Chapter 1

Overview

This chapter discusses the role of trade facilitation in the global economy: what it means and why it matters. It introduces the OECD Trade Facilitation Indicators (TFIs), a set of leading edge tools to assist policy makers in identifying, prioritising, and reaching their trade facilitation objectives. It concludes with a short overview of the publication.

Why trade facilitation?

Trade 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 over the years have progressively reduced traditional trade barriers such as tariffs and quotas – the readily measurable costs of trading. This has shifted attention to less visible, but often equally costly measures, at and behind the border: the procedures, paperwork, and administrative formalities that add layers of additional costs to goods as they cross borders. The objective of trade facilitation is to lower these costs to trade by simplifying trade procedures – understood by the World Trade Organization (WTO) as the "*activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade*".

Indeed, addressing costs related to these procedures is essential for firms to be able to take full advantage of the new market openings from reductions in traditional barriers. This is especially the case for Micro, Small and Medium Enterprises (MSMEs) for whom the costs of trading related to cumbersome border procedures can be disproportionately large compared to their relatively low value of exports.

In a world of global production, speed and efficiency matter

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). Falling transport and communication costs have opened new opportunities to enhance and diversify production in GVCs, but also placed a premium on countries' ability to connect seamlessly, rapidly and efficiently with the wider global economy.

Trade facilitation benefits exporters and importers alike by allowing better access to inputs for production and enhancing participation in GVCs. On the supply side, trade facilitation helps reduce business losses resulting from delays of goods at the border. Delays in delivery increase firms' costs for managing inventory and undermine their ability to respond rapidly to changes in consumer preference. On the demand side, faster and more predictable delivery of intermediate goods through the supply chain can reduce firm costs. Trade facilitation improvements are also associated with increased consumer willingness to pay, as consumers derive more utility from goods delivered sooner rather than later.

Trade facilitation is especially critical for trade in perishable agricultural products and high-tech manufacturing components, both of which are highly sensitive to delays as they journey from point of origin to final destination.

Indeed, even beyond time-sensitive GVCs for high-tech and perishable products, trade facilitation is becoming more, not less, important in the digital era. While digitalisation has made it possible to trade services and digital products globally and instantly in digital form over the Internet, it has also enabled growth in traditional trade. Of particular importance in the context of trade facilitation is the explosive growth in parcel trade linked to on-line platforms, where consumers are seeking rapid access to goods from around the world. These platforms are also creating new opportunities for MSMEs to participate in international trade, but realising these opportunities again requires action to lower the costs of trading related to border procedures. The growing numbers of parcels crossing international borders is both raising demand, and creating new challenges for, trade facilitation.[1]

Trade facilitation also supports good governance

The transparency, predictability and simplification of trade procedures not only have the potential to reduce trade costs and promote economic efficiency but they can also help remove the incentives and opportunities for corruption.[2]

Fundamentals of trade facilitation, such as transparent rules, underpin the ability of market participants and stakeholders to fully understand the conditions and constraints for entering and operating in a market. Likewise, the consistent and non-discretionary application of those rules promotes not just efficiency but also integrity in border agencies. The simplification and streamlining of border procedures reduces the discretionary power of Customs and other border agencies and can thus help promote integrity; automation can also provide additional support in harmonising the interpretation and implementation of regulations across all border points.

Moreover, cumbersome and costly trade procedures and the (often related) lack of integrity at the border can increase incentives for trade to occur informally, with large implications for government revenue. Informal trade is often conducted by individual traders and MSMEs to avoid the significantly higher trade transaction costs they face with formal trade, such as import/export duties and taxes, complex and non-transparent regulatory measures and long and inefficient border procedures. Smaller traders may also encounter significant risks of predation, bribery, theft and other "facilitation payments" by Customs officials. This informal trade erodes government revenue, particularly in developing countries where trade taxes may be a significant contributor to state budgets. With trade reforms over the last decades leading to a steady decline in tariff revenue, Customs modernisation measures that ensure more accurate reporting of the value of goods and can detect fraud and tackle smuggling are a major avenue for lowering the fiscal cost of trade liberalisation. Indeed, in some countries, revenue losses from inefficient border procedures are estimated to exceed 5% of GDP, highlighting the potential payoff of enhanced public revenue through trade facilitation measures that provide incentives to formalise (OECD, 2009; De Jong and Bogmans, 2011). Trade facilitation, integrity and promotion of formal trade can thus be mutually supportive.

