new philosophies on customs control (targeted, selective controls based on risk analysis), simplified procedures, electronic fund transfer and the use of automated systems. Just think of the WCO Customs Data Model Project, based on the initiative of the G7 countries, which aims to meet the requirements of an automated environment, using e-commerce technologies to develop common electronic messages (Cargo and Goods declarations for imports and exports). Another aim is the establishment of a single window environment through the inclusion of other governmental regulatory requirements.

So, generally speaking, the future lies in the increased use of information technology, automation, standardisation and simplification, and fewer, but more efficient and better targeted, controls.

We have achieved a lot in the European Community, in the customs field, when it comes to trade facilitation. It has been an exciting and challenging task, which we have taken on in cooperation with authorities and economic circles. The result has been worthwhile, with a significant simplification of the lives of customs officials and traders alike.

It has been time- and resource-consuming to harmonise customs procedures and formalities/papers in the European Community. The automation and computerisation that we have undertaken already, or which is still ahead, will demand additional efforts. This is of course a challenge, as all change is, but we are sure it will be worth the effort, due to the gains we expect from moving forward on this in a global context, multilaterally and bilaterally.

We support the providing of appropriate technical assistance for the efforts that developing and transition countries need for undertaking similar efforts. We are already providing aid bilaterally, which can be used for such purposes and we will continue to be willing to assist countries wanting to embark on the road of customs reform. WTO rules and the coherent

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international trade facilitation architecture among the international organisations, which should result from these rules, will provide useful benchmarks and levers for international assistance.

The EC has concluded a large number of bilateral agreements where, in relation to customs and trade related matters, it is foreseen that the parties shall cooperate to simplify and reduce requirements and formalities in respect of release and clearance of goods, use a single agency; cooperate on rules of origin and customs valuation, consult timely with economic operators on substantial matters, publish relevant legislation and procedures and grant and cooperate on technical assistance to this end.

The past has shown that trade is an important factor in the prosperity of nations and as the background paper for this Forum says, trade facilitation is a diverse and challenging issue with huge potential benefits. Customs, with its traditional dual role – enforcing legislation to protect society while facilitating the flow of goods between honest traders – should be ready to meet this challenge to the benefit of all of us.

Chapter 5.4

Global Facilitation Partnership for Transportation and Trade Distance Learning Initiative (GFP-DLI): Becoming a Partner?

Mark Juhel, Lead Transport Specialist, Transport Division, The World Bank

What are the objectives of the GFP-DLI? ⁸⁶

The Global Facilitation Partnership⁸⁷ for Transportation and Trade – Distance Learning Initiative (GFP-DLI) – aims at providing, widely and at low cost, high-quality distance learning programs to professionals in the field of trade, transport and logistics, and at building communities of practitioners, through a broad-based partnership with industry leaders, professional associations and content providers.

The GFP-DLI has been launched, in Southeast Europe, through a Trade and Transport Facilitation Programme⁸⁸ in Southeast Europe (TTFSE), with the support, in particular, of the World Bank, the governments of the Netherlands and the United States, the International Road Transport Union (IRU), the International Freight Forwarders' Association (FIATA) and the TRAINMAR Center (Trinidad). It is open to all interested countries.

What are the main GFP-DLI activities?

- The GFP-DLI supports the development and implementation of distance-learning programs certified by leading professional associations in the field of trade, transport and logistics;

⁸⁶ <http://www.gfp-dli.org> and (from September 2002) <http://darkstar.netage.bg/GFP-DLI/> For more information, please send an email to golliver@worldbank.org

⁸⁷ A broad partnership initiated by the World Bank in 1999. See the section “how the GFP-DLI works” for more details.

⁸⁸ <http://www.seerecon.org/TTFSE/>

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- The GFP-DLI pools, through its network of partners, appropriate training material (short training sessions, reference documents, videos...);
- The GFP-DLI stimulates the development of knowledge-based networks in trade, transport and logistics, through active collaboration among professionals, professional associations, academia, governments, donors, content producers and trade, transport and logistic service providers and through the pooling of knowledge, skills and resources.

How does the Initiative work?

Each GFP-DLI distance-learning programme is created and managed under the leadership of an International Professional Association (e.g. IRU, FIATA) or Industry Leader, in collaboration with local professional partners, who provide country-specific content and logistical support. The preparation of new distance learning programs usually starts when an International Professional Association or Industry Leader makes a well-justified proposal, based on market demand, and commits to lead the programme for a minimum period of three years.

The development of programs relies on pooling existing training documents from the network of participants described below, supplemented, as necessary, by the development of new materials. These documents are then adapted to the local context and to paper-based and web-based distance learning, as required.

Who is involved and what contributions can you make?

The GFP-DLI involves several types of participants: candidates to certified programs, individual users, lead and local professional partners, the GFP-DLI Board, members of the GFP, content partners (donors, development agencies, media, universities, professional associations), programme designers and individual contributors.

You can participate by providing and using GFP-DLI content and tools, preparing a new programme, providing funding for current priorities,

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expanding an existing programme to other countries, promoting the initiative or sharing your expertise.

Mission and Core Principles of GFP-DLI

Mission. The Global Facilitation Partnership-Distance Learning Initiative (GFP-DLI) mission is to facilitate the emergence of global communities of qualified and recognised professionals, providing trade, transport and logistic services. It relies on knowledge and know-how sharing in a networked environment. The initiative aims at fostering cooperation in disseminating good practices and documents among professional associations, content producers, donors, international financial institutions, training institutions, governments and professionals.

Strategy. The strategy is to develop, implement and maintain up-to-date and industry-responsive distance learning programs for trade, transport and logistic service providers, leading to certifications. These programs will, notably, build on existing content provided by Partners, and tailored to paper-based and online distance learning. The target group of candidates for these long distance learning programs are professionals, interested in refreshing and deepening their knowledge and seeking to network with other professionals with similar skills, locally or internationally.

Core Principles. The GFP-DLI supports Lead Professional Partners (LPP) in designing, developing, implementing, evaluating and maintaining up-to-date distance learning programs leading to certification for trade, transport and logistic service providers. The creation of new programs or expansion of existing programs is driven by demand. All programs will be available in a paper-based distance learning format through the GFP-DLI website and will use, as appropriate, web-based discussion groups, business simulation programs and other multimedia tools. Programs will include a mix of international, regional and local modules.

Industry-led. Each programme will be designed and managed by an international professional partner. Its content, structure and modality of delivery will be based on industry needs. The international professional partner will usually enter into collaboration with local professional partners and universities to integrate country-specific content and ensure the

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programme logistics. This leadership structure will ensure that the programs are based on current demand. International professional partners can be professional associations or industry leaders. The IRU and the FIATA have confirmed their participation as international professional partners and will certify successful candidates for their respective programs.

Maximising Exchange of Content and Tools. The professional partners will gather content and relevant documents using: (i) their own network and the GFP network; (ii) existing GFP-DLI programs; (iii) training programme content produced under projects from Donors and International Financial Institutions; and (iv) content provided by some GFP-DLI partners (such as universities, media, research institutes, individual contributors or NGOs). All relevant content will be pooled in the GFP-DLI exchange platform. The systematic exchange of content will reduce the cost of producing training programs, widen the audience for this content, and facilitate the capacity building efforts supported, in particular, by professional associations, international financial institutions and aid and development programs. The expansion of an existing programme to a new country could be achieved through the addition of local modules to existing international ones, thereby reducing production costs to a more reasonable level. Each programme and reference document in the GFP-DLI web library will become a building block in spreading knowledge and know-how, available to all contributing⁸⁹ partners for their own use. Distance learning tools will be made available to lead professional partners who undertake to develop a new programme.

Donors are invited to use GFP-DLI programs in building capacity; in particular, in developing or transition countries and to provide the content they have developed under prior programs. However, the GFP-DLI programs are applicable to all interested countries.

Maximising network effects. The success of this initiative will be proportional to the number of partners and contributors. We encourage everyone to spread the word, by sharing this information with colleagues

⁸⁹ A contributing partner is defined as a registered partner, which has provided a minimum of three documents considered as reference documents for the past year, or the equivalent of US\$ 150,000. A contribution in excess of these levels is considered as a credit for subsequent year qualification (for example 6 reference documents means two years of qualification as a contributing partner).

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and friends who could be interested. Using the broad support from our partners, we can gather knowledge, give access to opportunities to deserving professionals and build sustainable distance learning programs.

How does the GFP-DLI Work?

GFP. The Global Facilitation Partnership for Transportation and Trade⁹⁰ is a partnership initiated by the World Bank in 1999. It includes more than 100 partners, such as international organisations (e.g. *UNECE, UNCTAD*, etc.), professional associations (e.g. *International Road Transport Union, International Association of Ports and Harbours*, etc.), and private companies (*SGS, Fedex*, etc.). The GFP gathers interested parties, public and private, national and international, who want to help achieve significant improvements in transport and trade facilitation globally. Since its creation, the GFP has designed some new tools like the Trade Facilitation Toolkit and a border agency performance measurement manual. The GFP paved the way for the development of this global Distance Learning Initiative (GFP-DLI) to support professionals in their constantly changing environment.

GFP-DLI Board. The GFP-DLI is steered by its Board. It includes Lead Professional Partner representatives, representatives of the World Bank and other Donors involved. The Board endorses the strategy and marketing of the initiative, reviews progress, defines and enforces high quality standards, approves new partnerships, facilitates exchanges and reports on progress.

GFP-DLI Design and Implementation Team. The Design and Implementation Team implements the strategy. The Team includes members from each Lead Professional Partner (Programme Managers), from the World Bank, from the TRAINMAR Center and other partners. The Team maintains, in particular, the website, which is used to: (i) promote the initiative to the various participants; (ii) offer a document exchange platform; (iii) offer training reference documents; (iv) provide tools for new programme development; and (v) stimulate interactions among participants. The Team also prepares the annual report for the initiative.

⁹⁰ Become a member at <http://wbln0018.worldbank.org/twu/gfp.nsf>

Launching a new programme.

The preparation of a new distance-learning programme starts when an International Professional Association or Industry Leader makes a well-justified proposal and commits to developing and leading a new programme for a minimum period of three years. The GFP-DLI Board reviews the qualification of the Lead Professional Partner (LLP) and seeks for funding, when required, to support the programme preparation. The target groups for each programme differ and each programme will be designed considering these differences.

Programme Design. Programs will be designed to capitalise on the candidates' experience to enable them to move to the next level of expertise. Programs will usually include activity-based modules, such as case studies, simulation tools and problem-solving exercises. The content will include a set of good practice presented for distance learning purpose. On-going programs have been prepared in cooperation with the LPP (IRU, FIATA) and relevant specialists from the Dutch consulting firm NEA, the road transport associations of the countries involved, the American University in Bulgaria, the American College in Thessaloniki and the Koc University.

Content of typical programme

Programme Package. Programs will usually include: (i) a study guide with study sessions; (ii) a workbook; (iii) reference readings, (iv) a web-page; (v) an exam with certification; and (vi) a network of professionals to support the candidates. These tools will aim to strengthen the candidates' know-how, knowledge and effectiveness of behaviour to raise their competitive edge. The LPP will be responsible for the definition of content to be covered.

Study Guide. The study guide will outline the programme setup and policies, the programme agenda, the certification process, the body of knowledge the candidates aim at assimilating and will break down the programme into study sessions. Each study session will describe the knowledge related to a specific programme topic that candidates should assimilate to pass the exam, inclusive of specific learning outcomes. The

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study sessions will indicate the specific reference readings and sections of the workbook that provide the necessary insights on a given topic. As such, the study sessions will enable candidates to select rapidly the topics where they need most training and within a broad curriculum. Study sessions will also be useful for spot learners who simply want to improve their performance, on-the-job and on a particular aspect, without entering into the long-term commitment implied by programs with certification.

Workbook. Candidates will use workbooks to remain stimulated in the course of their distance learning. Workbooks will draw on reference readings to create activity-based sessions and problem solving exercises that build actively on the candidates' experience. These workbooks will also create opportunities for interactions among candidates.

Reference Readings. Reference readings will be a set of essential in-depth articles (or book chapters) to be used by candidates in order to assimilate the body of knowledge covered in a specific programme and as reference later on in their professional activities. The reference readings will be gathered, either from the network during the programme preparation, or developed if not available.

Web-Page. The GFP-DLI website will include a separate web section for each programme. Each section will be managed by the corresponding LPP. The site will provide all programme related information. It will offer a possibility to register candidates and give access to the secured programme space created by the LPP using its own tools or GFP-DLI ones. They will be able to access all programme-related documents. It will also enable certified specialists to promote themselves, access job offers, interact with other specialists and propose modifications or inputs for the programs.

Exams with Certification. Each programme will have a certification process recognised by its LPP and Local Professional Partners. The Local Professional Partner will work jointly with the local authorities to have these professional certifications recognised. Each candidate will have to pass one or several exams, depending on the programme, and meet the eligibility criteria, in terms of education and professional experience, in order to be certified. In some programs, the certifications may require continuous training. Ethical professional behaviour will be a must for any

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certified specialist. Unethical behaviour will lead to the cancellation of the certification.

A Network of Professionals. Each programme will maintain a strong focus on community building. Candidates will be encouraged to interact with certified specialists in problem solving efforts. Local professional partners will launch interactive dialogue sessions or email discussion groups for candidates, as appropriate. The emergence of a recognised network will facilitate better employment, accelerated funding of business proposals and business opportunities for the network members. Mentors will be selected on a voluntary basis, among experienced professionals, to answer specific questions of candidates and guide them in their studies.

