II. Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement

The WTO Trade Facilitation Agreement (TFA), which was agreed by WTO members at the Ministerial Conference in Bali in December 2013, is the first multilateral trade agreement concluded since the establishment of the World Trade Organization in 1995. The TFA represents a landmark achievement for the WTO, with the potential to increase world trade by up to US$ 1 trillion per annum. The 2015 *World Trade Report* is the first detailed study of the potential impacts of the TFA based on a full analysis of the final agreement text. The Report finds that developing countries will benefit significantly from the TFA, capturing a large part of the available gains.

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A. Introduction

In today's open and interconnected global economy, efforts to streamline, speed up, and coordinate trade processes, as much as efforts to further liberalize trade policies, will contribute to the expansion of world trade and help countries to connect to an increasingly globalized production system.
While trade agreements in the past were about "negative" integration – countries lowering tariff and non-tariff barriers – the WTO Trade Facilitation Agreement (TFA) is about positive integration – countries working together to simplify processes, share information, and cooperate on regulatory and policy goals. The *World Trade Report 2015* examines why the TFA is so important, what its economic impact is projected to be, and how the WTO is taking a number of important and novel steps to help countries to maximize its benefits.

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Some key facts and findings

- Trade facilitation has emerged as a key issue for the world trading system in recent years. Its importance was confirmed in December 2013, when WTO members concluded the Trade Facilitation Agreement (TFA) at the WTO's Ninth Ministerial Conference in Bali, and in November 2014, when WTO members adopted a Protocol of Amendment to insert this new agreement into the Marrakesh Agreement Establishing the World Trade Organization.

- The TFA will enter into force once two-thirds of WTO members have completed their domestic ratification process.

- The TFA focuses on streamlining, harmonizing and modernizing customs procedures. It has enormous potential for reducing trade costs and times, particularly in developing and least-developed countries.

- The TFA is groundbreaking because it provides for assistance to developing and least-developed countries to help them implement the Agreement. The Trade Facilitation Agreement Facility, launched by the WTO in July 2014, is designed to help deliver this support to them.

1. Why trade facilitation?

Trade facilitation – the simplification, modernization, and harmonization of export and import processes – has emerged as a key issue for the world trading system. It was not even on the WTO's agenda two decades ago, yet it became one of the main objectives of the Doha Round – the WTO's current round of global trade negotiations. This culminated in a decision by members to conclude an early Trade Facilitation Agreement, the major achievement of the Round so far and the first global trade accord reached in 20 years, at the WTO's Ninth Ministerial Conference in Bali in 2013.

The Trade Facilitation Agreement (TFA) is important because the global trade landscape is changing, probably even faster than we realise. Thanks to falling tariff barriers, declining transport and communications costs, and the rise of new emerging markets, companies are now organizing the production of goods and services and adding value across different countries and through complex transnational networks. The last century's assembly line has become today's global value chain. Rather than decreasing the importance of trade, this highly connected global economy is increasing it. Even modest differences in trade costs, and especially in trade times, can make the difference between a country seamlessly linking up to an integrated, just-in-time production network or being left on the margins of a big part of world trade.

If broadly defined, trade facilitation can cover a wide range of issues, from information technology capabilities to transport and logistics services. Notwithstanding this, the efficiency of governments' administrative processes and regulatory requirements remain a key factor. This is why the TFA, which focuses on streamlining, harmonizing, and modernizing customs procedures, will have a major impact on reducing trade costs and times.

A second reason why the TFA is critical has to do with the current economic environment. The global economy is still struggling to gain traction nearly seven years after the global financial crisis. International trade has shared in this stagnation. After the initial rebound in 2010, global trade has grown at a rate substantially below its historical average. The available forecasts of trade growth do not promise a return to the historical norm anytime soon. This has provoked broader discussion of whether the trade slowdown reflects a problem with structural rather than purely cyclical causes and is therefore a portent of things to come.

The 2013 *World Trade Report* examined the primary factors shaping the future evolution of trade and identified trade costs as one of those shaping factors (the others included demographics, capital accumulation, natural resources and technology). That report makes clear that many factors drive changes in trade flows, and that some of these factors, like technological progress, capital accumulation and labour force changes, can have impacts on trade flows that are much greater than tariff or trade cost changes.

While this study estimates the potential isolated effects of changes in trade costs due to the TFA, it is useful to keep in mind that other factors also affect trade flows and the estimated effects here may be amplified or offset by other factors. The fundamental role that trade costs play in shaping the future of world trade means that any meaningful reduction to trade costs not only reduces the drag that is acting on the global economy at present but also alters its future evolution. As this year's report will make clear, the TFA reduces trade costs by a substantial amount and makes possible a significant upward movement to the trajectory of international trade and the global economy.