The WTO Trade Facilitation Agreement

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 expanding their global presence through online trade. There are thus strong incentives for countries to undertake trade facilitation reforms. However, countries do not only have an interest in their own reforms; while these bring benefits, all countries benefit more when their trading partners also reform their border procedures.

Recognition of this strong commonality of interest, and of the additional gains from all countries acting together, led to the negotiation of the WTO Trade Facilitation Agreement (TFA). Negotiations on the TFA were successfully concluded at the 2013 WTO Bali Ministerial conference. The Agreement entered into force on 22 February 2017, after two-thirds of members had completed their domestic ratification processes.

The core of the TFA is a package of substantial trade facilitation provisions (Section I, Articles 1 to 12) covering measures for expediting the movement, release and clearance of goods, including goods in transit. The Agreement also covers provisions on transparency, administrative simplification, use of information technology for data processing and exchange, as well as provisions on co-operation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It establishes a permanent committee on trade facilitation at the WTO, and requires Members to have a national committee to facilitate domestic co-ordination and implementation of the Agreement (Section I, Article 13).

Uniquely among WTO agreements, the TFA directly links implementation of the Agreement to the capacities of developing and least developed countries (Section II, Special and Differential Treatment). While all developed country WTO Members[3] have to implement the TFA from the date of its entry into force, developing and least-developed countries can determine when they will implement individual provisions of the TFA and are required to implement some provisions only upon receipt of technical assistance and support for capacity building. The TFA is thus being implemented gradually, with different parts of the Agreement implemented earlier than others by countries around the world.

This unique structure of the TFA places a premium on knowing what is actually happening on the ground on trade facilitation. Understanding implementation of the TFA requires detailed information on the state of play on trade facilitation in WTO Members. It requires ongoing insights into where progress is being made and remaining challenges.

The TFIs were developed to support the negotiation and implementation of the TFA and are the most precisely targeted instrument for monitoring and benchmarking country performance on trade facilitation in existence today. As the TFA is gradually implemented, the TFIs allow the state of play on trade facilitation across more than 160 countries to be captured, key advances highlighted and challenges countries will face on the path to full implementation identified, providing a baseline for monitoring future progress on trade facilitation. The TFIs can thus also play a valuable role in helping to identify and prioritise technical assistance and capacity-building efforts. Finally, the TFIs can support advocacy efforts to build support for trade facilitation reforms, as they provide an important analytical tool enabling the potential impact of trade facilitation reforms on trade and the economy to be assessed.

Introducing the OECD Trade Facilitation Indicators

The TFIs are composed of a set of variables measuring the actual extent to which countries have introduced and implemented trade facilitation measures in absolute terms, but also their performance relative to others. The TFIs are tools, not rules: they are not designed to assess country compliance with specific TFA provisions, but rather to help policy makers in developed and developing countries alike to assess the state of their trade facilitation efforts, pinpoint challenges, and identify opportunities for progress.

The TFIs mirror the substantive provisions of the TFA. An additional OECD indicator going beyond the scope of the TFA was added to capture elements of good governance and impartiality of border administrations (Table 1.1).

Table 1.1. **Overall structure of the OECD Trade Facilitation Indicators**

Indicator	Description
(a) Information availability	Enquiry points; publication of trade information, including on Internet
(b) Involvement of the trade community (Consultations)	Structures for consultations; established guidelines for consultations; publications of drafts; existence of notice-and-comment frameworks
(c) Advance rulings	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements
(d) Appeal procedures	The possibility and modalities to appeal administrative decisions by border agencies
(e) Fees and charges	Disciplines on the fees and charges imposed on imports and exports; disciplines on penalties
(f) Formalities – documents	Acceptance of copies, simplification of trade documents; harmonisation in accordance with international standards
(g) Formalities – automation	Electronic exchange of data; use of automated risk management; automated border procedures; electronic payments
(h) Formalities – procedures	Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorised operators
(i) Internal co-operation	Control delegation to Customs authorities; co-operation between various border agencies of the country
(j) External co-operation	Co-operation with neighbouring and third countries
(k) Governance and impartiality	Customs structures and functions; accountability; ethics policy

Note: The area of governance and impartiality (indicator (k)) is outside the remit of the TFA.

