Observer

Simpler, clearer, faster, easier: Lower trade costs by cutting red tape

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Several years ago at an informal gathering, a colleague of mine asked a senior representative of a major tractor manufacturer why she valued a particular OECD testing standard so much. Her response cut to the point: "Heck, your OECD standard stamped on our tractors gets our product through customs faster, and saves us weeks and dollars."

The standard in question concerns tractor safety guidelines which for half a century have reassured buyers and farmers. And being a harmonised technical standard that people recognised, it had the extra advantage of oiling the flow of those goods through the border, saving everyone time and money. This is what common standards do: they help build trust and facilitate smoother trade. Beyond technical standards, there are many other ways of facilitating trade too, such as by removing red tape and simplifying bureaucracy in customs, and these are increasingly being addressed by bodies such as the World Trade Organization (WTO), with the prospect of gains for everyone. Indeed, if there is a bright light still shining over today's stormy seas of international commerce, it is the WTO's trade facilitation agreement (TFA), which came into force in February 2017. Its logic is simple: by cutting red tape, and harmonising and automating border processes, goods will move in and out of countries faster, and trade costs will fall. How much? By between 14 and 18%, the OECD estimates, especially for middle and low-income countries.

This means that "Made in the World" goods like your smartphone become easier and cheaper to produce. After all, when the circuitry in your phone depends on rare earth minerals from Congo, the touchscreen is engineered in Korea, the glass is manufactured in Chinese Taipei, the semiconductor chip and processor is made in the US, the gyroscope in Switzerland, and the whole thing is put together in China before being shipped out across the globe, the last thing anyone needs is for something to be held up at customs because someone, somewhere along the supply chain, provided an authenticated copy of a document instead of the original. Over half of goods transiting across borders are not shelf-ready products but partially-finished goods that move from one country to another on a round-the-world conveyor belt, often within multinational firms. Making cross-border movement smoother would increase these value-added trade movements by up to 3.5%, especially in the tech sector.

With potential gains like this, most of the WTO's 164 countries have ratified the Trade Facilitation Agreement, which was hailed as the organisation's "most significant multilateral trade deal" since its creation in 1995.

But will it actually work and lead to more trade? To help answer this, the OECD has been accumulating data to monitor progress and identify problem areas to address.

The good news is that some of the most impactful trade facilitating measures are relatively inexpensive to implement, with set-up costs between €3.5 million and €19 million, and annual operating costs of no more than €2.5 million. The not-so-good news is that the co-operation required to put most measures in place still has a long way to go both domestically and internationally.

Take the different agencies operating within a country. One of them processes the movement of goods through its borders and collects government revenues on imported goods, another protects national security, and yet another public health. Co-operation among different countries is also tough, not least, in today's charged atmosphere. And yet, more co-operation is needed to simplify and harmonise trade documents, automate border procedures, and make information widely available to traders. Is there a single portal, a "Single Window" IT system, for instance, through which traders can submit all their documents and which all agencies share? Can papers be processed before goods arrive at the border? If there is a problem, can employees at all the agencies involved co-ordinate so they can resolve the problem right away? The stumbling blocks may seem mundane but are hard to budge, perhaps reflecting old habits, or fear of relinquishing control, or simple skills and logistical challenges in merging priorities, intelligence and risk management with other agencies. One important step the OECD urges is to set up a legal and regulatory framework that lays out the responsibilities and tasks of each agency, or, perhaps, to establish a new agency that centralises domestic border management. Such a framework should also clarify how information and control functions should be shared.

Personnel training is important; so is creating a culture of agencies working together to bolster trust and confidence. Exchanging liaison officers and setting up joint task forces help. So can collaborating on, say, developing one-stop border posts like those between Norway and Sweden or Zambia and Zimbabwe. Even though extremely challenging, combining border management between two countries and physically carrying it out in one place is more efficient than doing it twice, and it brings people together too.

Co-operation is key but so is predictability and transparency. Traders want to know what customs duties, transit fees and charges are ahead of time, and whether they will change. The same goes for advance rulings, which boost trade expediency and lower costs enormously. These decisions–valid for a set time period–establish which category a particular item will fall under, thus determining, for example, what kind of tariff it is subject to or even if it can be exported. For example, if you are exporting petroleum gas, you might want to seek an advance ruling on whether the authorities consider it a dual-use product, in which case, it would not be allowed out of the country. The important thing is to know how the good you are bringing into or out of the country will be treated and processed well before it's at the border.

Global trade, while vital for economic and social progress, is a controversial subject, as heated debates about jobs, protectionism and fairness show. The one thing everyone does agree on is that people benefit from goods crossing borders faster and more easily. Procedures that are simple, harmonised, predictable and transparent bring down costs the most dramatically. The OECD has calculated that a 1% reduction in trade costs worldwide would save US$40 billion for businesses. To repeat: fully-implemented trade facilitation brings down costs by up to 18%. You do the maths.

References

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