Chapter 5.5

The Role of ESCWA in Promoting Trade and Transport Facilitation in the ESCWA Region

Nabil Safwat, Chief, Transport Section, UN Economic and Social Commission for Western Asia (ESCWA), Beirut, Lebanon

One of the most important issues for regional cooperation and integration in Western Asia is the facilitation of transport and trade among member states of the UN Economic and Social Commission for Western Asia (ESCWA). In 1999, the share of mutual trade in ESCWA member countries' total exports did not exceed 5.5 per cent and 9.3 per cent in their imports. Among the main reasons for this were the complexity of border formalities, procedures, documentation and tariffs between ESCWA members.

Facilitation of international transport and trade is a multifaceted approach that would involve improvements in the infrastructure as well as in the operation of international transport and trade systems. Below is a brief review of the role of ESCWA in promoting such facilitation in the region.

Development of an integrated transport system

In May 1999, a statement was issued by ESCWA member countries, in which they agreed on starting the development of the Integrated Transport System in the Arab Mashreq (ITSAM) and the adoption of the regional transport network. On the basis of that statement, the first edition of the map of the regional network, including the major roads, railways, seaports and airports of international importance in the region and text of the statement, was issued in June 1999, and updated in May 2001.

Efforts to develop the ITSAM have proceeded along three major tracks; namely the regional transport network, the associated information system and the methodological framework for policy analysis. Such recent developments were presented to experts in the region who agreed that, once completed, they would contribute significantly to the ability to analyse policies and formulate action plans, both at the national and regional levels.

Adopting an international road network

Following extensive efforts over the last three years, the ESCWA member countries, on 10 May 2001, adopted an Agreement on International Roads in the Arab Mashreq (the “Agreement”). As of the end of May 2002, ten out of the thirteen ESCWA members had signed the Agreement and one had ratified it. This Agreement is the first United Nations treaty to be negotiated within ESCWA and, therefore, represents a significant landmark in the history of the Commission.

The Agreement is composed of five major elements. The first is a list of technical terms used in Arabic, French and English; the second is the set of thirteen articles of the Agreement, covering the adoption of the international road network; orientation of the routes; technical specifications; signs, signals and markings; signature, ratification, acceptance, approval and accession; entry into force; amendments; withdrawal; termination; dispute settlement; limits of application of the agreement; depositary; and annexes and a list of technical terms. The third element is Annex I describing the routes and links of the road network. The fourth element is Annex II, including the unified technical specifications to be met on routes in the road network, such as the classification of international roads; engineering design considerations; road installations and facilities; vehicle characteristics; environmental considerations and maintenance. Lastly, the fifth element is Annex III, covering the standard road signs, traffic signals and pavement markings on the routes of the road network.

Promoting trade and transport facilitation

Transport and trade processes across borders are generally complicated in most of the developing countries, including the ESCWA members. Whether in import, export, re-export or transit, several entities interfere in these processes for different purposes, such as security, technical controls and statistics. The process generally involves the exchange of information through several documents and forms among the trading partners, government authorities, shipping agents, freight forwarders, custom agents, etc. The number of entities involved could exceed forty as well as the number of steps required to complete the transaction. The number of signatures could easily exceed twenty.

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In the context of the present environment of globalisation, the need to facilitate significantly such transport and trade transactions and processes cannot be overlooked. The existing inefficiencies can only harm national and regional economies. Regional cooperation and integration could be enhanced greatly through such facilitation.

Regional efforts have been exerted, in this regard, since the late seventies. More recently, in the year 2000, a major study on the facilitation of international freight transport procedures in the region was completed. The six-volume study⁹¹ included a detailed field review of trade and transport procedures in five member countries, namely Egypt, Jordan, Lebanon, the Syrian Arab Republic and United Arab Emirates. It also involved a comparative analysis among the selected countries and the identification of obstacles and causes. The study arrived at a set of eleven major recommendations for trade and transport facilitation in the region, namely simplification of formalities, procedures and documentation; transparency; abolishing illegal practices; development of human resources; computerisation and Information and Communications Technology (ICT) applications; institutional, legal and administrative reforms; unification of valuation and tariff classification; adoption of non-stop working hours; conclusion of new agreements and accession to existing ones; the implementation of multimodal transport; and the establishment of national trade and transport facilitation committees. These recommendations were endorsed at the twenty-first session of the Commission in May 2001.

Of particular interest is the computerisation and application of ICT. For this purpose, two studies were conducted by ESCWA, in 1999 and 2001. The first study involved a review of the experiences of States outside ESCWA,

⁹¹ Economic and Social Commission for Western Asia, "Facilitation of the international freight transport in the ESCWA region", volume I: summary, results and recommendations (E/ESCWA/TRANS/2000/4); volume II: description of international freight transport procedures in Lebanon (E/ESCWA/TRANS/2000/4/Add.1); volume III: description of international goods transport procedures in Jordan (E/ESCWA/TRANS/2000/4/Add.2); volume IV: description of international freight transport procedures in the Syrian Arab Republic (E/ESCWA/TRANS/2000/4/Add.3); volume V: description of international freight transport procedures in the United Arab Emirates (E/ESCWA/TRANS/2000/4/Add.4); volume VI: description of international freight transport procedures in Egypt (E/ESCWA/TRANS/2000/4/Add.5) (Arabic).

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especially in Europe and East Asia, a review of the current status in the ESCWA region, a comparative analysis between both groups and a discussion and identification of reasons for the limited applications in the region. The study concluded with a set of recommendations to overcome the obstacles. The second study focused on e-business, Internet and supply chain management applications using ICT. Among the major recommendations were: the formulation of a legal framework to encourage the implementation of ICT by concerned parties; raising awareness about ICT benefits through alternative means such as conducting seminars and workshops; encouraging member States to consider reducing the rates of telecommunications; a gradual implementation of computerisation and ICT, in terms of the number of entities involved, the number of documents and forms to be computerised and exchanged electronically, as well as the number of merchants involved; to finance such initiatives by the public and the private sector with varying levels of participation as may be deemed appropriate; use the UN standards for electronic data interchange on the internet (e.g. ebXML protocol) to save costs and increase efficiency; support efforts for the Arabisation of the UN and internet standards; and monitor the continuous advancements in the field and the improved applications in the region and to benefit from the experiences of others.

Conclusions and looking ahead

The processes, formalities, procedures and documentation of international trade and transport in the region are generally complicated. However, they are expected to witness considerable improvement in the near future. Several countries in the region are in the process of enhancing their computerisation and application of electronic data interchange. New customs laws were recently adopted in Egypt (2000) and Lebanon (began implementation effectively on 23 April 2001). A limited number of countries in the region are expected to establish national facilitation committees, in order to coordinate their national efforts. More countries are expected to accede to existing facilitation conventions. A regional agreement on transport and trade facilitation may be concluded in the near future. Efforts to develop the ITSAM would be continued and enhanced.

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The above-expected improvements in transport and trade systems analysis, infrastructure, operation, management and planning, when implemented, would certainly contribute to an increase in the competitiveness of products and services in the region, and hence, an increase in exports and the inter- and intra-regional transport of goods (trade) of ESCWA member countries. However, the risks, in terms of increased worldwide and regional competition on the one hand, and the lack of vision, coordination, funding, public administrative reform and/or political will on the other, cannot be underestimated.

Last but not least, efforts to promote trade facilitation at the international level, through the development of standards and worldwide recommendations, should continue to be enhanced and coordinated. However, promoting the implementation of trade facilitation measures, standards and recommendations must be done at the regional and sub-regional levels. In other words, the role of ESCWA in promoting trade and transport facilitation in the region, and for that matter the role of sister United Nations regional commissions in their respective regions, is vital and complementary to the efforts at the international as well as the national levels. Therefore, any future vision in this regard, at the international and national levels, in order to be meaningful and successful, must incorporate the role of the UN regional commissions at the regional and sub-regional levels.

Chapter 5.6

Defining Trade Facilitation at the International Level⁹²

Miguel Izam, Economic Commission for Latin America and the Caribbean (ECLAC)

Theoretical definitions of the concept of trade facilitation cover a broad spectrum of subject areas. This is also true of the operational meanings that the term has acquired in most international organisations, including those in which this issue is under negotiation. Regional, subregional and interregional integration agreements, for instance, interpret the term in different ways. These definitions usually vary widely between themselves and relate to a large number of different topics. Moreover, at all the various international forums in which negotiations on trade facilitation have taken place, the progress and effectiveness achieved, in terms of the resulting standards and rules, whether of a binding nature or otherwise, has been similarly varied. In most cases, these rules and standards do not refer expressly to trade facilitation, but rather to particular aspects, which are in some way subsumed by this concept in its broadest sense. However, whether or not such provisions refer to it by name, it is clear that the concept of trade facilitation is always implicit.

It is also clear that there is growing interest in trade facilitation at the global level. The World Trade Organisation (WTO) now accepts the fact that this term is used to refer to a wide range of different subject areas and indeed, the concept of trade facilitation as such, was first introduced within that

⁹² This article first appeared in FAL Bulletin, Issue No. 189 - May 2002, and completed a series of articles, which began with FAL Bulletin No. 167 and continued through FAL Bulletin Nos. 171, 175, 178, 181, 184 and 187. A compendium of these studies has been published in Spanish as Document No. 19 of the ECLAC Comercio internacional series (December 2001) under the title "Facilitación del comercio: un concepto urgente para un tema recurrente". This document may be downloaded from the web site: <http://www.eclac.cl/comercio/>. All issues of the FAL Bulletin may be accessed at: <http://www.eclac.cl/transporte/>. For further information, please contact the author of this article: Miguel Izam (mizam@eclac.cl), Economic Affairs Officer in the Division of International Trade and Integration of ECLAC.

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organisation. This occurred at the third WTO Ministerial Conference, which took place in Singapore in 1996.

What has undoubtedly been the most important event to take place at the international level, with regard to trade facilitation, occurred at the fourth and most recent WTO Ministerial Conference, held in Doha, Qatar, in 2001. On that occasion, it was decided officially that, in the medium term, WTO would work towards negotiating new trade facilitation measures. For the time being, the relevant provisions are to be focused exclusively on improving customs procedures.

At the regional level, there is also an evident and urgent need for additional measures to facilitate trade and business activity in Latin America and the Caribbean. Most importantly, special emphasis should be placed on standards and regulations relating to the modernisation of customs systems. This is also relevant at the interregional and subregional – as well as bilateral and national – levels, but it is particularly important for the facilitation of international transactions by small and medium-sized enterprises.

This greater interest in trade facilitation is also attributable to new opportunities that have been opened up by the current technological revolution. By making it possible to use electronic media for the immediate global transmission of trade information and for instantaneous international business transactions, this revolution is enhancing the economic processes of globalisation throughout the world.

Reforming the customs systems of countries at a low level of development requires complex and significant institutional changes in the public sector. These changes are generally systemic in nature and very costly. One difficulty is that customs agencies interact with a series of other public institutions. There is also an obvious need to finance both a higher level of professional training and the cost of the modern electronic equipment, whose use has become virtually obligatory. It does not seem possible for the Latin American and Caribbean countries to cover the cost of these changes by themselves. Coordinated and efficient international technical and financial cooperation is, therefore, required in order to enable these countries to create the necessary capacities to achieve an appropriate degree of modernisation. This would benefit the countries directly concerned, as

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well as the rest of the countries of the world and the most industrialised nations in particular.

Operational scope of the concept of trade facilitation

An important observation, made in the preparation of the study summarised in this article, is that, in theoretical terms, the expression “trade facilitation” is used to refer to a concept that has not yet been defined adequately. A decision was, therefore, made to take a more pragmatic approach, in which the emphasis would be on empirical rather than theoretical considerations. In other words, an effort was made to examine the operational aspects of trade facilitation, by identifying the different meanings given to this term or the varying ways in which it is currently used by various international trade agreements or institutions, the majority of which have held, or are planning to hold, negotiations that will deal with this subject in some way. It was found that the term has many different meanings. That this is so reflects these institutions’ respective interests and mandates, as well as their specific needs, capacities, histories, objectives, and existing agreements and commitments.

Rather than undertaking a detailed examination of these differences, this section provides an aggregate overview of the entire range of topics encompassed by the different operational definitions of trade facilitation used in the international institutions that were studied. The aim here is to illustrate the thematic scope of these various empirical concepts.

The investigation covered a series of international organisations. First, the framework used by WTO was examined. Next, the research focused on the European Union, the forum for Asia-Pacific Economic Cooperation (APEC) and the negotiating process designed to lead to the establishment of the Free Trade Area of the Americas (FTAA). Research was also carried out on the major regional and subregional economic integration agreements in the Americas: the North American Free Trade Agreement (NAFTA), the Southern Cone Common Market (MERCOSUR), the Andean Community of Nations (CAN), the Central American Common Market (CACM) and the Community of Caribbean States (CARICOM). The latter four agreements consist exclusively of countries in Latin America or the Caribbean.

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In summary, a comprehensive, consolidated approach for arriving at an understanding of the concept of trade facilitation, in operational terms, can be taken by examining any intended action, whether unilateral or negotiated, aimed at streamlining operational procedures and reducing or eliminating transaction costs that hinder or preclude international economic exchanges or movements. The aim here is to provide more ready access to world markets. Accordingly, the subject areas that are involved are of long standing and relate to a wide variety of elements, including technical and quality standards; health and disease control measures; road, air, maritime, river and rail transport; customs valuation; infrastructure; intellectual property; international business and trade services; taxation; rules of origin; freedom of transit; electronic transmission of trade information; customs procedures; transparency, control and simplification; electronic commerce; payments services; and insurance for external transactions. It might even be relevant to consider tariff and non-tariff issues as well.