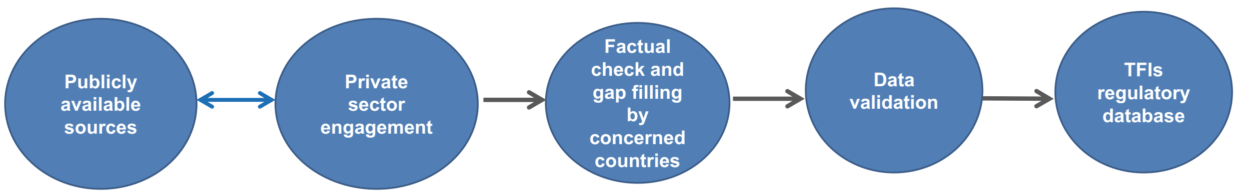
Each TFI indicator is composed of several specific, precise and fact-based variables related to existing trade-related policies and regulations and their implementation in practice. Further information on how the TFIs are calculated is at Annex A.

Data collection

The TFI database covers 163 countries, including economies at all income levels – 28 low income countries (LICs), 42 lower middle income countries (LMICs), 40 upper middle income countries (UMICs), 19 high income economies outside the OECD area (HICs non-OECD) and 34 OECD countries – as well as all geographic regions (namely, Asia-Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa and Sub-Saharan Africa). Full lists of countries by income and regions can be found in Annex B.

The TFIs are based on a detailed questionnaire, with the aim of ensuring factual information that is geographically comparable and consistent over time (the questionnaire is at Annex C). Data is collected from three types of sources: a) publicly available information included in the websites of Customs and other relevant border agencies, official publications such as Customs Codes, annual reports, or public databases;[4] b) direct submissions from countries; and c) factual information from the private sector – in particular express industry associations[5] and companies operating worldwide (Figure 1.1). Discrepancies are verified by the OECD, and completed country datasheets are sent to capitals for validation.[6]

Figure 1.1. **TFIs data collection process**



The process aims to ensure accuracy and to combine applicable regulation with a practitioner's account on how things work on the ground, while keeping the resource requirements manageable.

Using the TFIs

The TFIs dataset allows for comparisons by income group, geographical group and among regional grouping members; for examination of the state of play by individual trade facilitation measure; and for assessment of the evolution of performance over time. Interactive online tools have been developed to help countries make the most of the TFIs as a tool for informing reform strategies (Box 1.1).

