

## Executive summary

**T**rade facilitation – transparent, predictable and straightforward border procedures that expedite the movement of goods across borders – is becoming ever more important in an increasingly interconnected global economy. In a globalised world, where production is spread across countries and goods cross borders many times before reaching consumers, trade facilitation is essential for lowering the costs of trade. Keeping the costs of trading low is an important part of making trade work for all: trade facilitation helps more – and smaller – firms to participate in trade and more consumers to benefit from lower prices, higher quality and a greater range of goods.

Successive rounds of multilateral trade negotiations have progressively reduced traditional trade barriers, shifting attention to less visible, but often equally costly, measures at and behind the border: these include the procedures, paperwork, and administrative formalities that can add layers of sometimes unnecessary additional costs to goods as they cross borders. Addressing unnecessary costs related to these procedures is essential for firms to be able to take full advantage of new market openings. This is especially the case for micro-, small- and medium-sized enterprises (MSMEs) for whom the costs of trading can be disproportionately large.

The costs of inefficient border procedures for trade are multiplied when goods and components cross borders many times in the course of their production as part of Global Value Chains (GVCs). GVCs have placed a premium on countries' ability to connect seamlessly, rapidly and efficiently with the wider global economy. Trade facilitation is especially critical for trade in perishable agricultural products or high-tech manufacturing components, both of which are highly sensitive to delays. Trade facilitation is also becoming more, not less, important in the digital era. The growing numbers of parcels crossing international borders is both increasing demand, and creating new challenges for, trade facilitation. Moreover, improved transparency, predictability and simplification of trade procedures not only has the potential to reduce trade costs and promote economic efficiency, but also to help remove incentives and opportunities for corruption.

All countries have an interest in promoting good governance and efficient border procedures, whether they are exporters of traditional agricultural products, participating in value chains for high-tech manufactures, or indeed expanding their global presence through online trade. Recognition of this strong commonality of interest, and of the additional gains from all countries acting together, led to the successful negotiation of the World Trade Organization (WTO) Trade Facilitation Agreement (TFA). Given its unique structure which links implementation to the capacities of developing and least developed countries, the TFA is being implemented gradually, with different parts of the agreement implemented earlier than others by countries around the world. This places a premium on understanding well what is actually happening on the ground on trade facilitation.

The OECD Trade Facilitation Indicators (TFIs) are the most precisely targeted instrument in existence today for monitoring and benchmarking country performance on trade facilitation. The TFIs allow the state of play on trade facilitation across more than 160 countries to be captured, and key advances and challenges identified, providing a baseline for monitoring future progress. The TFIs can help to identify and prioritise technical assistance and capacity-building efforts, as well as to support advocacy efforts to build support for trade facilitation reforms.

This book presents key findings from analysis using the TFIs. It presents evidence on the state of trade facilitation reforms around the world at the time of entry into force of the TFA. It highlights progress made, but also key remaining challenges, with an in-depth discussion of the most difficult areas and implications for policy-making. The book makes the economic case for trade facilitation reforms. The main findings are set out below.

## **Trade facilitation measures are being implemented worldwide, but progress is uneven and some significant challenges remain**

### ***Implementation of the TFA is well underway***

- Implementation of measures covered by the TFA is well underway, although performance varies across and within all countries in different income groups in most policy areas. There have been early improvements in areas such as automation and streamlining of procedures and engagement with the trade community. By far the biggest challenges are in the areas of domestic and cross-border agency co-operation.
- The introduction and use of information technologies and the establishment of Single Windows are amongst the most expensive elements of trade facilitation, but the biggest challenges can relate to changing attitudes and culture around border procedures, so training is critically important.
- Single Window platforms have gained momentum as a promising avenue for streamlining the flow of trade information and expediting the movement of goods in a reliable and secure way. However, they need efficient border agency co-operation to deliver their full potential. Technological aspects seem to be less challenging, despite their resource requirements. Interoperability is important and the majority of countries are still at an early stage.

### ***Domestic and cross-border agency co-operation remains a critical area for improvement***

- Redundant or sequential controls, duplicative documentation requirements and insufficient co-ordination between responsible agencies may exacerbate delays and impose unnecessary costs on traders, decrease efficiency of controls at border crossings, and strain resources at border posts.
- Border agency co-ordination is critical in facilitating legitimate trade. Border agency co-operation is also an important prerequisite for and critical factor in the efficiency of integrated IT systems and Single Window platforms.
- Clear delineation of authority and responsibilities, sound frameworks for sharing data, infrastructure and equipment, and open channels of communication are critical for the day-to-day operation of domestic and cross-border co-operation.

- An explicit and sustained political commitment to ensure effective co-operation among agencies, within and across the border, is a central prerequisite for improving border operations.

### **Technical and financial assistance is playing an important and supportive role**

- The costs of putting in place and maintaining trade facilitation measures are not overly burdensome, and are far outweighed by benefits gained from their implementation. A growing amount of technical and financial assistance to implement trade facilitation measures has been made available to developing countries over the last decade, helping to offset initial costs.
- Country performance in the areas of automation or advance rulings appears to be closely linked to income, suggesting that investments in capacity-building in these areas would yield significant benefits.

## **Benefits clearly outweigh costs: There is a strong economic case for trade facilitation reforms**

### **Implementing the TFA will reduce trade costs and boost growth, especially in lower income countries**

- The TFA is expected to generate trade cost reductions of between 14% and 18%, and increase world trade by 0.6%, boosting global growth. Countries which fully implement the TFA stand to reduce their trade costs by between 1.4 and 3.9 percentage points more than those who take minimalist approaches to TFA implementation. Low and lower middle-income countries enjoy the greatest opportunities for the biggest reductions in trade costs.

### **Trade facilitation is ever more important in today's highly interconnected world**

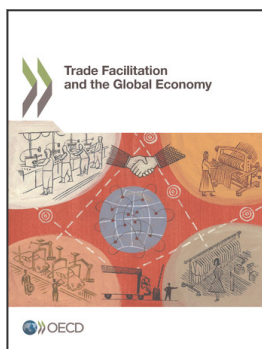
- Efficient border procedures help firms curb losses on perishables, reduce inventory management costs, better respond to changing consumer preferences, and participate in time-sensitive GVCs. These benefits are felt in exporting and importing countries alike.
- GVCs present new transmission channels for trade facilitation benefits between and within regions. Ambitious reformers will gain the most from faster access to competitively-priced inputs, also becoming more export-competitive in the process.
- Improvements in advance rulings, transparency of fees and charges, automation and streamlining of the border process could lead to increases in value-added trade flows of between 1% and 3.5%. The largest impact is felt on value-added trade in complex manufactures ("high and medium-high tech" sectors).

### **Trade facilitation brings other economy-wide benefits as well**

- Beyond the impacts on trade, trade facilitation positively affects production. Increased competition amongst domestic producers from reduced import-export transaction costs and faster delivery times drives more efficient resource allocation and realisation of economies of scale through global exports.
- Low income countries experience the strongest production effects, followed by lower-middle income and high income countries outside the OECD area. The sectors

benefitting the most are motor vehicles and parts, machinery, and electronic and transport equipment.

- Consumption also increases, spurred by smaller losses at the border and faster delivery times. Consumers derive greater utility from goods received sooner, so are more willing to pay for faster delivery.
- Importantly, trade facilitation also supports good governance, by removing opportunities for bribery and corruption and by removing incentives for trade to occur informally – in turn, facilitating both trade flows and border tax collection.



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