Strictly speaking, therefore, a better way to define trade facilitation may be in terms of how it relates to the promotion of cross-border trade in goods and services and the movement of capital and people, especially with a view to simplifying business transactions and tourism. Generally speaking then, it is a concept that refers to streamlining, reducing or eliminating all measures or barriers that hinder international trade or the movement of factors of production between countries.

Conclusions

In order to re-state the general presentation given in the previous section in more precise terms, in this section a number of conclusions are drawn which identify explicitly the international bodies involved, including some that have not been mentioned previously. The main conclusions, which are not presented in order of importance but rather simply in as logical a sequence as possible, are the following:

APEC, which, perhaps because of its relatively recent establishment (1989), still in search of a more precise definition of its own identity, is the organisation, which uses the broadest and most diverse interpretation of trade facilitation, in terms of the number of topics it incorporates. This is so much the case, in fact, that confusion may arise due to the difficulty of

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distinguishing among the organisation's institutional objectives as they relate to its own concept of trade facilitation, i.e. the aim of liberalising trade, some aspects of which relate to tariff barriers and the aim of expediting business activity. Nonetheless, the operationalisation of the concept of trade facilitation is undergoing a very dynamic evolution, which bodes well for the future, despite the fact that the corresponding standards and criteria are not binding upon APEC members.

1. The case of the European Union contrasts with that of APEC in various ways. The European Union is the result of an integration process, which began more than 40 years ago and has been extremely successful in establishing a common market. Internally, the Union possesses a dynamic, interesting, complex, efficient and powerful structure of rules and regulations covering the various areas that may be included in the concept of trade facilitation. Nevertheless, this concept is almost never referred to explicitly, and although the Union's provisions are obviously aimed at simplifying economic relations among its members, they are given specific and individual designations based on the various subjects that they cover. These provisions have been a key element in continued progress towards achieving the free circulation of goods, services, capital and persons within the geographical scope of the Union. The European Union is the most active organisation in advocating the establishment of trade facilitation rules within WTO, whose agreements are binding upon all its member countries. At present, the main concern of the European Union, in the area of trade facilitation, is the improvement of customs systems. There is currently a tendency to refer explicitly to the concept of trade facilitation in the trade agreements now in place or being negotiated between the European Union and its economic partners outside the Community.
2. The experience of FTAA, with regard to trade facilitation, is strikingly different from that of the European Union and APEC. In fact, although FTAA will, strictly speaking, constitute a free trade area only as of 2005, it has already established, without negotiations, approximately 20 specific non-binding trade facilitation measures. These began to be applied in 2000 and refer, in particular, to aspects of customs procedures that can simplify international transactions. These measures are being implemented in parallel with the overall negotiating process,

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which, if it proceeds according to schedule, should be completed before the year 2005.

3. In the Americas, after FTAA, NAFTA has made greater progress in the area of trade facilitation than the integration schemes formed exclusively by countries in Latin America and the Caribbean (MERCOSUR, CAN, CACM and CARICOM). In the cases both of NAFTA and of the latter integration agreements, the main developments in the area of trade facilitation have concerned primarily customs matters; the results being achieved by each of these organisations vary widely, however.
4. Until recently some WTO member countries were maintaining a quite ambitious stance with regard to the possibility of holding comprehensive negotiations on trade facilitation, covering a wide range of topics. When this concept was defined formally and introduced in WTO, in 1996, however, the emphasis was placed primarily on the customs-related aspects of trade facilitation. It should also be noted that trade facilitation is just one of several so-called “new issues” that were officially raised within WTO at that time. As mentioned above, at the Ministerial Conference held by WTO in Doha, it was decided that steps should be taken, in the medium term, to negotiate new trade facilitation measures referring exclusively to the simplification of customs procedures at border crossings. This, in itself, already amounts to significant progress. In parallel, steps would be taken to strengthen existing standards and regulations related generally to trade facilitation and an effort be made to enhance the efficiency of technical assistance. Accordingly, given the undisputed global importance of this body, the issue of trade facilitation, at the international level, is now being associated primarily with the simplification of customs procedures at border crossings. Because of the importance of WTO, the next and final section of the article presents a concise summary of recent events within that body concerned with trade facilitation.
5. The growing significance of trade facilitation has been reaffirmed explicitly by the United Nations Economic Commission for Europe (UNECE) in its references to the economic benefits of trade facilitation, as well as by the United Nations Conference on Trade and Development (UNCTAD). In point of fact, a recent UNCTAD study

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notes that, on average, a customs clearance operation may involve 30 different parties and may require 40 different documents and 200 items of information, some of which are repeated dozens of times and almost all of the others at least once. This raises the transaction costs of a foreign trade operation by nearly 10% of the international price of the product. It should be added that this issue will take on even greater importance in the future, as the different types of controls used worldwide to monitor all international movements at border crossings, including security measures, are being intensified and made more complex as a result of the deplorable terrorist acts that occurred in the second half of 2001.

6. In addition to what is being done by UNECE and UNCTAD, which have been working and achieving significant results in this area for a long time, many other international institutions are interested in this subject, although their efforts have begun more recently and/or are on a more modest scale. These institutions include, for example, the Inter-American Development Bank; the World Bank; the International Monetary Fund; the United Nations, including all its regional commissions – one of which is the United Nations Economic Commission for Latin America and the Caribbean – and the World Customs Organisation.
7. Finally, it should be noted that, regardless of whether measures aimed at achieving either trade facilitation in general or the simplification of customs procedures at border crossings in particular, are applied at the multilateral, regional, or any other level, they will eventually have to be implemented at the national level, if they are not to become a dead letter. This will call for structural changes or reforms in the institutional and organisational workings of public – and private – sector structures, especially in the case of smaller firms. This means that without adequate, coherent, coordinated and efficient technical and financial cooperation, on the part of the relevant international organisations, it will be impossible to create the capacities required by the less economically advanced countries in order to incorporate such regulations and standards and use them to increase their level of development. This statement also applies to many Latin American and Caribbean countries. Progress in this area will certainly also help

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further the interests and development of the more industrialised countries, as well as the growth of the world economy as a whole.



Part Six:

**The Stake of Developing
and Transition Economies
in Trade Facilitation**

Representatives of several transition and developing countries, some of which are landlocked, prepared the contributions to the following part, which highlights the specific problems faced by these countries and the ways to overcome them. The attitude of developing and transition economies to trade facilitation in multilateral trade diplomacy is a key issue for furthering the cause of trade facilitation on a global scale. On the one hand, some large developing countries, such as India, Brazil, the Philippines and Mexico, but also the group of sub-Saharan African countries, have a pivotal role and the potential to block effectively an agreement on this subject in the multilateral trade negotiations. Their major concerns are the cost of trade facilitation and the potential negative effect on income distribution. On the other hand, these countries recognise the significance of trade facilitation for their development and the positive impact of the assistance provided within the framework of the United Nations agencies. These countries implement trade facilitation measures for the sake of their own development. Both developing and transition economies stress the importance of international assistance and capacity building, in order to catch up quickly with developments achieved in the course of many decades in the industrialised countries. Mr. Sun Zhenyu's chapter, written in May 2002, is the first official document revealing the position of China on trade facilitation. The two last chapters in this section point to the importance of trade facilitation in the process of accession to the European Union of eastern European economies in transition.

Chapter 6.1

Capacity-Building for Trade Facilitation

Sun Zhenyu, Ambassador to the WTO and former Vice-Minister of Foreign Trade, China

This paper points to the implications of trade facilitation for the developing countries and how China is prepared to meet the requirements of trade facilitation through the strengthening of capacity building.

It goes without saying that trade facilitation is an important new subject matter. Over the years, the efforts of multilateral, regional and bilateral cooperation have resulted in growing levels of opening-up in the trade regimes of nations and regions, and various barriers to trade are being reduced step-by-step. Along with the expansion of trade and enhancement of trade links, countries are under pressure to review and streamline their procedures of trade regulation. Trade facilitation aims primarily at simplifying various approval and inspection procedures and raising transparency of trade policies through the extensive application of advanced technologies. This should help to lower transaction costs for traders and improve the efficiency of relevant businesses, thus representing a new perspective on how to promote further the development of global trade.

Trade facilitation should be able to bring some opportunities for developing nations to enlarge their trade volumes. Due to historical reasons and contemporary ones, the developing countries are going through a process of gradually deepening their understanding of trade facilitation. I believe that most developing nations like the idea of trade growth, because the latter can expand the basis of natural endowments, provide more access to international resources and markets, spur the growth of domestic economies, and therefore create more jobs and raise the living standards of our people. So it is perhaps safe to say that our desire to facilitate trade in the global context is as strong as that of others.

Of course, for us developing countries, to realise trade facilitation will demand a lot of financial inputs, accumulation of experiences, and a firm resolve for reforms. Above all, capacity building is of crucial importance, for we need a lot of experts in this area who are keen on our institutional

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reform and contribute to the improvement and advancement of management skills. Obviously, this is an issue of systemic and horizontal nature. Unfortunately, for now and in the foreseeable future, many of the above-mentioned factors are beyond the reach of most developing countries. For this reason, the objective of trade facilitation should not be set too high. Otherwise, it would be like a fruit hanging high at the top of a tree, alluring but unreachable. Since the coverage of trade facilitation can be very broad, including almost all the links of the trade process, developing countries may face particular challenges in this process. When setting the targets for any specific trade facilitation programme, it is always advisable to take into account fully the realities of developing countries.

Besides, developing countries also have reasons to be concerned about the inter-relationship between trade facilitation and customs supervision. In the absence of modern technology and equipment, the simplification of trade regulatory procedure will inevitably affect the ability of customs supervision. We should remember that for many developing countries, customs duties are still an important source of state revenues. Also, customs supervision can serve as a crucial safeguard in countering tax evasion and smuggling. The general constraints in funds, technology and human capacity would put developing countries in dilemma between facilitating trade and enhancing customs supervision. Therefore, when discussing trade facilitation, it is imperative to be aware of the differences between developed and developing nations in terms of administrative, financial and human resources. Special efforts should be made to avoid adding the economic burdens on developing countries or their obligations that are hard to fulfil.

Generally speaking, China supports the principle of greater transparency in trade regulation. The reform and opening-up of the past two decades has resulted in significant improvement in every aspect of our foreign trade regime. One of our reform objectives has always been the rationalisation of trade regulatory procedure and provision of convenience to traders. Now in China, all kinds of trade laws and regulations are published in advance, and only the published laws and regulations are applicable. The number of documents required by the customs has been cut radically, resulting in faster customs clearance for goods. Great progress has also been made in our *Golden Customs Project*, which aims at linking all the relevant departments through a computer network. These achievements have been appreciated by

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both Chinese and foreign enterprises. However, as the biggest developing country, China has made enormous efforts in and paid prices for what it has achieved so far. Our experience shows that because of economic, technological and human capacity constraints, the developing countries have to be prepared for more difficulties than others on the way towards trade facilitation and modernisation. Our achievements so far are preliminary in nature. There are still fairly big gaps between China and developed countries in terms of technological conditions and management efficiency.

In this regard, special emphasis should be laid on international cooperation in the form of technical assistance and capacity building. Strengthening of international cooperation of this kind is of particular usefulness to developing countries. The meaning of global cooperation is to bring benefits to all parties. In the face of actual needs for trade activities and aforesaid challenges, it is necessary for all countries and regions to strengthen cooperation with a view to increasing the capacity of developing countries through joint efforts. Those developed countries with stronger technical capacities should share their experiences with developing countries, helping them identify their special needs and priorities in trade facilitation. In addition, developed members of the international community should actively provide financial supports to developing members and promote faster transfer of technology so as to help the latter overcome their actual difficulties. Such assistance should not be interpreted as a relation of give-and-take, rather it should be viewed as an action to the benefit of all parties, since trade facilitation in developing countries will benefit all businesses in their markets, including those from the developed countries. I am of the view that when the technical capacity of developing countries reaches a certain level, the process of trade facilitation will forge ahead in a much easier way, as described by an old Chinese saying: a channel is formed when water comes.

The World Trade Organisation has decided to discuss the negotiation modalities for trade facilitation at its Fifth Ministerial Conference in 2003, and will initiate negotiations on multilateral rules for this area once an agreement is reached. Despite the actual difficulties we face, China is prepared to support the multilateral trade facilitation process. China is willing to enhance cooperation with all countries and regions in the framework of the United Nations and other international organisations for

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exchanging experiences and views in this regard. China calls for joint efforts by the international community to make due contributions to the facilitation of global trade.

Chapter 6.2

Trade Facilitation: The Need for Capacity Development

Peter Gakuru, Economic Secretary, Ministry of Finance and Planning of Kenya

Trade facilitation is the simplification and harmonisation of international trade procedures. These include activities, practices and formalities necessary for the smooth movement of goods and services in international trade. Freer trade involves greater inter-dependence among nations and is currently linked to globalisation. Globalisation itself is the widening and deepening of linkages between and within firms and the changing power relations between states and between markets. Empirical evidence shows that economies that have integrated fully into the global economy have made great strides in the path of economic growth and development. Some examples include the emerging markets of Latin America, Asia and the transition economies of eastern and central Europe.

Much has been achieved since trade facilitation was added to the WTO agenda in December 1996. Nevertheless, the level of participation of African economies has been lagging behind the rest of the world. Africa is faced with a number of challenges and constraints that impede efforts towards full participation in international trade. These challenges include poverty, lack of technological capacity, competitiveness, restricted market access and inadequate information. In addition, there are numerous conflicts that characterise the continent.