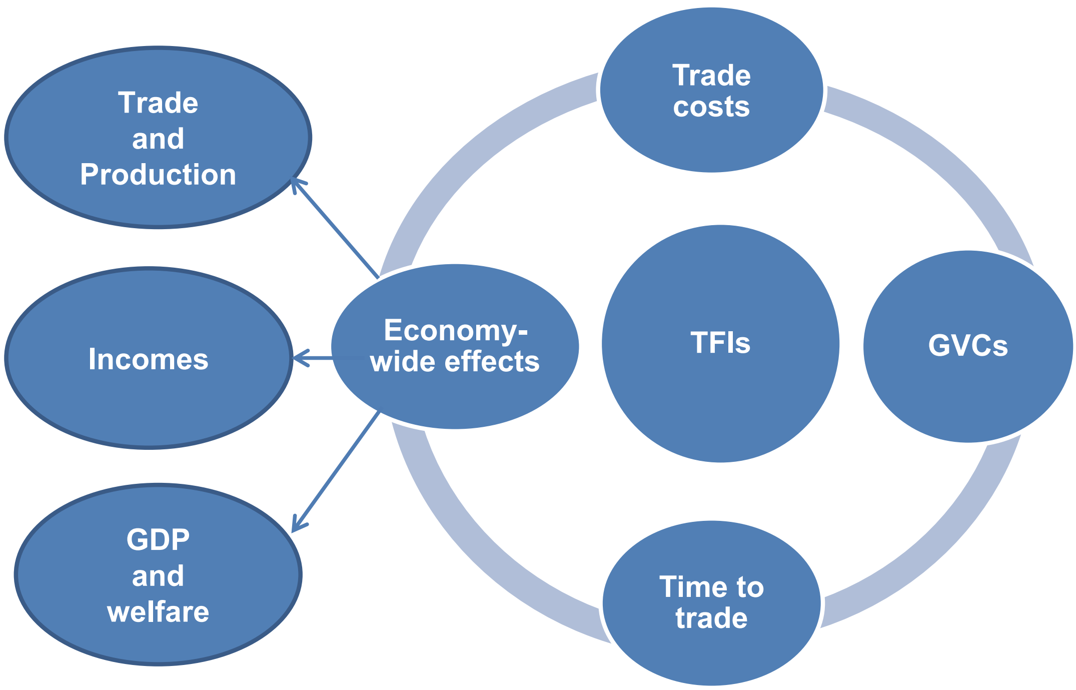
Box 1.1. **Interactive online TFI tools**

Two interactive tools are available through the TFIs internet page (*www.oecd.org/trade/facilitation/indicators.htm*):

- **Compare your country:** Allows users to access individual country profiles which display an overview of trade facilitation performance. The tool allows comparison, in a dynamic way, of a selected country with other countries belonging to the same income group or region. The user can also visualise progress made by the selected country across all TFI areas.
- **Policy simulator:** Allows the user to quickly obtain an overview of the indicators and the key measures driving the overall performance of a selected country and to compare the selected country with other countries. It also allows for the simulation of potential policy reforms: by modifying the data in specific policy areas, the user obtains an "edited" performance bar, showing the impact of policy modifications on the overall performance of the selected country and on its relative performance in comparison to other countries. The information obtained can be shared, referenced or downloaded.

The TFIs can also be used as an evaluation tool to assess the economic impact of trade facilitation reforms and in particular of implementation of the TFA (Figure 1.2).[7] These analyses can range from quantitative analysis in order to disentangle the channels through which trade facilitation reform can benefit the global economy, as well as national economies, to estimates of the impact of specific reforms on the demand and the supply sides of GVC activity. Testing the TFIs against various economic variables also enables estimation of the impact at the macro level of specific reforms to the trade procedures of given countries, as well as providing an indication of the net benefits of specific reforms at the micro level. Further details on the methodology for these analyses is found in Annex A.

Figure 1.2. **TFIs as an evaluation tool**



Overview of this publication

Against this background, the rest of this publication discusses the progress made on trade facilitation, the remaining challenges, and measures the economic gains that trade facilitation reforms bring in the context of both trade in GVCs and the economy as a whole.

This publication has two parts. Part I focuses on implementation, drawing on the TFIs to take a global view of trade facilitation reforms and more specific analysis on the most challenging areas. Part II uses the TFIs to analyse and measure the economic benefits from trade facilitation reforms, underscoring the compelling case for action on trade facilitation.

Part I opens with evidence from the 2017 update of the OECD TFIs on the state of play of trade facilitation for 163 countries worldwide (Chapter 2). The OECD TFIs offer a snapshot of trade facilitation at the time of the entry into force of the TFA, providing a baseline for future progress. This chapter presents the results of trade facilitation reforms covered by the mandatory provisions of the TFA, with detailed breakdown of progress and challenges by country income grouping and region. It highlights the areas where most progress has been made, but also those areas that countries still need to address to implement the Agreement.

Chapters 3 and 4 then dive deeper into two areas which have proven most challenging for trade facilitation reforms with a view to providing insights for policy makers on how progress could be made.

