SUPPORTING A BETTER IMPLEMENTATION OF THE WTO TRADE FACILITATION AGREEMENT

WORLD BANK GROUP
Trade & Competitiveness

William Gain – Global Program Manager Trade Logistics
Trade and Competitiveness Global Practice
Contents

- Trade Facilitation: Definitions, Importance
- Trade Facilitation Agreement Measures
- Coordinated Border Management
- Evidence of impact of Trade Facilitation Reform
- Importance of Trade facilitation for SMEs
- Role of TPOs in Trade Facilitation
Trade Facilitation – a couple of definitions

“simplification, standardization, and harmonization of procedures & processes and associated information flows to move goods through the supply chain in a transparent and predictable manner”

“identifying and addressing bottlenecks that are imposed by weaknesses in trade related logistics and regulatory regimes and that prevent the timely, cost effective movement of goods.”
Why is it important for the global economy: A new economic landscape (1)

**Latest trends in the global economy**

- A rising portion of global production is destined for foreign markets
- Several border crossings during the course of production of a single product
- Rapid expansion of trade in services
- 70% of global trade is associated with global value chains (GVCs)
- South-South trade is on the rise
- Almost 1/3 of all economic activity is associated with the 200 largest multinational corporations (MNCs)

**Implications for FDI, trade and competitiveness**

- Trade and FDI become even more inter-related and complementary
- Trade costs matter more
- More intra-firm trade (both intermediate and final products) and global value chain (long-term linkages between firms across countries)
- Technology and innovation are the key variables through which trade and FDI translate into growth.
Why is it important for the global economy: Big gains from Trade Facilitation (2)

- if all countries reduce supply chain barriers halfway to global best practice (i.e. Singapore), global GDP could increase by 4.7% or US$ 2.6 trillion and world trade by 14.5% or US$ 1.6 trillion, far outweighing the benefits from the elimination of all import tariffs (WEF).

- each additional day that a product is delayed prior to being shipped reduces trade by more than 1 percent.

- improving the quality of physical infrastructure increase its exports by more than 10 percent.

- 1 percent increase in aid-for-trade facilitation potentially result in US$290 million of additional exports.

- Adopting electronic documentation for the air cargo industry could yield US$ 12 billion in annual savings and prevent 70-80% of paperwork-related delays.
## A Few Key TFA articles

<table>
<thead>
<tr>
<th>Transparency Articles 1-5</th>
<th>Concerning fees, charges and formalities Articles 6-12</th>
<th>Institutional arrangements Article 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Publication and availability of information</td>
<td>6. Disciplines on fees and charges imposed on or in connection with importation or exportation</td>
<td>23. Institutional arrangements:</td>
</tr>
<tr>
<td>2. Opportunity to comment, information before entry into force and consultation</td>
<td>7. Release and clearance of goods</td>
<td>- Committee on trade facilitation</td>
</tr>
<tr>
<td>3. Advance rulings</td>
<td>8. Border agency cooperation</td>
<td>- National committee on trade facilitation</td>
</tr>
<tr>
<td>4. Appeal or review procedures</td>
<td>9. Movement of goods under customs control intended for import</td>
<td></td>
</tr>
<tr>
<td>5. Other measures to enhance impartiality, non-discrimination and transparency</td>
<td>10. Formalities connected with importation and exportation and transit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11. Freedom of transit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12. Customs cooperation</td>
<td></td>
</tr>
</tbody>
</table>
# Key Articles that Promote Coordinated Border Management