This paper attempts to discuss some of these challenges facing Sub-Saharan Africa. It also discusses possible practical solutions to facilitate trade, laying more emphasis on the need for capacity development, with specific reference to Kenya.

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Challenges and constraints for trade facilitation on the African continent

1. Common Challenges in Sub-Saharan Africa

There is consensus today that developing countries have a great deal to gain from free trade, mainly through an improved quality of goods and services and general competitiveness. Sustained economic growth is a necessary condition for poverty reduction. Expanded production and high levels of income can promote rapid economic growth. While this is true for most developing countries, many Sub-Saharan African (SSA) countries continue to face enormous challenges that reduce their chances of achieving sustained growth.

The greatest challenge facing the region is poverty. According to the World Development Report for 2000/2001, SSA's share of the population living on less than a dollar a day was 46.3. This means that more resources are channelled towards poverty reduction, as opposed to trade facilitation and improving competitiveness. SSA countries should take practical steps in order to realise meaningful gains from free trade.

There is concern that freer trade and globalisation would worsen the rising poverty levels in SSA. Consequently, governments have turned to negotiating regional pacts as a means of enhancing policy credibility and accelerating trade and investments. In Africa alone, there are currently about 13 different sub-regional trade agreements. The greatest challenge facing the multilateral trading system, therefore, is how to support the process of harmonising trading regulations and procedures to create a level playing ground for all actors.

The actual benefits arising from market access, granted under Special and Differential Treatment (SDT), have fallen far short of expectations due to many limitations. The implementation of Special and Differential Treatment lacks coherence and is uncoordinated. This is because the flexibility needed was removed under the Uruguay Round.

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The challenge posed by inaccessibility to world markets must be addressed. Market access can boost the exports of developing countries. It, however, requires the elimination of current limitations, especially those regarding product coverage and rules of origin. In this respect, granting duty and quota free access, for all exports from developing countries to developed countries' markets, would reduce these limitations greatly. It would enhance developing countries' trade opportunities substantially, without costing the developed world too much, given the low share of developing countries' exports in the total export market.

Disparities that exist between economies bring about significant differences in the benefits from the global trading system. Trade policies that are applicable for developing countries are different from those of the developed world. The Special and Different Treatment instrument is meant to enhance market access conditions for developing countries and permit them derogations from some of the multilateral trade conditions. Special and Differential Treatment is intended to enhance the output of developing countries and export-supply responses, so as to enable them to take full advantage of special market access.

Effective Trade Facilitation (TF) requires a sufficient human, technological and financial capacity that is lacking in SSA. Capacity building is required in these areas, particularly the application of information technology to facilitate the ease of movement of goods and services

The move towards the formation of the African Union (AU) is an initiative that extends and broadens economic cooperation and regional integration in Africa to include the free movement of persons, goods and services, among other parameters.

In Doha, African Countries engaged the developed countries in focusing on issues that had remained unresolved during the previous three WTO Ministerial Conferences. Thus, developed countries are expected to open their markets to exports from developing countries and to reduce or eliminate agricultural export subsidies and domestic support measures. In addition, they are expected to expand technical assistance and capacity building programmes to developing countries. Special and Differential Treatment Provisions of the Uruguay Round Agreements should assist the integration of developing countries into the global trading system.

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Many of the WTO rules, in such areas as import licensing, customs valuation, sanitary and phytosanitary measures, trade standards and intellectual property protection, are not necessarily appropriate for many low-income countries, due to their low level of development. Meeting the obligation under the new rules is too costly for these countries and would result in a diversion of resources that could otherwise be put into better use in order to spur economic growth.

2. Challenges and constraints specific to Kenya

Kenya experiences most of the constraints and challenges that face the continent. The businesses community also faces similar problems namely:

Market Access

Pertinent problems faced in this area include high tariffs and non-tariffs barriers (NTBs) to trade, even in regional markets; multiple levies, fees and charges on agricultural produce and imported raw materials. The inability to produce sufficient and quality goods and services, to take full advantage of market access opportunities, quantitative restrictions and other NTBs, also creates serious obstacles to exporters.

The declining attractiveness of the domestic market, falling Foreign Direct Investments (FDI) and shrinking economic base, coupled with the inability of small-scale enterprises to exploit economies of scale and market opportunities and lack of access to credit, can be cited as major obstacles towards participation in the global market. In addition, there is little or no branding of products from developing countries. In Kenya, tea and coffee are good examples. The fragile nature of the economy implies that business is limited in terms of goods and services that it can provide. There is also unexploited potential to produce and market agricultural commodities, such as sugar and rice.

Infrastructure

Infrastructural problems include poor access to the port, due to the bad condition of the road network and limited cargo space, lack of specialised extension services and know-how for export diversification to meet new challenges in export markets. The poor state of the communication infrastructure has diminished the full utilisation of e-commerce. Other constraints include inadequate water, expensive electricity and fuel oil,

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inadequate telecommunication facilities, port congestion and high port and transport charges, wharfage, terminal handling fees and high competition with export industries that produce goods where the level of infrastructure is substantially superior.

Market Information

Inadequate exchange of trade information and the non-availability of up-to-date information to existing and potential exporters, especially the small and medium businesses, are major constraints. There is a time lag in the availability of information on trade and other economic statistics. Consequently, exporters are unable to carry out more informed market analysis on:

- Potential markets and expansion of existing ones;
- Product development;
- Competitiveness of Kenya's exports;
- Market access opportunities and preferential rates.

Although the Export Promotion Council (EPC) maintains a website for Kenyan exports, there is inadequate dissemination of information on export opportunities to potential exporters, including warehousing and transport services. There is also a general lack of knowledge of the conventions/publications governing international trade.

Rules of Origin/Customs

The problems associated with the rules of origin include delays in exports getting cleared at the port of entry and a lack of clarity in import procedures. There is, therefore, a need for support in putting in place appropriate dissemination mechanisms in order to overcome this problem.

Financing

The financing problems being faced include a limited availability of trade financing, high domestic interest rates, small domestic capital base, limited availability of medium to long term capital required to upgrade and expand trade facilities, lack of access to concessional credit to exporters and the limited availability of pre-shipment finance to exporters.

Untimely payment by the importer, because of difficulties in finding representative agents in export markets to verify the state of goods and

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pursue payment, constitutes a major impediment. Lack of export credit insurance schemes and other export friendly programmes, to assist in the receipt of payments from overseas countries, also constitute a major financing problem. For example, Kenyan exporters lack access to European credit bureau databases, which would help vet potential buyers where letters of credit are not available. The transfer of export proceeds from some of the countries in the region is cumbersome, due to stringent exchange control regulations. Finally, product quality is not of a high standard, in some cases, due to a lack of financing to carry out research in product development.

Regulatory Framework

Problems with the regulatory framework include the bureaucratic post-audit process at customs, which slows the clearance of goods; low levels of automation and poor information flows; complex valuation procedures; pre-shipment inspection service, which hinders speedy flow of exports particularly to developing countries; anti-dumping and countervailing measures, which are not very clear to many exporters; discriminatory use of Sanitary and Phytosanitary Measures, Technical Barriers to Trade (TBT); and discriminatory use of labour and environmental standards to restrict exports.

The process of registering pharmaceutical products in neighbouring countries also hinders trade facilitation in the region. Under normal circumstances, the authorities from the importing countries visit the manufacturing plant to ensure that the standards conform to their requirements. The standards in Kenya are far better than those existing in most African countries. Nevertheless, importing countries demand higher standards from Kenya. This is not practical, in view of the price of the products in the regional markets *vis-à-vis* the cost of producing the products in other markets and also due to the small market that would allow economies of scale to lower production costs in the bigger markets.

Investment

Currently, there is no investment code in place. However, preparations for the investment code are now being finalised in Kenya.

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Marketing

There is still limited knowledge and information on regional and international markets, inadequate and restricted schemes for exporters and undue restrictions on the shipment of goods.

Human Resource Base

The quality of the human resource base is key to any industry or country. Key determinants in developing and maintaining this base are providing quality and relevant primary, secondary and tertiary education, providing other incentives for skill development such as employment opportunities and ensuring a functioning social infrastructure.

The training of exporters, on procedures to acquire the necessary skills needed to improve export trade, remains critical in most developing countries, Kenya included.

Proposed policy interventions and the need for capacity development in Kenya

Kenya is currently focusing on areas that enhance supply side capacities, in order to meet the opportunities offered by liberalising regional and international markets. At the same time, Kenya is targeting products that have more comparative advantage, while seeking to diversify both products and markets. Kenya is also pursuing regional integration actively, as a means of improving access to the regional market. Kenya is one of the nine member countries that have joined the Free Trade Area Agreement (FTA) in the COMESA region.

There is a need to consolidate and strengthen the principle of Special and Differential Treatment under the WTO. This would include improved market access, greater policy space to enhance development, participation in regional trading arrangements and enhanced assistance for the cost of reforms.

In order to benefit fully from trade facilitation, there is a need for accurate and timely market information. Developing countries should be assisted in developing the capacity necessary to influence the WTO agenda at an early stage. Furthermore, sufficient time must be provided for developing

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countries to implement their WTO commitments. Some of these commitments are to ensure tangible benefits in terms of economic development and poverty reduction.

Efforts to shift away from government regulation to a more market-based economy should be encouraged. This is necessary to create an enabling environment, which would ultimately free productive resources, so as to respond competitively to market signals essential for sustained economic development.

Market access restrictions and inadequate information about market conditions and opportunities remain major bottlenecks to international business development in developing countries. In addition, supply-side constraints, preventing these countries from producing sufficient goods and services of high enough quality, so as to take full advantage of the market access opportunities available, are yet another issue of great concern. Quantitative restrictions and other non-tariff barriers create a particularly serious obstacle to exporters from developing countries.

There are critical training needs, both in production techniques and export marketing. For effective intervention on these issues, technical support and capacity building would be critical.

While the government has an essential role to play, the support from the donor community is crucial. Kenya and most developing countries that export mainly agricultural products are of the view that the Uruguay Round had limited benefits in terms of market access. Though progress was made on tariffication, levels of tariffs generally were still high; therefore market access did not improve. Export subsidies were reduced but remained substantial.

Kenya has made major steps in conforming to the requirements of the Uruguay Round Agreements. There will be a need to ensure that progress is not hindered and that it takes place in a manner that allows regional trade to provide economies of scale before full integration into the international trading system. Removing distortions to trade, which restrict the exploitation of comparative advantage, is long overdue and need to be put in place. A genuine opening up of world markets in agriculture is a priority for such countries as Kenya, because a fully liberalised system would make

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Kenya an important supplier of food and agriculture commodities to Europe, the Middle East, Asia and the United States.

Some suggestions towards trade facilitation in Kenya and the rest of sub-Saharan Africa

Some of the suggestions on trade facilitation from an African point of view include the following:

- Preferential access arrangements to facilitate exports;
- Quick rapprochement with donors to accelerate economic, political and judicial reforms;
- Reduction of high tariffs imposed by developed countries;
- Elimination of post audit processes;
- Incrementing levels of automation for the clearance of goods;
- Enhancement of information flow among exporting countries;
- Simplification of valuation procedures;
- Harmonisation and simplification of rules of origin;
- Provision of adequate information to all trading partners;
- Pre-shipment inspection services should be eliminated and requirements integrated within customs valuation procedures;
- Regulatory clauses, such as the Anti-dumping and countervailing measures, should be transparent and information made available upfront to the exporter. The same holds true for the use of Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT);
- Laws or standards that are discriminatory to exports should be made transparent and information made available upfront;
- Ways and means should be found to finance export ventures;
- Establishment of the investment code to stimulate investments should be completed;
- Information technology should be used to address issues of integrity, accountability and transparency, where there is a free flow of information between customs administration and the business community;
- Marshalling individual country strength, within the regional blocks, to form economic blocks;

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- Information through research on available markets for Kenyan goods and incentives to exporters;
- Sponsoring more effective trade exhibitions in overseas countries;
- Privatising the Export Promotion Council so that it is able to offer more efficient services;
- Introduction of Export Credit Insurance and Export promotion, through introduction of an export insurance pool, to guard against failure of payment by the importer;
- Easy availability of pre-export finance to genuine and needing cases through intermediaries probably Commercial banks;
- Straightforward and easy customs exit documentations and procedures; and
- Negotiation of additional preferential agreements to enable Kenyan goods to enjoy a wider market.

Conclusions

In conclusion, there is need to consider the following recommendations:

1. Consideration should be given to the removal of 'invisible' barriers that inhibit the smooth flow of goods and services across international borders. These barriers, which are mostly administrative in nature, act as added costs to trade;
2. There is need for greater coordination to ensure adherence to, or awareness of existing and/or future instruments concerning the simplification and harmonisation of international trade procedures;
3. There is a need to alleviate certain constraints including:
 - Excessive documentation requirements;
 - A lack of automation and insignificant use of information technology;
 - A lack of transparency; unclear and unspecified import and export requirements;
 - Inadequate procedures; especially the lack of audit-based controls and risk-assessment techniques;

THE NEED FOR CAPACITY DEVELOPMENT

- A lack of modernisation of and cooperation among customs and other government agencies, which interferes with efforts to increase trade flows effectively.

Finally, the losses that businesses suffer, through delays at borders, unclear and often-redundant documentation requirements and a lack of adequate customs automation, lead to costly trading procedures that, in many cases, exceed the costs of tariffs. Simplification and harmonisation of trade procedures would speed-up the process of goods clearance and would also have a multiplier effect on expanding trade and promoting growth.

