

Targeting Trade Facilitation for Inclusive Growth

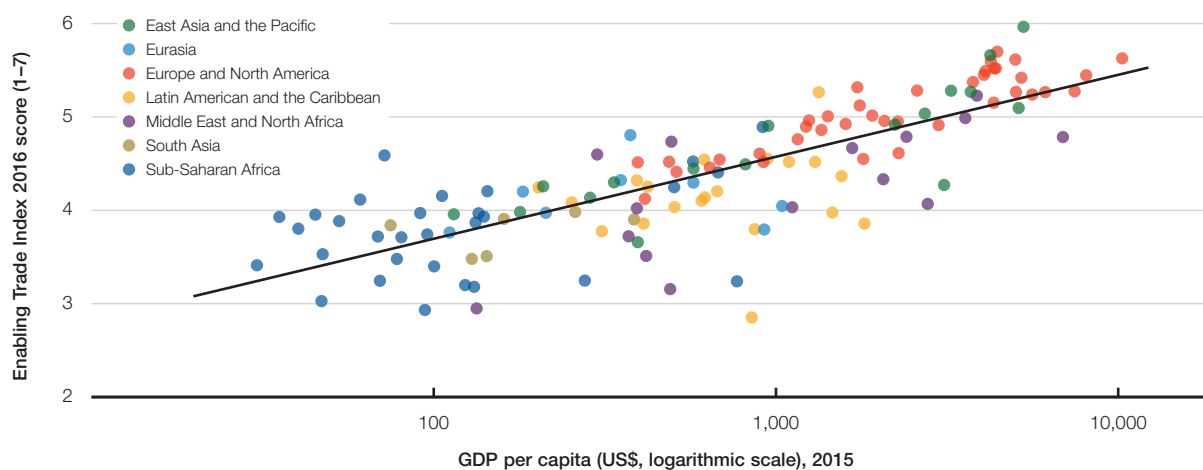
The importance of trade as a determinant of growth and the importance of growth for poverty reduction is well documented.¹ Trade allows countries to specialize; enables technologies, know-how and ideas to spread; promotes competition; and yields economies of scale. All of these factors contribute to boosting innovation and productivity, which fosters economic growth. Trade has contributed to the halving of global extreme poverty between 1990 and 2015, which was one of the Millennium Development Goals. Adopted in 2015 to succeed the MDGs, the Sustainable Development Goals include trade as a means to “finish the job” of eradicating extreme poverty by 2030.

Yet, it has become clear that “growing the pie” cannot be the only objective of globalization. Crucially important is the capacity to contribute to shared prosperity. International trade has to be more inclusive, both within and across countries. In advanced economies, the benefits of three decades of rapid—sometimes unbridled—globalization have been partly offset by a lack of measures and policies to mitigate the adverse effects, which have often been underestimated. It has become evident that, in many advanced economies, globalization has contributed to deepening societal cleavages, exacerbating distributional problems, and to undermining social contracts. At the same time, in the developing world many have yet to benefit from globalization. More must be done to lower trade costs, which hinder integration of the least developed economies into the global economic system and limit the ability of the poorest to participate in global value chains.² Indeed, this Report, among other studies, shows how closely trade costs and income levels are correlated (see Figure 1).

International trade has exhibited lacklustre growth in recent years. Merchandise trade volume, for example, grew by only 2.7 percent in 2015, the fourth consecutive year of growth below 3 percent. Further, the World Trade Organization (WTO) predicts that growth in world merchandise trade for 2016 will be a mere 1.7 percent.³ If this projection materializes, it will be the first time since 2001 that GDP growth outpaces trade growth. This follows decades of nearly uninterrupted, rapid trade growth (see Figure 2). As further evidence of weak momentum, trade openness—measured as the ratio of trade in goods and services to GDP—declined in 2015 by 3.7 percent. It was the second-largest contraction in 20 years and the third consecutive year of decline, the longest period of decline since 1960.⁴

To explain the slowdown, the International Monetary Fund (IMF) posits that the prolonged episode of weak global economic activity, particularly investment, has accounted for about three-fourths of the sharp slowdown in trade volume since 2012.⁵ Indeed, a decade after the beginning of the global financial crisis, the world economy is still grappling with subdued growth; global

Figure 1: GDP per capita and Enabling Trade Index 2016 performance



Sources: World Economic Forum; IMF 2016b.

Note: N=136

growth is projected to slow to 3.1 percent in 2016, its lowest rate since the trough of the crisis in 2009.⁶

Slow global economic growth is not the only cause underpinning the slowdown. Another factor is that the rapid growth in trade during the 1990s and 2000s was, in fact, exceptionally high. It was driven by China's integration into the global economy, linked with massive investments there and many other emerging markets; falling trade costs due to policy cooperation and technological advances; and rapidly developing global value chains. The effects of these processes are now likely tapering off; therefore, the WTO believes that trade is unlikely to post growth rates similar to those achieved prior to the global financial crisis. The WTO also cites the increasing role of the digital economy as potentially contributing to the slowdown.

Another contributing factor is that the trade-enhancing effect of trade liberalization is likely decreasing, as globally tariffs have reached low levels. The IMF calculates that multilateral, regional and unilateral trade liberalization lowered the import-weighted average tariff rates for all economies by almost one percentage point a year between 1986 and 1995, then by half a percentage point a year until 2008. Since 2008, average tariffs have declined by just one percentage point in emerging and developing economies and actually *increased* by 0.2 percentage point in advanced economies.⁷ Yet, with average import-weighted tariffs for the world still at 8 percent, an elimination of tariffs would reduce trade costs by as much and generate significant productivity and welfare gains. However, further trade liberalization will be difficult to achieve in the current context.