<table>
<thead>
<tr>
<th>Technical Measures; Objectives</th>
<th>TFA Articles Applicable to All or Multiple Border Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transparency &amp; Predictability</strong></td>
<td></td>
</tr>
<tr>
<td>• Publication</td>
<td>Article 1: Publication and Availability of Information (1-3)</td>
</tr>
<tr>
<td>• Information available through Internet</td>
<td>Article 2: Opportunity to Comment, Information before Entry into Force and Consultation (1-2)</td>
</tr>
<tr>
<td>• Enquiry Points</td>
<td>Article 4: Appeal or Review Procedures</td>
</tr>
<tr>
<td>• Notifications for enhanced controls or inspections</td>
<td>Article 5: Other Measures to Enhance Impartiality, Non-Discrimination and Transparency (1-3)</td>
</tr>
<tr>
<td>• Detention</td>
<td>Article 6: Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation (3)</td>
</tr>
<tr>
<td>• Test Procedures</td>
<td></td>
</tr>
<tr>
<td><strong>Data Sharing</strong></td>
<td></td>
</tr>
<tr>
<td>• Establishment and publication of average release times</td>
<td>Article 6: Disciplines on Fees and Charges Imposed on or in Connection with Importation and Exportation (1)</td>
</tr>
<tr>
<td>• Use of international standards</td>
<td>Article 7: Release and Clearance of Goods (6)</td>
</tr>
<tr>
<td>• Single window</td>
<td>Article 10: Formalities Connected With Importation And Exportation And Transit (3, 7)</td>
</tr>
<tr>
<td>• Common border procedures and uniform documentation requirements</td>
<td>Article 23: Institutional Arrangements (1-2)</td>
</tr>
<tr>
<td><strong>Modernized Border Procedures and Controls</strong></td>
<td></td>
</tr>
<tr>
<td>• Pre-arrival processing</td>
<td></td>
</tr>
<tr>
<td>• Electronic Payment</td>
<td>Article 7: Release and Clearance of Goods (1,2,4,5,7-9)</td>
</tr>
<tr>
<td>• Risk management</td>
<td>Article 8: Border Agency Cooperation</td>
</tr>
<tr>
<td>• Expedited shipments</td>
<td>Article 10: Formalities Connected With Importation And Exportation And Transit (1, 2, 4, 5, 8, 9)</td>
</tr>
<tr>
<td>• Single window</td>
<td>Article 11: Freedom of Transit (1-5)</td>
</tr>
<tr>
<td>• Trade facilitation measures for authorized operators</td>
<td></td>
</tr>
<tr>
<td>• Provision for Articles to expedite the clearance of perishable goods</td>
<td></td>
</tr>
</tbody>
</table>
The TFA emphasizes a coordinated Border Management Approach to Trade Facilitation to address common challenges faced by traders.

Lack of coordination and communication among border agencies leads to:

- Unnecessary delays in export and import clearance and transit procedures
- Lack of a risk-based approach to border clearance
- Strains on infrastructure/border post facilities due to increased congestion
- Increased loss of perishable goods
- Increase in overall time to release of goods
- Competition among agencies & confusion of competencies

The supply chain as a whole is disrupted by these issues.
Similar requirements for members and acceding countries

**WTO members**

- Members continue to conduct and update needs assessments despite issues in Geneva
- Setting up National Trade Facilitation committees
- Requesting support from the main Technical assistance programs including the WBG/ITC/UNCTAD and bilateral programs

**Acceding Countries**

- For acceding countries it is important to be compliant and follow international best practices:
  - WTO TFA, WCO Revised Kyoto Convention, others
  - In general the Legal Framework needs to be consistent with global norms
  - Transparency and predictability needs to be strengthened
<table>
<thead>
<tr>
<th>Principles</th>
<th>WTO TFA Articles</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance use of risk management</td>
<td>Risk Management Authorized traders PCA</td>
<td>New Zealand, Hong Kong, China, Canada</td>
</tr>
<tr>
<td>• Increase efficiency through better use of resources to target high risk cargo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Allow legitimate cargo to proceed without intervention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Automate selectivity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase automation</td>
<td>Single Window</td>
<td>Finland, Netherlands, Korea &amp; Singapore</td>
</tr>
<tr>
<td>• Use automation to manage work-flow, allow all cargo to proceed and only stop what is high risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eliminate manual processes</td>
<td>Pre-arrival processing</td>
<td>Japan, United States, Norway, Laos</td>
</tr>
<tr>
<td>• Reduction in manual processes and face to face contact</td>
<td>Expedited shipments</td>
<td></td>
</tr>
<tr>
<td>• Reduce corruption &amp; increase compliance</td>
<td>Publication of Availability of information</td>
<td></td>
</tr>
<tr>
<td>• No hard copies of documents routinely provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Introduce a coordinated border management approach</td>
<td>Border Agency Cooperation On stop border processing</td>
<td>Norway, Finland, Poland</td>
</tr>
<tr>
<td>• Lead agency at the border</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Whole of Government approach – Single Window</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The importance of sequencing reforms