Chapter 6.3

A Developing Country's View on Trade Facilitation

Alexander Arevalo, Deputy Commissioner, Bureau of Customs, Department of Finance, the Philippines

As a former Executive Assistant to the President of the Philippines for seven years, I witnessed literally and up close, how policies were formulated. One of our tasks was to monitor the completion of administrative and diplomatic requirements for regional and international agreements, prior to the President's signature. As far as such agreements were concerned, our Government turned the process into some sort of a science, in terms of the systematic and efficient discussion, deliberation and policy formulation by the President and the Cabinet and Agencies concerned, who had deadlines to meet and coordination to complete. That is the view from the top - from the policy formulation perspective.

Now, as Deputy Commissioner of the Bureau of Customs (BOC hereon), I have experienced up close, how such policies, formulated up there in the organisation, are being interpreted and implemented down on the frontlines. In this paper, I would like to share the day-to-day challenges and the pragmatic side of trade facilitation policy, in such a developing country as the Philippines. This is the view from below - from the policy implementation standpoint.

Policy directions towards trade facilitation

In July 2001, Philippine President Gloria Macapagal Arroyo, in her first state of the nation address, stated explicitly the policy related to trade facilitation, and I quote:

"To reduce red tape in the national Government, within 12 months, all government agencies will implement measures to cut in half the number of signatures required for their service... If legislation is required to effect this efficiency, the agencies concerned will draft appropriate bills for my endorsement to Congress."

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“The BOC is exceeding its targets. But the anti-smuggling drive must be relentless. So must the drive against the harassment of legitimate businessmen doing legitimate imports.”

“We will minimise bottlenecks to productivity... and corruption and red tape at the national and local governments.”

“We will introduce a new culture in governance: a culture of plain talk and common sense...Less meetings, more actions, more tangible results whether in generating jobs, improving peace and order, or fighting graft.”

Compliance to the state of the nation commitments by government agencies is closely monitored by the Presidential Management Staff (PMS), on a monthly basis, and results are periodically reported during Cabinet meetings and posted on the official website: www.gov.ph.

In February 2002, during the World Economic Forum (WEF) meeting in New York, Secretary Isidro Camacho of the Department of Finance, under whom the BOC operates, volunteered the Philippines to be the pilot for a replicable trade facilitation project through customs modernisation. This fast-paced, action-oriented initiative will result in the submission of recommendations in 4 months, in time for the WEF's East Asia Summit, in Kuala Lumpur, in October 2002. Importantly, the implementation will commence thereafter. Just two days ago, I attended the kick-off meeting here in Geneva.

On 13 March 2002, the President appointed the former Undersecretary and Chief of Staff of the Secretary of Finance, Atty. Antonio M. Bernardo, as the new Commissioner of Customs. In his inaugural address, he refocused the objectives of the Bureau in terms of the following five point agenda:

- Revenue collection, our traditional role;
- TRADE FACILITATION;
- Professionalisation;
- Good Governance (anti-graft and corruption); and
- Effective Enforcement of Customs Laws.

Apparently, it is by no accident that revenue collection precedes trade facilitation as an objective, considering that the BOC is the second biggest

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revenue earner in government, contributing around 20%, next to the Bureau of Internal Revenue (BIR). Nevertheless, from a broad policy pronouncement by the President, trade facilitation has taken centre stage in our daily operations.

Commissioner Bernardo, since his first week in office, has required all BOC officials to submit a compilation of process flowcharts of all the actual (not the published or theoretical) business processes in each office. He recently finalised the technical assistance for a Process Re-Engineering Project, to minimise the steps, signatures and costs in all of these flowcharts, at the micro level. An example is the requirement of only the signature of the chairman of a review committee and to discard the obligation for the signature of the four other members.

In effect, there exists a firm political will, from the national to the agency level. With support from the Finance Secretary, the Commissioner has taken on the role of a trade facilitation champion.

Our clients demand trade facilitation

As part of the BOC's ongoing efforts towards being sensitive and close to its clientele, regular meetings are held, with all our stakeholders and other government agencies involved in the processing of imports, specifically with: The Philippine Chamber of Commerce and Industry, the Port Users Confederation, the Confederation of Customs Brokers Inc., the Federation of Philippine Industries, freight forwarders, air carriers, shipping lines and the stevedores, among others, most of whom have been provided with office spaces within the BOC premises. In these meetings, detailed problems are often raised and resolved.

In recent months, we have learned that our stakeholders have not just been requesting trade facilitation. They have been *demanding* that the BOC reduce the time and the cost of doing business with the Bureau. Gone are the days that they could tolerate unexpected delays and the consequent additional expenses in the release of their shipments. They have indicated that their commitments to just-in-time, quick turnaround time and pre-determined delivery time are parameters by which their customers and end-users measure their performance. In effect, trade facilitation has taken a new meaning for the BOC.

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Now, trade facilitation has also become the measure for the competitiveness and ultimately, the viability or survivability of our stakeholders.

BOC is in the centre of trade facilitation

The BOC is referred to as the gatekeeper, as it stops the movement of goods for inspection. Recent developments have also made it take on the role of the facilitator of such movement, not as a matter of choice, but as a matter of necessity, without unduly sacrificing control and governance. We do not have to wait for an international or regional commitment to raise the issue of trade facilitation. It is our direct customers, those that directly deal with us on a day-to-day basis in over 800,000 transactions per year, who require—not request – trade facilitation. And they want it now!

The BOC is at the forefront of the efforts towards trade facilitation in the country. To streamline the revenue collection on imports, the BOC, consistent with the concept of a one-stop shop, is mandated to collect all duties and taxes for imported goods, including those for the Bureau of Internal Revenue for value added tax (VAT) and excise tax and for the Land Transportation Office for *ad valorem* taxes for imported vehicles. It is at the BOC that inter-agency documentary and technical checks are done. Thus, it is both at the forefront and at the centre of trade facilitation.

BOC is in the middle of the global supply chain

The ends of trade facilitation are consistent with the BOC's vision statement in its 2001-2004 Corporate Plan:

- A world class customs service;
- More responsive to the clients' needs;
- Supportive of government goals;
- Adhering to the world's best practices; and
- Fostering cooperation with the private sector in building a dynamic organisation that every Filipino can truly be proud of.

In the midst of the redefinition of our customers' business models (including cargo carriers), brought about by globalisation, the reduction of

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tariffs and increased competition, the BOC has also been redefining its role in the global supply chain, consistent with its vision statement. In our focused group discussions with stakeholders, we realised that the BOC could not continue to work outside the global value chain and to allow it to become a bottleneck, chokepoint or sore spot. We cannot be the weakest link in the chain!

We therefore inserted the BOC as an inherent component of that serial movement of goods, from exporters abroad to local importers and local exporters to foreign buyers. The BOC, wittingly or not, has become part of the production line in the movement of goods from overseas to the Philippines and vice versa. The BOC is now virtually in the middle of that global supply chain, inwards or outwards.

Trade facilitation efforts

So, what have we done towards trade facilitation? Major reforms were initiated during the incumbency of Commissioner Guillermo L. Parayno, Jr., with the implementation of the Philippine Tax Computerisation Project, from 1994 to 1999. It was funded by a World Bank loan, highlighted by the activation of UNCTAD's ASYCUDA++ system. It resulted in the computerisation of the following end-to-to end import process: the manifest, lodgment, assessment of duties and taxes, risk assessment and selectivity, payment and on-line release. All these involve the processing of only one single administrative document (SAD).

Advance processing of shipments is being done through a Super Green Lane (SGL) facility that allows automatic clearance of goods for pre-qualified firms among the top 1,000 corporations, with cargo inspection being done at the company premises, if needed. SGL users accounted for 5% of transactions in 2001. In addition, we continue to maximise the use of information and communication technology (ICT). A law has been passed on the activation of our Post Entry Audit system.

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Trade facilitation indicators

The following are some quantitative indicators of our level of trade facilitation for imports processed in the first quarter of 2002:

- Selectivity:

Super Green - 5% (automatic clearance for accredited EDI users)

Green - 25% (cleared after non-EDI lodgement and selectivity)

Yellow - 28% (requiring document checks), and

Red - 42% (requiring physical inspection)

- For EDI users, cargo clearance took:

Green - 6.5 minutes to 32.5 minutes

Yellow - 1 hour and 6.5 minutes to 1 day and 32.5 minutes

Red - 4 hours and 6.5 minutes to 2 days and 32.5 minutes

- For non-EDI/DTI users, cargo clearance took:

Green - 57.5 minutes to 2 hour and 32.5 minutes

Yellow - 2 hour 3.5 minutes to 1 day 12.5 minutes

Red - 6 hours and 3.5 minutes to 3 days and 32.5 minutes

The day-to-day challenges of trade facilitation

Let me now cite some of the down-to-earth and practical challenges we confront in the customs frontlines, in terms of trade facilitation, given such a backdrop:

Trade Facilitation is as Predictable as the Weather

We have a port that has limited roofed space for the inspection and stripping of containerised cargoes. We often have to wait for the rain to stop so that the inspection can commence outdoors, when the security warehouse is full.

Although we have earmarked land for the construction of a warehouse, we do not have the budget for it yet. Last year, a Memorandum of Understanding was signed with the arrastre operators for them to procure x-ray machines for containers, in order to eliminate the need to off-load shipments requiring inspection. In the meantime, will our importers need to include the weather forecast in their delivery and production schedules?

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Trade Facilitation at the Speed of 486 PC's

Recently, I received an urgent call from my Commissioner, who was in a meeting with a group of brokers that complained that the computer terminals, used in dealings with them, were slow, and asked what could be done. I confirmed that, indeed, we were still using 40 units of 486 PC's that were four PC generations old. Out of the 700 PC's that we have, 58% are Pentium I PC's and 36% are Pentium III PC's.

For 2002, we have a budget of 0.0 for capital expense, 0.0 for overtime pay, and 0.0 for new personnel. We should be able to upgrade the PC's when we receive a pledge by the private sector for donation of their old Pentium III PC's or realign some of our maintenance budget, which will require the signature of 2 Cabinet Secretaries. In the meantime, the ageing 486 PC's will continue to be used.

Trade Facilitation is as Powerful as Electric Power

During typhoons, we experience day-long and island-wide brownouts. Because of the limited capacity of generators for some ports, we have to switch off some air conditioning units to avoid overloading. At around noon, we sometimes receive reports that the generators are fine, the servers and PC's are operating uninterrupted, but there are no transactions being processed and this because the heat in the offices becomes so unbearable that our personnel go out of the building.

For next year, we have planned the purchase of some high capacity generators. In the meantime, our clients and personnel will have to bear the discomfort and delays as we try to optimise our generator power.

Self-Help Private-Sector Trade Facilitation

Six months ago, the Semiconductors and Electronics Industry of the Philippines Inc. (SEIPI), which accounts for around 60% of our exports earnings, requested BOC begin the automation of the exports processing. We presented them with a technical model, but told them that we did not have the budget for the back-end server, connectivity, database and communication software, and front-end PC's to allow for electronic documents processing at the exporters' premises. In short, we did not have anything to offer except for the ASYCUDA++ software, which is free. Last month, the BOC and the Philippine Economic/Exports Zone Administration (PEZA) signed a memorandum of agreement with SEIPI, which volunteered

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to provide for all that is necessary to put up the automated exports documentation system. We started test runs this week. Eventually, we hope to accommodate all exporters in the system and to provide for the electronic bridge to connect the imports and exports system for the seamless processing of imported raw material, for production into finished goods and for export.

Trade Facilitation at the Speed of Text/SMS

Our e-commerce law, which came into force 2 years ago, imposes the use of Internet in government transactions. However, only 0.6% of our population has access to internet-enabled PC's. On the other hand, we have 15% (12 millions users) of our population with cellular phones. That is a ratio of 25 cell phones to 1 PC. On average, an individual is beside his computer 6 hours in a day while one is beside his cell phone 24 hours in a day. Thus, the cell phone is 4 times as ubiquitous as the PC. In the Philippines, around 120 million text/SMS messages are exchanged every day, primarily because it costs 2 US cents to send a text/SMS message, while it costs 10 times more for 1 minute of talking time. We have seen the opportunity to integrate e2m (electronic to mobile) commerce solutions for trade facilitation.

The BOC is finalising the administrative requirements for the lodgment and payment via Internet and the payment and the tracking of shipment status via mobile phone. By leveraging on these two cost efficient cutting edge technologies, we hope to see, in the very near future, trade facilitation being done at the speed of text/SMS.

And the list goes on!

We continue to wrestle with every problem, to achieve long-lasting self-help solutions. We sometimes feel as the song goes: "We did our best, but our best was just not good enough!" So we go back and do our best some more.

Standards for trade facilitation

In the end, after we have processed 800,000 import transactions in a year, who will rate our performance in the realm of trade facilitation? In our scenario, where trade facilitation has become demand-driven and client-

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centric, it is the stakeholders that will judge us initially. We have to have honest-to-goodness, day-to-day, transaction-by-transaction, end-to-end (supply chain) and door-to-door trade facilitation. In effect, the service quality standards are initially being set and imposed not by the Government, not by organisations, but by our stakeholders at the frontlines. And we are seeing to it that we do all these within the realm of existing international commitments and agreements.

Conclusion

Trade facilitation has recently taken center stage in government operations, as the BOC has inevitably become an inherent component of the global supply chain from the producer abroad to the local consumer or manufacturer. Trade facilitation is becoming one of the determinants for the competitiveness and viability of business and even of our economy.

The Government aims at limiting the cost and time for doing business and moving goods to and from the international market to the barest minimum. Trade facilitation is work-in-progress to make world products and markets very accessible to our people.

Top-to-bottom policy formulation will have to be met with appropriate and realistic bottom-to-top implementation. There are administrative and logistical challenges that we continue to face every single day. But these should not act as impediments for the implementation of creative and out-of-the-box trade facilitation solutions.