Chapter 3 focuses on border agency co-operation, both at the domestic level among the various agencies with responsibility for trade-related regulation, and at the international level between neighbouring countries. In both these areas, it draws on evidence from the TFIs, as well as international best practice and country experience to highlight key lessons for policy makers on the most important factors for success in achieving effective border agency co-operation. At both the domestic and international levels, it highlights the importance of focusing not only on changes to procedures, but also to working culture and the importance of strong and sustained political commitment to building trust and enhancing co-operation among agencies.

Chapter 4 examines the related issue of Single Window platforms. It provides detailed evidence from the OECD TFI focused on Single Windows to discuss progress in 23 economies across various regions. In particular, it draws lessons from the experience of the Association of South East Asian Nations (ASEAN) in implementing a Single Window to highlight key implications for success and challenges for policy makers.

Part I concludes with a look at the costs and challenges of implementing trade facilitation reforms (Chapter 5). It highlights the growing role that Aid for Trade has played in supporting trade facilitation reforms, and draws on experience from 24 developing and emerging economies to present evidence on the nature of the costs incurred in trade facilitation reform and how they compare with the benefits received.

Part II then explores further the economic case for trade facilitation reforms. Chapter 6 explores how specific border measures affect trade and the functioning of global supply chains and what policy makers can do to optimise their operation. Drawing on analyses from the TFIs, it presents quantitative evidence on which reforms have the greatest impact on reducing trade costs and enhancing trade flows, and which reforms matter most for boosting a country's participation in global supply chains. Moreover, as trade facilitation benefits both importers and exporters, analysis focuses on the impact of trade facilitation reforms on both the supply and demand side of value chains.

Chapter 7 concludes by stepping back to examine the global economic benefits from trade facilitation. While quantifying the gains from trade facilitation reforms can be challenging, this analysis takes an innovative approach drawing on the TFIs and the OECD's METRO model to document the channels through which trade facilitation reforms can benefit the global economy. It discusses the distribution of those potential benefits across country groupings and sectors, over the short and longer term, and explores the impact on labour income and employment, as well as welfare over the longer term.

Notes

1. Trade facilitation and growing trade in parcels is the subject of ongoing OECD work, as is deeper analysis of which trade facilitation reforms matter most for MSMEs.
2. The relationship between trade facilitation and integrity is also the subject of ongoing work at the OECD.
3. In the WTO, Developing Member status is self-selected. Least Developed Countries are defined with reference to the United Nations classification of LDCs.
4. These include other international databases, repositories and reports such as: United Nations Regional Economic Commissions (UNRCs) released results of the latest Global Survey on Trade Facilitation and Paperless Trade; the World Bank Logistics Performance Index; the World Bank Doing Business Trading Across Borders data; World Economic Forum (WEF) Global Competitiveness Report (GCR); WTO Trade Policy Reviews.

5. The Global Express Association (GEA) has developed questionnaires in an attempt to compile reports on market access and customs barriers in a large set of developed and developing countries. The objectives of the survey, among others, are to identify national laws and policies that make it difficult for express delivery companies and other transport companies to serve a particular country in an efficient manner as well as to identify capacity building needs in the country's customs administration. The GEA survey questions (within the Customs Capabilities Report) cover three key areas: transparency, customs efficiency and post-release processes.
6. Country datasheets are sent for validation with the assistance of WTO Permanent Delegations in Geneva, the World Customs Organisation (WCO) and the ASEAN Secretariat for economies outside the OECD membership.
7. Calculation of the potential impact of the TFA is based on two scenarios: a) "full" implementation, where countries implement all the options contained in the Agreement, including those formulated on a "best endeavours" basis; and b) "limited" implementation, where countries implement only the mandatory provisions, but taking into account that some of the best endeavours measures have already been implemented by some countries. These two scenarios provide upper and lower bounds of potential trade cost reductions likely to be obtained by implementing the TFA.

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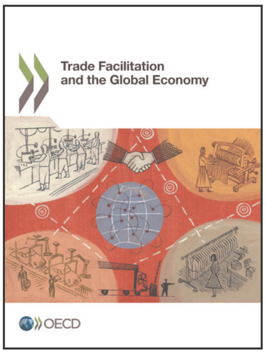

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