(Article 8) Border agency coordination

23. 2. National Committee on Trade Facilitation

10.1 Formalities and Documentation Requirements

1.1 Publication (Publication and availability of information)
1.2 Information Available Through Internet (Publication and availability of information)
1.3 Enquiry Points (Publication and availability of information)
2.1 Opportunity to Comment and Information before Entry into Force
2.2 Consultations
10.1 Formalities and Documentation Requirements

Automation (10.4 Single Window)
Long list of studies estimating the impact of trade facilitation

Effect of Trade Logistics reforms on trade, income, productivity, private sector goods and prices

1% reduction in time to export increases exports by 0.4 percent. One additional day in transit time is equivalent to a 70km increase in distance between trading partners. (Djankov et al (2007))
1% reduction in export time will increase bilateral trade by a range between 0.18% (OECD countries) and 0.6% (Sub-Saharan Africa). (Subramanian, Anderson and Lee, 2012)
1% reduction in trade costs results in an increase in GDP of 0.27% for the Middle East and North Africa, 0.25% for non-OECD Asia Pacific, and 0.18% for Sub-Saharan Africa (Walkenhorst and Yasui, 2003)

Using China ES data, reducing customs clearance time by 1 day will generate:
• 2.1% increase in total factor productivity for Textile/Apparel Industry
• 7.4% increase in total factor productivity for Consumer Goods
(Subramanian, Anderson and Lee (2005))

Trade logistics is a source of excess production cost of medium firms in Africa (Ethiopia, Tanzania and Zambia) in apparel, wood products metal products and agri-business (Dinh, Palmade, Chandra, Cossar, 2012)

Reducing time to trade translates into cost savings for private firms through lower user fees and charges, reduced cargo loss and damage, decreased capital carrying charge

One day saved in shipping time is equivalent to a 0.8% reduction in ad-valorem tax for manufactured goods. David Hummels (2001)

One extra day in transit for vegetables and fruit is equivalent to lowering price of produce by 0.9% (USAID (2007))
WBG Focus on impact evaluation

A 10% reduction in export time

Increases Export of … by …

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub Saharan Africa</td>
<td>6.1%</td>
</tr>
<tr>
<td>South Asia</td>
<td>5.8%</td>
</tr>
<tr>
<td>East Europe &amp; Central Asia</td>
<td>5.0%</td>
</tr>
<tr>
<td>Middle East &amp; N. Africa</td>
<td>4.1%</td>
</tr>
<tr>
<td>East Asia and Pacific Islands</td>
<td>4.1%</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>3.5%</td>
</tr>
<tr>
<td>OECD</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Impact on exports

Impact on private sector savings
But also, Trade facilitation is important for attracting FDI

- FDI and trade may best be seen as complements rather than substitutes when designing investment policy frameworks or investment promotion strategies.

- Taking steps to reduce average tariff of high-tariff countries to the developing country average would result in a 6-7% increase in FDI inflows to the Asia-Pacific region.

- Reducing other types of trade costs in high-cost countries in Asia-Pacific to the developing country average can be expected to increase FDI flows by 20%.

The graph shows the percentage increase in FDI flows to a host country when that host country reduces its trade costs to the global developing country average.

Source: UNESCAP, “Impact of Trade Facilitation on FDI”, 2014
Why is it important for the firms: Logistics costs place a disproportionate burden on smaller firms

Average logistics cost as a % of sales

...and SMEs remain unrepresented in Global Value Chains (GVCs)

**Context and importance of SMEs**

- Small and medium enterprises are the biggest contributors to employment across countries.
- SMEs comprise two-thirds of formal private sector employment in emerging markets.
- And create 95% of jobs in low income countries.
- However, SMEs remain unrepresented in Global international trade (e.g. in ASEAN SMEs account only for 19-31% of ASEAN’s exports).
- SMEs in ASEAN economies seem to make little contribution to international trade relative to the sector’s size or employment contribution.
- Countries with higher foreign investment seem to lead to more SME participation in the Global Value Chains.
- SMEs participate in the Global value chains through...
  - Exporting themselves
  - Supplying to big multinational companies that...
- While multinational companies can employ hundreds of customs agents to deal with changing and cumbersome procedures, SMEs are at a disadvantage in terms of time and cost.