The Government cannot do trade facilitation alone. With our ongoing alliances and partnerships with international and local stakeholders, in both the public and the private sectors, we are confronting the challenges of trade facilitation on a broad front and on a major scale. Trade facilitation is our means to an end – of seeing to it that we add value to our economy, for our people and for the peoples of the world.

Trade facilitation really is a team effort, both in the local and international arenas. It is like an international ball game where we have to train, empower and equip our local players in government following international rules. Surely, we hope to be in contention as the most valuable player in the

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league and not just forever be an embarrassed bench warmer once the ball is in play. We want to play! But, in the meantime, we will have to continue to work on our own capacity building, technical assistance and exchange of knowledge and technology, so that we will be well-conditioned and well-prepared to step into the field once we are called to play by international standards and commitments, both for imports and exports.

We would like to imagine the Government's processing of goods to be more efficient than the processing of airline passengers. If only those containers and cargoes could talk, they would have had a story to tell and movies could be made after them! We want most of them to be happy and feel-good love stories about how government is able to process their documentary requirements efficiently, or adventure stories about how shipments swiftly arrive at their destinations with minimum of inconvenience. We hope that these stories are not sad or horror stories of traumatic trips of goods through the supply chain, nor mystery stories of why some goods have been languishing in the docks under the sun for weeks waiting to be released.

With trade facilitation, we are sure that the stories of the movement of goods, after efficient processing, will all have a happy ending!

Chapter 6.4

Trade Facilitation in Tunisia

Belkacem Nafti, Chef de Cabinet, Trade Ministry, Tunisia

Trade facilitation is a topical issue of interest for any country around the world and for any international organisation dealing with international trade. The discussion of this subject now is particularly timely, both because of the important steps made ahead on the road to global trade liberalisation and because of the new concerns, which necessitate urgent discussion and research for a solution, in order to realise the gains of this liberalisation to the benefit of all participants in the multilateral trade system. On a global scale, the growth in the volume of trade, the conclusion of international trade agreements and the evolution of trade practices in an increasingly competitive environment, have raised ever-growing requirements with relation to the speed of movement of goods and services. These changes, which necessitate speed and efficiency, have raised interest among businesses and governments for trade facilitation.

In 1996, the first WTO Ministerial Conference in Singapore decided that the Council on Trade in Goods should begin exploratory and analytical work on the simplification of trade procedures, taking into account the work undertaken by other international organisations, in order to establish whether it was necessary to develop WTO rules in that area. The work undertaken within this mandate covered all questions related to this topic and created an inventory of all trade facilitation work undertaken by other international organisations. In addition, many countries prepared documents, presenting additional ideas and their experiences in trade facilitation. These countries pointed out that a number of technical assistance programmes were already in place on a bilateral level or within regional and multilateral programmes. Strengthening capacity building and technical assistance would contribute effectively to a successful implementation of such trade facilitation programmes.

In 1998, the WTO organised a symposium on trade facilitation, aimed at clarifying the main obstacles to trade. This event was very useful for the further work of the WTO in this area. Traders and private sector representatives at this symposium emphasised that the WTO had a role to play, both in the implementation of existing agreements, which have a

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direct link to trade facilitation (as for example the TBT or GATS) and in the trade rules, which guarantee faster trade flows.

Work undertaken in this area should increase efficiency, decrease costs, promote trade growth and foster investments. In this sense, the international organisations and the United Nations agencies can play an important role in capacity building for trade facilitation, especially in developing countries and transition economies, which need better access to markets.

Tunisia has made its choice, for many years, for an open and competitive economy integrated in the world economy. This necessitated the realisation of measures and programmes, in which trade facilitation and trade procedures were an essential component. These measures included:

1. Liberalisation of the trade environment: a law on the liberalisation of foreign trade freedom was adopted in 1994, which provides for free import and export operations, and indicates measures to guarantee the transparency of these operations. 97% of all imports have been liberalised; only trade in products in the area of public health, security and public order remains regulated.
2. Opening to the outside world: In addition to signing the Agreement instituting the WTO and the Association Agreement with the European Union (EU), Tunisia also reinforced its trade and economic relations with its economic partners. This includes the conclusion of agreements with a view to creating free trade zones with certain countries or groups of countries.
3. Trade facilitation remains an essential element in the strategy for a successful integration of the national economy into the world economy and for the improvement of competitiveness through the reduction of trade transactions costs.

In this sense, it is important to mention three areas of activity:

Firstly: setting up, together with the World Bank, an Exports Development Project, with a view to increasing the capacity of Tunisian exporters to integrate themselves in the world economy. This project is financed by the World Bank, involves all players concerned by international trade and aims at further developing the competitiveness of Tunisian exporters (SMEs in particular) through facilitated access to external markets, better access to export financing before shipment and trade facilitation in customs.

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The trade facilitation segment of this programme should help simplify procedures and reduce transactions costs related to trade, notably procedures in customs and ports and the use of new information and communication technologies (ICT). In this sense, a directing scheme and an action plan, on the facilitation component of the programme, have been developed. With respect to the strategy in the latter component, two sub-components were identified: namely, an integrated automated system that dematerialises the processing of foreign trade formalities called “Single Bundle”, and a second, “customs” sub-component, dealing with all activities related to simplification and modernisation of customs procedures. The trade facilitation project is planned to achieve its goals in two years. The “Single Bundle” was launched in March 2002, after a testing period and an awareness campaign and led to significant gains in efficiency, in terms of cutting delays of goods in harbours and costs of foreign trade procedures.

Secondly: transparency in international trade transactions. The alignment of the national legislation to the provisions of concluded agreements and to the multilateral trading system, made significant steps ahead, notably, the areas of safeguards and protection against unfair importing practices, customs valuation and intellectual property.

Thirdly: the development of electronic commerce, as a means to benefit from the development of modern means of communication and the processes of globalisation. A legal and regulatory framework, which takes into account the evolution of this sector on the national and international levels, was put in place. A number of legal texts have been adopted, in order to encourage these activities, guarantee the security of electronic transactions and boost user confidence.

I am confident that the recommendations adopted by the International Forum on Trade Facilitation, notably in developing and transition economies, will help open the road for all to profit from the benefits of the multilateral trading system and in the final resort, for the full and efficient integration of national economies into the world economy.

Chapter 6.5

Trade Facilitation in the Accession to the European Union

Peter Brño, State Secretary for European Integration, Foreign Trade and Tourism, Ministry of Economy of Slovakia

The issue of trade facilitation has been clearly identified as an increasingly vital component of the trade policies of all participants in the multilateral trading system and has been correctly included among issues to be dealt with in the process of multilateral trade negotiations. The issue of trade facilitation is not new. However, it has accrued a prominence today more than ever. As is clear from the definition, trade facilitation is a cross-cutting issue, related to a wide range of activities, such as import and export procedures (e.g. customs or licensing procedures), transport formalities, payments, insurance and other financial requirements, which touch upon a broad range of international and domestic regulations and agreements. It therefore requires a constructive dialogue and a coordinated, orchestrated approach, not only among governments and the business community, but also among international organisations.

Before I touch upon the topic, from the perspective of challenges for Slovakia, I would like to highlight some general notions:

- In the past decades of lowering tariff protection and the substantial reduction of quantitative restrictions during liberalisation rounds, the role of technical barriers to trade has been, and still is, growing (some as substitutes for tariff protection);
- TBT has become an important trade policy instrument and its complexity and thus inefficiency, may not only be as a result of the inability to implement effective administrative mechanisms;
- A comprehensive network of TBT's may still be an important segment of budget revenues and therefore a potential source of reluctance towards implementing more efficient and cheaper regimes;
- From what has been said, it is clear that trade facilitation, as a possible answer to non-efficient, costly, bureaucratic systems, is not only a technical and legal but also a political issue (note: In the

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case of developing countries and to some extent transition economies, an element of capacity building – human, financial and technological – is an additional barrier to necessary improvements).

Slovakia has significant experience with trade facilitation in the context of transformation and the EU accession process. From the date of its establishment, Slovakia has embarked upon the process of economic transformation towards a fully-fledged market economy. The main objective was to achieve the political and economic consolidation of Slovakia, with the market economy completed from the legislative and institutional aspect, with companies sufficiently competitive on foreign markets and to achieve a position in, and the adequate participation of, Slovakia within the multilateral trade system.

Slovakia continues to apply liberal trade policy, targeted towards integration into international economic structures, with the emphasis on European economic structures and on promotion of liberalisation and removal of barriers to international trade, within the multilateral trade system. International trade was a key element for further economic growth and trade policy was a significant part of the overall foreign and economic strategy of Slovakia.

In a global context, Slovakia participated actively in the Uruguay Round of GATT, which contributed greatly to the reduction of tariff and non-tariff barriers to trade and the creation of a transparent multilateral framework of rules. A complete set of provisions has been incorporated, from WTO agreements, into the domestic legal and regulatory system. Slovakia became a contracting party to almost all trade facilitation conventions (with the exception of the Convention of Facilitation in Maritime Traffic, 1965), including the Nairobi and Istanbul Conventions and signed the Protocol of Amendment to the Kyoto Convention.

Parallel to the implementation of internationally agreed facilitation procedures, harmonisation formulas have been adopted within the framework of the EU integration process. The result is that technical barriers to trade in the “regional context” are gradually being eliminated, consistent with global trade facilitation efforts.

TRADE FACILITATION IN THE ACCESSION TO THE EU

Accession to the EU is a top priority for Slovakia. EU accession will deepen Slovakia's European integration further and promote economic development. It offers renewed opportunities for comprehensive trade, investment and other economic reforms. Trade and economic policies are increasingly being harmonised with those of the EU. Negotiations on EU accession commenced in February 2000 and Slovakia aims to complete them by the end of 2002. The screening of Slovakia's legislation was essentially completed in 1999 and its third National Programme for the Adoption of the *acquis communautaire* was submitted in May 2001. Twenty-four of the thirty chapters opened had been provisionally closed. In the latest report on the accession process, Slovakia has been viewed by the European Commission as a "functioning market economy" with further continuation of macroeconomic and structural reforms needed.

During the process of harmonisation and implementation of the *acquis communautaire*, an adequate effort has been devoted to improving the trade regime and overall economic environment substantially. This would not have been achievable without the implementation of trade facilitation policies, aimed at the improvement, simplification and higher transparency of legal, institutional and administrative frameworks in particular in areas, such as TBT, SPS, Import licensing procedures, Rules of Origin, Customs Administration and the utilisation of modern information technologies.

Effective international integration, specifically in crucial services necessary for foreign trade operations, such as banking, insurance, forwarding and transport, have been improved significantly by the privatisation of these service sectors. A competitive liberal environment, international standards and the best services made available by strategic partners, made generally a qualitative improvement.

I would like to highlight one specific area – customs administration. While pursuing an approximation of customs rules and regulations with those of the EU, a complex modernisation of the customs administration has taken place. With the aim of achieving success in the implementation of the Pre-accession Strategy, Slovakia is ready to accept the commitment to modernise and to cooperate closely with the European Commission; support customs administration to ensure stability in management, both politically and financially; to ensure absorption capacity and to cooperate with neighbouring countries. With this aim, an Integrated Customs Information

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System has been developed and implemented at the national level, to enable the Slovak Customs Authorities to link information systems with as many customs administrations as possible, in the short run, and to exchange information and data accordingly. The New Customs Law and Slovakia's new integrated customs tariff, consistent with the EC Integrated Tariff (TARIC) and including provisions on simplified procedures, have been adopted. All customs declarations are registered electronically and the ASYCUDA system has become operational. Transparency in custom administration has also been improved through the availability of information on the Internet. The concrete result of these amendments is visible in the fact that, since the year 1995, the average time taken to clear imports has been reduced by half.

Slovakia also undertook steps to encourage the involvement of the private sector in trade facilitation, through the establishment of the national trade facilitation body SLOVAKPRO. SLOVAKPRO was founded in 2002, following UN/CEFACT Recommendation No. 4, on the establishment of a national focal point for trade facilitation. SLOVAKPRO has balanced private and public sector participation and includes the following members: the Ministry of Economy, Slovak Association for E-com, Federation of Employers Associations, Foreign Trade Support Fund and the National Agency for Development of SME's, as well as other institutions. One of the main duties of SLOVAKPRO is to ensure the realisation of the governmental programme to introduce the e-signature. In the future, SLOVAKPRO's task will be to realise the following projects:

- Establishment of the Centre for e-com and the Certification authority;
- e-com for SME's;
- e-catalogue;
- Station in e-portals and procurement;
- Transfer of foreign macro marketing information to entrepreneur;
- Monitoring and research of SME's in using and implementing e – com; and
- Regional network of Trade Points and referential places.

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In conclusion, I want to stress the following points:

- The political will of governments to undertake trade facilitation-related reforms is vital;
- The involvement of all stakeholders (governments, international organisations and business community) is required in the process of creation, unification, simplification, transparency and control of trade facilitation rules;
- Comprehensive capacity building, aimed at global inclusiveness, is strongly demanded; and
- While relevant international institutions are important for analytical work, financial support and technical assistance, the role of WTO, based on legally binding and enforceable commitments, as well as an effective control system, has to be recognised.

Therefore, Slovakia supported the inclusion of trade facilitation into the Doha Development Agenda and also welcomes all activities on international and especially on regional cooperation in the field of trade facilitation and is ready to give its contribution to the greatest benefit of all.