The TFA is also valuable because it signals an important shift in the focus and operation of the multilateral trading system itself. When world trade was dominated by the exchange of discrete products, trade negotiations were driven mainly by the swapping of market access “concessions”, whereby countries reduced tariffs and other trade barriers only when other countries reduced theirs. But in a world of interconnected production networks, where countries’ exports depend on imports, and where their connectivity to the global marketplace is only as efficient as their connectivity to every other link in the production chain, countries have a greater incentive to work collaboratively in order to reduce barriers, eliminate bottlenecks and harmonize processes.

One striking feature of the WTO's trade facilitation negotiations was that they were driven not by market access trade-offs, but by the search for cooperative solutions to shared challenges, such as standardizing customs procedures, harmonizing documentation requirements, or improving information exchanges. There was a broad recognition that while members would benefit by individually reforming their trade procedures, they would benefit even more by collectively taking these steps. This goes a long way to explaining why the “bottom-up” trade facilitation negotiations, in which every member was involved in the design of the Agreement at every stage, were the most inclusive and transparent in the history of the General Agreement on Tariffs and Trade (GATT)/WTO.

This collaborative approach was further reinforced by the fact that many of the issues under negotiation were inherently global, in turn underscoring the logic of reaching solutions in the WTO. It made little sense, for example, for countries to agree to a single window[1] on a bilateral or regional basis, for if such a window were built for one trade partner, it would thereby automatically have been built for all trade partners. It made even less sense to streamline customs procedures or to standardize paperwork bilaterally or regionally, especially for increasingly "multinational" products. Anything less than a multilateral approach to these issues meant complicating, not facilitating, cross-border tractions. In its more cooperative and inclusive approach to negotiations, the TFA may offer an important lesson in how to address other WTO rule-making challenges.

Since WTO members have a shared interest in facilitating trade, the Agreement also breaks new ground in the way that it encourages and helps developing-country members to implement their commitments. It is the first WTO agreement in which members determine their own implementation schedules and in which progress in implementation is explicitly linked to technical and financial capacity. Although a large part of the trade facilitation agenda involves policy changes – especially coordination and information-sharing, both within and among governments – modernizing customs systems and adapting new technologies can also involve significant technical capacity and financial resource demands. With this in mind, the TFA sets out a framework for trade facilitation-related technical assistance and capacity-building support, as well as detailed transparency procedures for monitoring this support.

The WTO has also launched a new TFA Facility to complement existing efforts from regional and multilateral agencies, bilateral donors, and other stakeholders, and more broadly to serve as a focal point for on-going implementation efforts. In its multispeed approach to members' obligations and its pro-active approach to implementation, the TFA also marks a departure for the WTO with potential lessons for other aspects of the organization's work.

2. Defining trade facilitation

This report will explore these and other themes in more detail. However, a few preliminary remarks are in order. While many of the studies that will be referred to in this report use the term "trade facilitation", they may not be referring to the TFA. More likely than not, they have different conceptions of what the term encompasses. Different definitions of trade facilitation have been developed by international organizations; contributors to academic publications have also approached trade facilitation in a variety of ways.[2]

Furthermore, trade facilitation is on the agenda of many regional trade agreements (RTAs) and they do not have a uniform conception of trade facilitation (see subsection B.2). The various definitions of trade facilitation can be differentiated along at least two dimensions:

- ***Broad or narrow:*** Narrow definitions focus on improving administrative procedures at the border, while broad definitions include changes to behind-the-border measures such as technical barriers to trade as well.

- ***Soft or hard infrastructure:*** Some definitions limit trade facilitation to improvements in trade procedures which do not require making investments in physical infrastructure (apart, perhaps, from better information technology equipment for customs), while other definitions of trade facilitation include investments in hard infrastructure such as ports, transportation links within the country (roads, railways, etc.) and information and communications technology as well.

WTO members have always shied away from formally defining trade facilitation, both as a result of the impossibility to agree on the delineation and out of the wish not to exclude any potential aspects of future work. However, one can find an indication of how they see the scope for WTO work in that area when looking at the coverage of the recently adopted TFA. Based on a negotiating mandate adopted by WTO members in August 2004, the treaty improves and clarifies GATT Articles V, VIII and X[3] and introduces provisions on customs cooperation "*with a view to further expediting the movement, release and clearance of goods, including goods in transit*."[4] It is challenging to benchmark this WTO position, first because members may decide to update it over time, and second because non-WTO definitions could be interpreted to lie somewhere between the poles set out by the two dimensions above.

Table A.1 provides a non-exhaustive list of definitions that have been developed by international organizations or used in the academic literature. Given the diversity of meaning assigned to the term, the present report will be clear when it refers to the TFA.