**Barriers to participation in GVCs**

- Fixed costs
- Economies of scale
- Inadequate skills and training
- Shortage of working capital to finance exports
- Limited information on foreign markets
- Difficulty in identifying foreign business opportunities
- Lack of managerial time to deal with internationalization
- Meeting export product quality/standards/specifications
- Unfamiliar trade related procedures/paperwork
So, SMEs will mostly benefit from the Bali TFA agreement and beyond

**TFA themes are important for increased SME participation**

1) Promoting accountability of Government, access to information, predictability and transparency
   - Article 1: Publication and availability of information
   - Article 5: Other measures to enhance impartiality, non-discrimination and transparency

2) Simplified procedures and automation
   - Article 7: Release and clearance of goods
   - Article 10: Formalities connected with importation, exportation and transit on Acceptance of copies

**Beyond TFA, SMEs could benefit from a focus on removal of NTBs**

1) Improved National Quality Infrastructure
   - Promote harmonization of measures with international standards
   - Promote accreditation of laboratories and best practices in testing and certification.

2) Competitive logistics service providers
   - Design regulatory frameworks to support logistics services

TPOs can help advocate national governments, through representation in National Trade Facilitation Committees, for a broader trade facilitation agenda to benefit SMEs through the adherence to specific measures above
Where to Next for TPOs?

Definition: TPOs are facilitative agencies whose primary function is to promote and stimulate trade primarily by providing information, linkages, technical advice, marketing and policy advocacy.

Generally, TPOs are known to provide

- Export promotion and development activities (product market identification and development, trade information services, specialized support services, promotional activities abroad). As such, activities can include:
  - Editing guides, publications on international trade and practices and other market surveys on the most viable export sectors
  - Representation abroad (Organizing Economic, commercial and Prospecting missions abroad)
  - Participation in trade shows and exhibitions

- Coordinated government assistance to attract and facilitate productive foreign direct investment

- Customized trade and investment related studies

...but TPOs are ideally placed to advise the Government on and promote necessary trade reform:

- the elimination or reduction of restrictions on exports
- improved access of exporters to imports (i.e. inputs)
- the reduction or more transparent application of export taxes and subsidies
- improved policy, regulatory, and legal environment for both trade transactions and investment

...and TPOs are ideally placed to inform and guide the Private Sector on

- International trade facilitation reform agreements
- Regional initiatives for trade facilitation and investment
- Guides, publications on trade and practices needed to be implemented by the public sector

Source: Daniele Giovannucci, Senior Consultant, Agribusiness & Markets Thematic Group, The World Bank
TPOs can be effective both in providing guidance for Businesses and in pressing for needed policy improvements with Governments

**Advocacy** - Advocating with national governments for implementing TFA measures regarding:
- Publication and availability of information
- Enhance use of risk management
- Increase automation
- Introduce a coordinated border management approach
- Simplified procedures and automation
- Improved national quality infrastructure
- Competitive logistics providers

**Representation** – of SMEs in the National Trade Facilitation committees in order to better navigate all TFA measures **Partnership is KEY**

**Accountability** - Being a watch-dog for government throughout the phases of implementation of the TFA

**Consultation** Participate in the national consultation process for the implementation of the TFA agreement

**Supporting firms** Assisting and informing enterprises to comply with simplified trade facilitation measures to maximize benefits from reforms in this area.
Trade Facilitation Support Program

Program Objective

Assist developing countries to reform and align their trade facilitation laws, procedures, processes & systems to enable implementation of the WTO TFA Requirements.

Features

- Implementation focused ++
- Rapid response capability
- Deep engagement with the private sector
- Strong monitoring, evaluation & results framework
- Complementary & sequenced TA activity
- IFC-WB presence in most countries, project components included at national and regional levels
- Global expertise & Partnership with partners including ITC, UNCTAD WCO and Donors.
Program Sequencing

**Phase 1**
- Validation and review of Country Self Assessment
- Produce Reform Map
- Propose Sequence of Activities and Timeline
- Set up TF committee to lead the reform program
- Support the categorization & commitment process
- Review of inter-agency coordination and design of institutional capacity building plans

**Phase 2**
- Identification and support in implementing Quick Wins and medium terms reforms
- Improve transparency and predictability for traders
- Review and align relevant trade laws
- Harmonization, simplification of procedures & systems
- Border agency coordination
- Risk management
- Promote innovative solutions to facilitate trade through technology

**Phase 3**
- Support design and software for ICT tools to implement deeper and more systemic reforms
- Help leverage funds from WB and other partners for longer term, bigger scale ICT and infrastructure development
Thank you
William Gain
wgain@worldbank.org