Chapter 6.6

Trade Facilitation within the WTO: A Possible Approach for Transition Economies⁹³

Ambassador Nicolae Ropotean, Director, Department of Regional Co-operation, Ministry of Foreign Affairs of Romania

The first point to make, in addressing trade facilitation from the standpoint of a transition economy, is that economies in transition, due to their unique, sometimes odd, unconceivable features are a stage, whose potential for change and improvement is watched closely by key players in the trade world. The World Trade Organisation itself recognised, at its fourth Ministerial Conference in Doha, last November, the need for enhanced technical assistance and capacity building in the area of expediting the movement, release and clearance of goods, including goods in transit. Hence, the ministers tasked the Council for Trade and Goods to identify the trade facilitation needs and priorities of Members, in particular developing and least-developed countries, including economies in transition; one might add, in order to start multilateral negotiations thereon, after the next ministerial meeting in Mexico, September 2003.

To my way of thinking, the idea of trade facilitation has come up because of a plethora of hindering aspects, which stop the normal flow of commodities from one country to another, with all the resulting consequences for healthy economic growth and the ability to fulfil WTO trade requirements. Trade facilitation represents an important part of those requirements, for a sound economic reform and reliable regulatory procedures will soon make themselves felt throughout the region, as development and growth continue. Trade facilitation was thus meant to be the driver or impetus for the correction of the problems.

Economies in transition expect traders to have full knowledge of other countries' trade rules and practices, in order to take advantage of the trade benefits granted by Members' WTO commitments. Full, simple and easily accessible information is important for SMEs to do business and for

⁹³ Paper presented at the Round Table on Implementing Trade Facilitation in Transition Economies, 31 May 2002, UNECE, Geneva

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governments; a business-friendly administration of trade policy reduces trade conflicts.

For the transition and developing economies, transparency and predictability in the implementation of trade regulations and procedures are, in the long run, an important aid to development. According to our practical experience, when deciding to enforce a liberal trade policy and a subsequent trade facilitation agreement, governments in transition should pursue two major goals:

- First, to make the economy act in accordance with the multilaterally agreed instruments, mechanisms and rules; and
- Second, to encourage the development of a competitive environment, capable to foster the enforcement of market rules.

There are, no doubt, quite a few risks involved in such an endeavour, but we believe risks should be allocated to entities that are most capable of managing each risk, are qualified to transform a transition economy into a market-based economy and have the credentials to ensure that producers act in a competitive manner. In order to attain such an objective, due emphasis should be given to the WTO core principles, i.e. transparency of trade policy, national treatment and most-favoured nation treatment.

From a transition standpoint, there is a Decalogue of principles and objectives to be sought out actively by international trade policy makers, when establishing the rules of a possible framework on trade facilitation, provided there is one in store:

1. The aim of a trade facilitation agreement should be to speed up the customs process, reduce costs, improve collection of revenues and detect illegal transactions;
2. A WTO agreement must provide a clear strategy, based upon the core WT principles and avoid trade distortions;
3. The agreement must provide the necessary tools for assuring a degree of assessment and enforcement;
4. Developing countries should be enabled to assess the consequences of the facilitating measures they are to implement;
5. Because of their sensitivity, dispute settlement provisions will need special consideration;

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6. The developing countries will always adopt a lower degree of trade facilitation compared to developed economies (the well-known principle of special and differential treatment, used also in other WTO agreements);
7. The agreement should provide for a transitional period of time, in favour of the developing economies and for support measures from the developed countries (that is technical assistance and capacity building). The United States, the European Union and other developed countries are already doing just that;
8. Trade facilitation should be negotiated in the formal trade Rounds, possibly in a package with other WTO agreements (the “single undertaking” principle). I think this is the only “win-win” solution;
9. A set of obligations for the developed and developing countries should be drawn up clearly, and a minimum level of trade facilitation should be reached within, say, 10 years of signature of the WTO Agreement (the usual transitional period in the WTO);
10. The members should be encouraged to bind their obligations and to define a work programme and a review mechanism to assess their performances, under the aegis of the Council for Trade in Goods and the support of the WTO secretariat.

Customs regulations form the major part of the agreement on trade facilitation. There is no single, precise model that can be offered as representing a standard for restructuring customs regulations and abolishing customs habits, for that matter, in a transition economy. Each of the countries in transition brings their own particular blend of political ambitions and economic hopes in the trade arena. An enforced customs tariff, based on the Harmonised System (HS), with all tariff lines bound under the WTO Agreement, is of major importance. The Import Customs Tariff, in its turn, should strengthen its role and importance and should represent the main instrument of trade policy and protection at the border.

The basic principles with which the customs authorities should comply might be summarised as follows:

- At a common border crossing, the customs authorities of the countries concerned shall work together and operate joint controls;

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- Customs shall ensure that inspections are coordinated and carried out at the same time with other national authorities (border police, sanitary control, etc)
- Practical and effective communication between customs and trade is essential to avoid undue delays and potential problems; and
- All relevant information relating to customs law, procedures and practices must be readily available to any interested party.

There are also other aspects of the trade policy, which must be taken into consideration when speaking about trade facilitation: restrictions or quantitative limitations, trade defence measures (anti-dumping, countervailing measures or safeguard measures), as well as the licensing system. All these prohibitive measures must be reduced or even eliminated because, when implemented in an unpredictable and non-transparent manner, they could all generate trade distortions and hamper the normal flows of trade.

Within the European economic integration, liberalisation of trade relations, on a regional level, is a preparation for the speeding up of multilateral trade liberalisation and enhances the enforcement of WTO rules. The EU Association Agreements, as well as the regional free trade agreements, must include provisions stating the legal prevalence of GATT and WTO rules. To all these, Romania is no exception. However, I think the Romanian case is worth taking, if one seeks details about the process of change that has occurred and the approach of an Eastern European transition economy to the rules, on which a possible WTO agreement on trade facilitation might be based.

Romania's economy and society have developed from an excessively centralised system to a market economy, from a totalitarian regime to a democratic society. The financial and economic crisis, as well as political changes and events which occurred in several parts of the world, adversely affected Romania's foreign trade and increased the already high social costs of transition. On top of it all, Romanian exports have been affected directly by:

- The disappearance of several traditional markets;
- The observance of UN embargoes for countries having an important weight for Romanian exports or debts to be reimbursed;

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- The contraction of Asian and then Russian markets; and
- The intensification of commercial defence measures as a result of turmoil in international markets.

At the same time the contraction of internal industrial and agricultural output and insufficient development of the tertiary sector affected the export offer. Meanwhile, the high degree of export dependence on imports determined the continuous deterioration of the balance of payments, in addition to the increasing demand for imported products from the population and industry and as a result of the country's liberal trade regime. Consequently, Romania has, indeed, enforced one of the most liberal trade policies in Europe. In spite of all these difficult circumstances:

- All commitments regarding the bound rates of customs duties were observed;
- No export subsidies were granted;
- Import restrictions were eliminated back in 1992, while export restrictions were gradually relaxed and finally abolished as of 1998; and
- No commercial defense action has been taken on a multilateral level.

As far as regional integration agreements are concerned, all such documents, concluded by Romania, include provisions according to which, trade relations between partners are governed by the multilateral principles and rules, each specific provision of these agreements being either a reiteration of those included in WTO legal texts or an even stronger rule.

Romania has concluded Free Trade Agreements (FTA) with the EU, EFTA and CEFTA member countries. Bilateral FTA are in force with the Republic of Moldova, Israel, Lithuania and Turkey. Under the aegis of the Stability Pact, negotiations have begun with Yugoslavia, Croatia and the former Yugoslav Republic of Macedonia for concluding new FTA. Besides concluding bilateral and multilateral FTA, regional projects could set out good examples of how the purpose of trade facilitation can be extended, in practice, to the benefit of transition economies.

To come to a practical example, let me now present shortly the way the considerations made above translated into one relevant regional project: the

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Trade and Transport Facilitation Programme in Southeast Europe (TTFSE), promoted in the frame of both the Stability Pact for South Eastern Europe (SPSEE) and South East Europe Cooperative Initiative (SECI).

A World Bank supervision mission for TTFSE visited Romania in April 2002. The mission focused on the following:

- The progress in project implementation;
- Progress by customs in introducing risk-based selectivity and targeting;
- The impact of new border management legislation on customs' performance; and
- The assessment of project performance indicators results.

The mission has assessed excellent results in the trade facilitation development component. There were some delays reported, but only in the implementation of physical components. While trade facilitation development and customs information systems were considered well advanced, customs reforms and border crossing facilities were found to be still lagging behind. It goes without saying, that in order to improve the implementation of this project, the Government of Romania is contemplating a host of measures, among which:

- Better coordination and demarcation/division of responsibilities between Customs and Border Police (review of the relevant legislation);
- Conclusion of the methodological framework concerning risk-based selective and targeted verifications, which is meant to bring about an improvement of customs' efficiency.

Other international organisations also have an important part to play in trade facilitation. Take, for instance, UNCTAD technical assistance in this area. ASYCUDA (the Automated System for Customs Data) has been a very successful trade facilitation project in Romania. It aims to achieve trade facilitation by accelerating the customs clearance processes and procedures through the use of information technology. This implies the simplification of documentation, uniform application of the law throughout the whole customs territory and automatic assessment of duties and taxes, including the computerisation of customs tariffs. The system has been introduced in over 100 Romanian locations and is considered suitable as a model for

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replication elsewhere, assuming the necessary dedication of senior customs officials and government.

Also, in keeping with the provisions of the Memorandum of Understanding, of the Facilitation of International Road Transport of Goods, in the region of the South East Europe Cooperative Initiative (SECI); PRO committees in Romania and in the neighbouring countries, meet regularly to discuss topics related to the difficulties and poor performances that disturb the fluidity of traffic at border crossings. Among the results, one may count the abolition of visas for professional drivers for Italy as of May 1, 2002 and the advanced stage of introducing the Single Payment Window at pilot sites at a number of border points.

Last of all, let us ask ourselves what do traders themselves think about making the trade facilitation successful? I think this is a question for the next WTO negotiating Round to answer. Governments' roles should be to rely on their experience in the negotiating process, to take into account their needs and priorities, so as to set up a multilateral framework on trade facilitation that will answer their problems and concerns.

Chairman's Conclusions

The Way Forward to Facilitate Trade

Ambassador Luzius Wasescha, Delegate of the Swiss Government for Trade Agreements

On 29/30 May 2002, the International Forum on Trade Facilitation provided the opportunity to:

- Define the Trade Facilitation Agenda for 21st Century;
- Set the framework for this agenda;
- Discuss the role of the business community and of the International Organisations;
- Analyse the stake of developing and transition economies and Trade Facilitation; and
- Design the way forward.

The Forum expresses its deep recognition to UNECE and other organisers of the event as well as to the sponsors for their contributions for the thorough preparations and the conduct of such a useful and timely event. The Forum also expresses its gratitude to the speakers and rapporteurs for their valuable contributions to the success of the meeting.

Defining the trade facilitation agenda for the 21st century

The International Forum on Trade Facilitation provided the opportunity to deliberate on how to make the best substantive contribution to the development of global commerce through trade facilitation measures which, when implemented, will increase the economic growth of countries, and contribute to the prosperity of their citizens and to poverty alleviation. The ongoing efforts of all private and public based actors, especially UNECE, to develop and promote trade facilitation have been highly appreciated. The Forum reiterated the commitment of the United Nations Millennium Declaration to develop further an open trading system that is rules-based,

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predictable and non-discriminatory, as well as the call of the Monterrey Consensus to mobilise resources for the promotion of international trade as an engine for development and the commitments contained in the WTO Doha Development Agenda. They stress that governments should adopt trade facilitation as a key policy issue in trade, transport, customs, standards and testing procedures, and related strategic development areas for the benefit of producers, distributors and consumers.

The Forum has clearly indicated that delays in clearing goods through customs and transporting them across borders, together with the imposition of burdensome procedural requirements, add costs but not value to the international movement of goods with consequent disadvantage to governments, taxpayers, economic operators and consumers. It was stated that trade facilitation has the potential to improve duty collection and enforcement of justifiable regulatory controls, enhance customs integrity, save time and money for traders, improve the domestic climate for foreign investment, trade and economic activity, and thereby offer considerable benefits to all countries, and particularly to developing countries and small and medium-size enterprises (SMEs). In this sense, it is important to make the best use of the merits, for good governance, of better regulation, transparency, and due process and of the rapidly expanding capabilities in electronic communication. It is important to consider the contribution trade facilitation can make to sustainable development by the more efficient use of infrastructural assets.

The Forum acknowledged the particular difficulties and extra costs born by landlocked countries and noted that neighbouring maritime countries may also benefit considerably from helping them expand their trade.

The implementation of agreed international trade rules and procedures will assist in the adoption of the highest standards and best practice, which will facilitate the faster movement of goods and efficient provision of related services, and reduce cost, whilst addressing security concerns;

The Forum stressed that trade facilitation has political, economic, business, administrative and technical dimensions. Accordingly, dealing with trade facilitation issues requires not only addressing rationalisation of trade and administrative procedures and, especially for developing countries and

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economies in transition, infrastructural problems and capacity weaknesses as well as technological issues at national, sub-regional and regional levels. In this sense, it will be important that industrialised countries and other countries which have capacity and resources as well as international institutions should ensure that proper provision for technical assistance and capacity building for developing and transition economies is incorporated in their policy strategies and in future work in the WTO. At the same time, it is important that developing and transition countries work on streamlining their border-crossing procedures and requirements (as regards imports, exports and transit). It is important that governments, the private sector and the broader community make the necessary legal and operational changes to adopt a number of practical steps to facilitate trade:

Setting the framework

The Forum noted that the development of a network of trade facilitators from the private sector, national authorities and international organisations will set the basis for an enhanced common action to further develop a framework of trade facilitation and its implementation.