Table A.1: Definitions of trade facilitation

a) Academic literature	
Study	**Definition**
Duval (2007).	Trade facilitation involves increasing the efficiency of trading processes. Trade facilitation involves making customs, transport, and banking and insurance (services and infrastructure) more efficient. Trade facilitation cannot simply be limited either to at-the-border or to customs control processes, since these two sets of processes are only two of a number of other processes (e.g., payment and logistics) that affect the efficiency of a trade transaction.
Grainger (2011).	Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximize efficiency while safeguarding legitimate regulatory objectives.
Persson (2013).	Trade facilitation refers to making it easier for traders to move goods across borders by making cumbersome cross-border trade procedures more efficient.
Portugal-Perez and Wilson (2012).	Trade facilitation measures can be undertaken along two dimensions: a “hard” dimension related to tangible infrastructure such as roads, ports, highways, telecommunications, as well as a “soft” dimension related to transparency, customs management, the business environment, and other institutional aspects that are intangible.
Zaki (2014).	Trade facilitation includes five main elements: 1) simplification of trade procedures and documentation; 2) harmonization of the trade practices and rules; 3) more transparent information and procedures of international flows; 4) recourse to new technologies to promote international trade; 5) more secured means of payment for international commerce.
b) International organizations	
Institution/source	**Definition**
Asia-Pacific Economic Cooperation (APEC) *Source*: APEC (2007).	Trade facilitation refers to the simplification and rationalization of customs and other administrative procedures that hinder, delay or increase the cost of moving goods across international borders.
European Commission *Source*: http://ec.europa.eu/taxation_customs/customs/policy_issues/trade_falicitation/index_en.htm	Trade facilitation can be defined as the simplification and harmonization of international trade procedures including import and export procedures. Procedures in this context largely refer to the activities (practices and formalities) involved in collecting, presenting, communicating and processing the data required for movement of goods in international trade.
International Chamber of Commerce (ICC) *Source*: ICC (2007).	Improvements in the efficiency of the processes associated with trading in goods across national borders.
Organisation for Economic Co-operation and Development (OECD) *Source*: Moïsé *et al.* (2011).	Trade facilitation refers to policies and measures aimed at easing trade costs by improving efficiency at each stage of the international trade chain.
United Nations Economic Commission for Europe (UNECE) *Source*: http://tfig.unece.org/details.html	The simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment.
United Nations Conference on Trade And Development (UNCTAD) *Source*: UNCTAD (2006).	Trade facilitation seeks to establish a transparent and predictable environment for cross-border trade transactions based on simple, standardized customs procedures and practices, documentation requirements, cargo and transit operations, and trade and transport arrangements.

3. Structure of the report

Section B looks at the evolution of the WTO's trade facilitation agenda, explaining how the negotiations in the WTO began, what was addressed and why, what they led to, the current state of play, the special and differential provisions in the TFA, and the road ahead for WTO members. It suggests that while the WTO was relatively late to the subject, the logic of multilateral cooperation in this area soon generated a widening circle of support for the initiative and a more ambitious agenda. Section B also explores how trade facilitation issues are treated in other international bodies and regional trade arrangements, and documents how wide-ranging trade facilitation can sometimes be in these arrangements, extending beyond reform of trade procedures to include behind-the-border measures and infrastructure provision.

Section C explores the economic rationale for reforming trade procedures. Using widely used models of international trade, the section articulates the economic effects of trade facilitation reform and explains the added value of establishing a multilateral agreement on the issue. It then examines the various indicators currently used for assessing countries' trade connectivity and identifies which indicator would best represent implementation of the TFA.

Using the insights from international trade models about the likely impact of trade facilitation, Section D estimates the potential benefits arising from the implementation of the TFA, particularly for developing countries. These estimates include reductions in trade costs, increases in trade and GDP, and greater diversification of exports. In addition, Section D examines the prospect of implementing countries being better able to link up to global value chains and of small and medium-sized enterprises (SMEs) increasing their participation in international trade. Beyond these potential benefits, Section D also calculates other likely gains from trade facilitation – increases in customs collections, the attraction of more foreign direct investment (FDI), and reductions in the incidence of corruption. The estimates suggest that while all members will benefit from more efficient customs and administrative procedures, the greatest benefits will accrue to those countries with the least efficient systems.

Section E looks at the various challenges involved in ratifying and implementing the Agreement. It identifies what the main needs are, the estimated costs, the important lessons to be drawn from past experiences in customs reforms, and the role of the special and differential provisions of the TFA in helping developing members overcome the practical difficulties ahead of them. While many developing members remain concerned about the financial costs involved in trade facilitation – which is why the Agreement explicitly links implementation to capacity — these costs are outweighed by the potential trade, investment and output gains that will flow from the Agreement.

Finally, Section F summarizes the main messages of this report.

Endnotes

1 A single window allows traders to submit the relevant documents and/or data requirements and be notified of a decision to release the goods from border control through a single entry point.

2 See for example Iwanow and Kirkpatrick (2009), Grainger (2011), Orliac (2012), and Portugal-Perez and Wilson (2012), as well as Table A.1.

3 These articles deal with freedom of transit, fees and formalities connected with importation and exportation, and publication and administration of trade regulations, respectively.

4 See WTO document WT/L/579, Annex D, "Modalities for Negotiations on Trade Facilitation".