



TRADE FACILITATION AND DEVELOPMENT

**Driving trade competitiveness,
border agency effectiveness
and strengthened governance**

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Trade facilitation and development

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Trade facilitation and development

Executive summary

Trade facilitation reforms improve a country's trade competitiveness and the effectiveness of border agencies. In addition, they can directly help advance development goals such as strengthening governance and formalizing the informal sector.

The present study identifies policies to help reap the full development-related benefits from trade facilitation reforms. UNCTAD research and experience with technical assistance programmes has shown that such reforms should be comprehensive and ambitious and advance the trade and development objectives of countries. Trade facilitation should be linked to investments in transport infrastructure, information and communications technologies and broader trade-supporting services. Since many trade facilitation challenges and solutions are regional, their implementation should be included in regional integration schemes.

Given the linkages between trade facilitation reforms and implementation capacities, development partners need to ensure that their support does not leave out the most vulnerable economies, and should make full use of the promises and possibilities for technical and financial assistance provided for by the Agreement on Trade Facilitation of the World Trade Organization (WTO), reached in Bali, Indonesia in 2013.

Introduction

As trade has become more liberalized through lower tariffs and quotas, the focus of policymakers has shifted to other impediments to the cross-border movement of goods, particularly to those of an administrative and logistical nature. Transport connectivity, the quality of logistics services and border management all play growing roles as determinants of international trade flows. Trade facilitation in particular has been identified as a tool for increased and smoother trade between countries.

It was against this background that WTO included the topic of trade facilitation in its negotiating agenda in 2004. After 10 years of negotiations, the Agreement on Trade Facilitation was reached and in November 2014, a Protocol of Amendment to insert the Agreement into annex 1A of the WTO Agreement was adopted.

UNCTAD has promoted trade facilitation reforms for many decades, dating to its mandate from the first session of the United Nations Conference on Trade and Development (UNCTAD I) in 1964. The organization's extensive work in this area resulted in the adoption of the Ministerial Declaration on Trade Efficiency in Columbus, United States of America, in 1994, which was, in turn, instrumental for the inclusion of trade facilitation in the agenda of the first WTO Ministerial Conference, held in Singapore in 1996. UNCTAD was thus among those who took the first steps that led to the conclusion of the Agreement on Trade Facilitation.

Today, UNCTAD continues to support broad and ambitious trade facilitation reforms. This support is driven by the following three main motivations:

- Trade facilitation implementation is good for trade. It is particularly relevant for the participation of developing countries in global value chains, trade in manufactured goods and regional integration. Small and medium-sized enterprises, especially, as well as perishable, time-sensitive and intermediate goods sectors in the least developed countries and in landlocked developing countries, benefit from reduced transaction costs and times. The last mile – land transit for landlocked country trade or the journey between a port or airport and

the premises of small and medium-sized enterprises – remains in many developing countries the area where trade facilitation can make a difference for small businesses.

- Many specific trade facilitation measures help ensure revenue collection and the enforcement of health, safety and other relevant regulations. A frequent misconception is that there exists a balance or trade-off between trade facilitation on the one hand and risks to public interest on the other. Yet trade facilitation and the protection of the public from lost revenues or health hazards are not competing policy objectives. On the contrary, a large number of specific trade facilitation measures clearly help both the ease of doing business and the fight against undervaluation, counterfeit trade and smuggling. Well-designed trade facilitation measures improve the effectiveness of control agencies. As such, they not only reduce the need for physical inspections, but also increase the likelihood of detecting fraud.
- Trade facilitation reforms are positive steps towards human, enterprise and institutional development. They help small traders, who are often women, enter the formal sector, make economic activities more transparent and accountable, promote good governance, generate better quality employment, strengthen information technology capabilities and generally help modernize societies by bringing benefits related to administrative efficiency. Many trade facilitation measures directly help informal businesses better participate in foreign trade, thus supporting target 8.3 of the Sustainable Development Goals on the formalization and growth of micro, small and medium-sized enterprises.

Important challenges remain. The full benefits of the Agreement on Trade Facilitation can only be realized if the least developed countries and developing countries are in a position to actually implement the measures in the Agreement. The least developed countries require more technical assistance than other developing countries. They also tend to have lower trade volumes; their return on investment for trade facilitation reforms may therefore be lower than for countries with more trade. The least developed countries also often have less absorption capacity for comprehensive technical assistance programmes, such as the institutional reforms required to implement some of the more complex trade facilitation measures.

The challenge for UNCTAD and other development partners is to design implementation-related assistance in a manner which ensures that aid and efforts reach all the countries that need them. This must be a coordinated effort by all bilateral and multilateral development partners, and UNCTAD continues to play an important role in supporting member States in such endeavours.

In the present study, trade facilitation is mainly reviewed in the context of development objectives. The discussion and literature review is combined with a quantitative analysis of the first 73 notifications made by developing countries concerning their trade facilitation implementation capacities in the context of the Agreement on Trade Facilitation. The study examines the potential impact that trade facilitation reforms can have on trade competitiveness (chapter 1), revenue collection and public policy objectives (chapter 2) and human and institutional development, including

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