Both public and private sector organisations involved in trade facilitation today should follow a multi-track approach that focuses *inter alia* on:

- Harmonising and implementing existing standards and UNECE tools;
- Developing the next generation of rules and standards to facilitate the emerging electronic economy.

It is understood that such efforts can only be beneficial to all stakeholders if the necessary infrastructure is in place and resources are available. International organisations should adopt Information and Communication Technology (ICT) strategies that incorporate open standards, which enable the timely flow of accurate information involved in the life cycle of trade.

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Implementation: the role of the business community

Public-private cooperation is essential for the successful implementation of trade facilitation. Governments should invite and encourage the involvement of the private sector, for example, through appropriate consultation mechanisms, joint public-private initiatives and the proper support of national trade facilitation bodies. The private sector should develop and strengthen their professional organisations such as chambers of commerce, industry associations, standards development organisations, and freight-forwarders association to work constructively and imaginatively with public bodies.

The business community as well as governments and international organisations should support further empirical research in such areas as costs and benefits of trade facilitation and benchmarking. New tools, standards and concepts in trade facilitation, such as UNeDocs, ebXML, the Single Window approach, and other measures to support e-business and global supply chains, should be developed and implemented.

Achieving an open and inclusive environment: the role of the international organisations

International organisations should work together in an open and fully transparent environment to develop appropriate strategies and mechanisms of coordination and cooperation in order to enhance synergies and mutually supportive actions. This will be cost-efficient, fully coordinated, and will enhance policy coherence in tackling the issues of development and peace.

Governments should consider integrated and targeted sub-regional, regional and international approaches to broadening the scope and enhancing the benefits and cohesion of customs, trade and transport facilitation projects. In this context, the United Nations agencies, including the regional commissions, should play a strong role in supporting and developing technical cooperation initiatives for the implementation of trade facilitation measures and instruments, in cooperation with the other relevant international organisations. The Forum recognises the importance of the

CHAIRMAN'S CONCLUSIONS

cooperation of the United Nations regional commissions in the area of trade facilitation. It recommends the regional commissions to develop, in collaboration with relevant UN agencies, a common project on capacity building for trade facilitation that would address the following components on an incremental approach, making the best use of the existing infrastructure:

- Trade facilitation policy and implementation issues;
- Technical assistance to governments;
- Capacity building for small and medium-size enterprises (SMEs) in electronic business; and
- Support to countries, sub-regions and regions formulating negotiating objectives and strategies on trade facilitation.

The better implementation of trade facilitation will be significantly reinforced by future work in the WTO. This future work may assist various countries to use trade facilitation to strengthen the rules-based, equitable and predictable multilateral trading system. The ongoing GATS negotiations provide an opportunity to address specific facilitation issues, such as speeding up transit and transport, lessening the cost of financing, increasing competition and transparency in the services sector.

Furthermore, the ongoing work in WIPO contributes to trade facilitation actions in the implementation of Intellectual Property Rights (IPRs).

Anticorruption practices in customs administrations and in other related organisations must be addressed by national authorities and international cooperation be strengthened in this field, namely within the framework of the Revised Kyoto Convention on Customs Procedures and the Arusha Declaration of the WCO, as well as within the other relevant international organisations, both governmental and non-governmental.

The relevant international organisations, especially UNCITRAL, UNCTAD and UNECE, should effectively collaborate in order to ensure that the legal dimension of facilitating trade procedures is given due consideration.

Information and Communication Technologies (ICT) meeting the needs of developed as well as developing countries and vulnerable economies in transition are a key tool for trade facilitation. The ITU, UNECE and

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ISO/IEC should strengthen and streamline their contribution to making ICT standards and tools facilitating trade. The United Nations ICT Task Force for Development should support this work and raise these issues at the World Summit on the Information Society.

The stake of developing and transition economies in trade facilitation

Trade facilitation is a multi-faceted phenomenon and it is a complex, time- and resource-consuming issue. Therefore, infrastructure development and capacity building is a critical requirement for developing countries, transition economies, landlocked and small island states. Different countries face different constraints and have different needs. These should be identified and analysed to provide tailor-made solutions to enable these countries to comply with improved standards, to render cross-border transactions more efficient and to build infrastructure and ICT capacity. In this task, the importance of an integrated approach was highlighted, as well as the need for collaboration between public and private sector, bilateral donors and inter-agency work programmes.

Donors should incorporate adequately designed, funded and coordinated trade facilitation activities into ongoing and new trade and transport related programmes for technical assistance and capacity building in this area. Beneficiary countries should clearly identify and prioritise their assistance needs. United Nations agencies and other relevant international organisations should also address this issue. Beneficiary countries should be proactive in this respect.

The way forward and conclusions

Strong political will from both governments and the business community is a prerequisite for the successful development and implementation of trade facilitation strategies and initiatives. National and international business and government organisations are encouraged to collaborate to deepen the awareness of key decision makers regarding the issues and opportunities related to trade facilitation.

CHAIRMAN'S CONCLUSIONS

With the support of international organisations, governments and the business community should work cooperatively to develop strong national, regional and international trade facilitation implementation plans, focusing on the establishment of an appropriate legal and administrative framework and the removal of impediments to trade.

UNECE is invited to convene a second Forum in June 2003 to assess the progress achieved by then. In the meantime, other regional economic commissions, in collaboration with the UNECE, may wish to organise regional fora with the participation of all key stakeholders in their regions in order to enhance the awareness of the importance of trade facilitation for developing countries and economies in transition.

As Chairman of this closing session, I note that:

- The two-day Forum has highlighted the need for supporting the implementation of the recommendations and standards developed by UNECE for trade facilitation on a global basis;
- Work in WTO should:
 - contribute towards the implementation of trade facilitation instruments developed in other fora;
 - examine WTO provisions and instruments in the light of trade facilitation objectives;
 - develop an instrument on trade facilitation; and
 - contribute to technical assistance and capacity building in the area of trade facilitation;
- All international organisations should increase their cooperation with a view to achieving greater coherence in trade facilitation activities and should define a common strategy at a round table of trade facilitation stakeholders;
- The private sector should enhance its dialogue with all governmental actors in the field of trade facilitation in order to establish national trade facilitation focal points and a more active

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involvement of all governments in international activities on trade facilitation.

* * *

Programme of the International Forum on Trade Facilitation, 29-30 May 2002

          	<p>DAY ONE, Wednesday, 29 May 2002</p> <p>Opening Session</p> <p>Mr. Paolo GARONNA Deputy Executive Secretary, United Nations Economic Commission for Europe (UNECE)</p> <p>Mr. Rubens RICUPERO Secretary-General, United Nations Conference on Trade and Development (UNCTAD)</p> <p>Ms. Maria LIVANOS CATTAUI Secretary-General, International Chamber of Commerce (ICC)</p> <p>Amb. Luzius WASESCHA Delegate of the Swiss Government for Trade Agreements</p> <p>Session I: Defining the Trade Facilitation Agenda for the 21st Century</p> <p><i>Chairperson:</i> Mr. Gela CHARKVIANI Deputy Minister of Economy, Industry and Trade, Georgia</p> <p><i>Rapporteur:</i> Ms. Vivianne VENTURA DIAS Director, International Trade and Integration Division, Economic Commission for Latin America and the Caribbean (ECLAC)</p> <p><i>Speakers:</i></p> <p>Facilitation in the new world trade environment Mr. Pascal LAMY Trade Commissioner, European Commission</p> <p>Trade facilitation and globalisation Mr. José-Maria FIGUERES-OLSEN Managing Director, World Economic Forum, and former President of Costa Rica</p>
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TRADE FACILITATION

Trade facilitation – Everyone wins!

Baroness SYMONS

Minister of State for International Trade and Investment, United Kingdom

Trade facilitation - a catalyst for change

Dr. Mohammed NAHAVANDIAN

Trade Envoy Plenipotentiary, Islamic Republic of Iran

The challenges of facilitating the flow of commerce in a heightened security environment

Mr. Kunio MIKURIYA

Deputy Secretary-General, World Customs Organisation (WCO)

UNECE's vision on trade facilitation

Ms. Carol COSGROVE-SACKS

Director, Trade Division, United Nations Economic Commission for Europe (UNECE)

Fight against corruption in the sphere of customs as trade-promoting factor

Mr. Leonid LOZHBENKO

Head of Russian Customs Academy

Session II: Setting the Framework

Chairperson:

Mrs. Thelma A. IREMIREN

Permanent Secretary, Federal Ministry of Finance, Nigeria

Rapporteur:

Ms. Vivianne VENTURA DIAS

Director, International Trade and Integration Division, Economic Commission for Latin America and the Caribbean (ECLAC)

Speakers:

Costs and benefits of trade facilitation

Mr. Anthony KLEITZ

Head, Trade Liberalisation and Review Division, Organisation for Economic Co-operation and Development (OECD)

Trade facilitation and post-conflict confidence-building

Mr. Jani BOGOEVSKI

Chairman of the Working Group for Trade Liberalisation and Facilitation, Stability Pact for South Eastern Europe

PROGRAMME OF THE INTERNATIONAL FORUM
ON TRADE FACILITATION

Session III: Implementation: the Role of the Business Community

Chairperson:

Ms. Maria LIVANOS CATTALDI
Secretary-General, International Chamber of Commerce (ICC)

Rapporteur:

Mr. Patrick GANNON
Chief Executive, Organisation for the Advancement of Structured Information Standards (OASIS)

Speakers:

How to achieve maximum trade facilitation in a regulatory environment

Mr. Rolf M. JEKER
Société Générale de Surveillance SA (SGS)

The impact of trade facilitation on a standard supply chain

Mr. Vratislav KULHANEK
Chairman of the Board, Škoda Auto

Solutions, standards and best practices

Mr. Julian OLIVER
Director-General, International Express Carriers Conference (IECC)

Supply chains and facilitation of payments

Mr. John HAMMOND
Hong Kong, Head, Supply Chain Services B2BeX, Standard Chartered Bank

Community networks for trade facilitation – an implementer's experience

Mr. Raymond WEE
Former Manager, Mauritius Network Services

New instruments and approaches

Mr. Milos KOSTIC
Head of Information and Communication Technology Department,
Federal Customs Service, Yugoslavia

Addressing the Implementation Challenges

Mr. Bill MARUCHI
Chief Operating Officer, TATIS S.A.

TRADE FACILITATION

DAY TWO, Thursday, 30 May 2002

Session IV: Achieving an Open and Inclusive Environment: the Role of the International Organisations

Chairperson:

Mr. Rubens RICUPERO
Secretary-General, UNCTAD

Rapporteur:

Ms. Esperanza DURAN
Director, Agency for International Trade Information and Co-operation (AITIC)

Speakers:

Practical measures for future trade facilitation

Mr. Alberto Di LISCIA
Assistant Director-General, United Nations Industrial Development Organisation (UNIDO), and Director of the UNIDO Geneva Office

Trade facilitation in the multilateral trade negotiations

Mr. Andrew STOLER
Deputy Director-General, World Trade Organisation (WTO)

New instruments simplifying trade procedures

Mr. Alfred KOMAZ
Director for General Affairs, Directorate General Taxation and Customs Union, European Commission

The Global Facilitation Partnership - Distance Learning Initiative (GFP-DLI)

Mr. Marc JUHEL
Lead Transport Specialist, Transport Division
The World Bank

Role of ESCWA in promoting trade facilitation

Mr. Nabil SAFWAT
Chief, Transport Section, Economic and Social Commission for Western Asia (ESCWA)

PROGRAMME OF THE INTERNATIONAL FORUM
ON TRADE FACILITATION

Session V: The Stake of Developing and Transition Economies in Trade Facilitation

Chairperson:

Lord BHATIA

Chairman, Simpler Trade Procedures Board (SITPRO)

Rapporteur:

Mr. Ray WALKER

Chairman, UN/CEFACT Steering Group

Speakers:

Capacity-building for trade facilitation

Mr. SUN Zhenyu,

Ambassador to the WTO, former Vice-Minister of Foreign Trade, China

Implications of trade facilitation for developing countries in general and Kenya in particular

Mr. Peter GAKUNU

Economic Secretary, Ministry of Finance, Kenya

A developing country's view on trade facilitation

Mr. Alexander M. AREVALO

Deputy Commissioner, Bureau of Customs of the Philippines and Head of the Management Information System and Technology Group

Discussant: Mr. Belkacem NAFTI, Chef de Cabinet, Ministry of Commerce, Tunisia

Trade facilitation in the accession to the European Union

Mr. Peter BRŇO

State Secretary for European Integration, Foreign Trade and Tourism, Slovakia

The specific problems of landlocked countries

Ms. Nina KIRICHENKO

Deputy Minister of Industry and External Trade, Kyrgyzstan

Discussant: Mr. Luis F. GALLEGUILLOS S., Director-General, National Customs, Bolivia

TRADE FACILITATION

Closing Session: The Way Forward and Conclusions

Chairperson:

Amb. Luzius WASESCHA

Delegate of the Swiss Government for Trade Agreements

Speakers:

Public-private partnerships for trade facilitation and e-business

Mr. Christian FRÜHWALD

Chairman, United Nations Centre for Trade Facilitation and
Electronic Business (UN/CEFACT)

Trade facilitation as a prerequisite for successful e-business

Mr. Richard SICARD

EMEA Senior Trade Manager, Microsoft

CHAIRMAN'S CONCLUSIONS

Amb. Luzius WASESCHA and the Rapporteurs

Closing remarks:

Ms. Brigita SCHMÖGNEROVÁ

Executive Secretary, United Nations Economic Commission for
Europe (UNECE)

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