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DEFINING TRADE FACILITATION AT THE INTERNATIONAL LEVEL

The present issue completes a series of articles which began with *FAL Bulletin* No. [167](#) and continued with *FAL Bulletin* Nos. [171](#), [175](#), [178](#), [181](#), [184](#) and [187](#). All issues of the *FAL Bulletin* may be accessed at: <http://www.eclac.cl/transporte/>.

Each of the subjects covered in these issues of the *Bulletin* is analysed in depth by the author. 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/>. The present issue of the *FAL Bulletin* summarizes that study.

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A. SUMMARY

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 organizations, including those in which this issue is under negotiation. This includes regional, subregional and interregional integration agreements, each of which interprets the term in its own way. 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. Be this as it may, 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 Organization (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 in fact first introduced within that organization. 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 officially decided that in the medium term WTO will 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 modernization 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 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 globalization 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 modernization. This would benefit the countries directly concerned, as well as the rest of the countries of the world and the most industrialized nations in particular.

B. THE OPERATIONAL SCOPE OF THE CONCEPT OF TRADE FACILITATION

An important observation made in the course of the research undertaken for the study summarized in this issue of the *FAL Bulletin* is that, in theoretical terms, the expression “trade facilitation” is used to refer to a concept that has not yet been adequately defined. 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 organizations. 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.

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.

C. MAIN 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 explicitly identify 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:

1. APEC, which perhaps because of its relatively recent establishment (1989) is still in search of a more precise definition of its own identity, is the organization, 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 distinguishing among the organization's institutional objectives as they relate to its own concept of trade facilitation, i.e. the aim of liberalizing trade, some aspects of which relate to tariff barriers and the aim of expediting business activity. Nonetheless, the operationalization 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.

2. 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 which 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 organization 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.

3. 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, which, if it proceeds according to schedule, should be completed before the year 2005.

4. 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 primarily concerned customs matters; the results being achieved by each of these organizations vary widely, however.

5. 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 formally defined and introduced in WTO in 1996, however, the emphasis was primarily placed 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 generally related 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.

6. The growing significance of trade facilitation has been explicitly reaffirmed by the United Nations Economic Commission for Europe (ECE) 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 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. Thus 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.

7. In addition to what is being done by ECE 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 Organization.

8. 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 organizational 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 organizations, 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.

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