Both the IMF and WTO cite creeping protectionism as an aggravating factor behind the slowdown. Figure 3 shows the steady rise in temporary non-tariff barriers. The World Economic Forum also finds evidence of "declining openness" in the deterioration observed since

2007 of several indicators of economic openness, such as non-tariff barriers, FDI rules and prevalence of foreign ownership.⁸ Societal unease with globalization has become evident in often very vigorous public debates on the power of corporations, employment, labour and environmental standards, and taxation that have taken place in countries with varying degrees of economic strength and from all regions of the world. More recently, the United Kingdom's decision to leave the European Union has shattered the view that regional integration and openness is a one-way street.

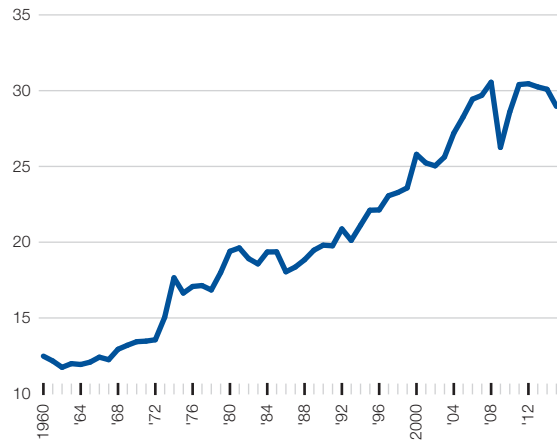
There have, however, been some recent important achievements in reinvigorating growth in global trade. The WTO has found a way to navigate the political complexity of the Doha Round, notching up recent progress on seemingly intractable issues such as trade facilitation in 2013, information technology (2015), and agricultural export subsidies (2015). Negotiation efforts continue on the Regional Comprehensive Economic Partnership, the Continental Free Trade Area and other agreements of varying levels of ambition. G7 leaders have pledged to apply better labour, social and environmental standards across global supply chains, while G20 leaders have endorsed a set of principles for global investment policy-making. Given the symbiotic relationship between trade and growth, trade-enabling measures should remain a key objective for the majority of policy-makers at the national and international levels.

THE NEED FOR PRACTICAL POLICY RESPONSES

The mechanisms linking trade and growth are complex, yet there is an important role for national institutions in determining positive outcomes.⁹ This is particularly true since the traditional nature of trade as production in one country and consumption in another continues to erode. As countries increasingly find niches to specialize in tasks or individual steps of the value chain, rather than products, and value is added across many countries,

Figure 2: Declining trade openness

Average of imports and exports of goods and services (% of GDP)



Source: Authors' calculations based on World Bank 2016.

institutional capabilities are put to the test. Further, as emerging and developing countries provide a larger share of global economic output and become the drivers of trade, the issues of administrative and regulatory capabilities become more prominent, associated as they are with overall economic development.

For individual businesses, regardless of nation or region, practical reforms to international trade and investment can be crucial for success. This is true both for large multinationals, and local small and medium enterprises (SMEs), as made clear in WTO's most recent *World Trade Report*.¹⁰ Hoekman and Shepherd have explored the distributional effects of facilitating global value chains and show that the benefits accrue not just to lead firms, as had been postulated, but also to SMEs throughout the chain.¹¹ As firms in more advanced economies innovate in response to rising costs, new opportunities to access global value chains emerge in other countries.

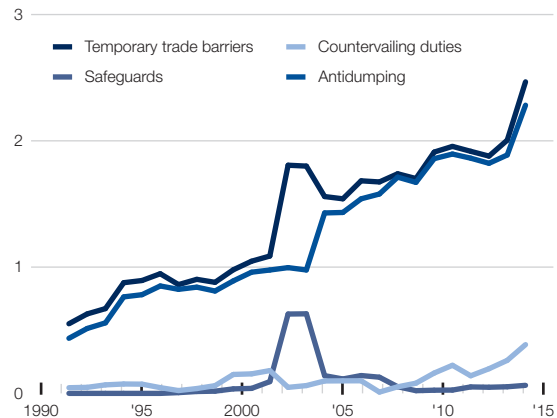
Competitive businesses can more effectively serve large markets; this implies that avoiding excessive market fragmentation is beneficial. Where open borders are not achievable, if governments make deliberate policy choices to restrain flows, traders look to at least remove unintended or frictional barriers to flow. Practical global trade reform narratives are therefore strongly focused on addressing management issues at the border, as well as barriers behind the border, with simplicity and commonality as key, underlying objectives.

Long-held industry practices and legacies, such as incompatible IT systems, can also play a role in creating process bottlenecks. However, commercial pressures tend to iron these out relatively quickly, and those that remain often trace a dependency to a legal requirement, such as the need for a signature on a paper form.

The rationalization of regulatory procedures and the elimination of unnecessary red tape—along with the availability of suitable infrastructure—is vital to enabling

Figure 3: Protectionism on the rise

Temporary trade barriers by type, share of total products



Source: Global Trade Alert. Adapted from IMF 2016b.

trade. These measures can be grouped under the umbrella term *trade facilitation*. Broadly defined, trade facilitation is any measure that contributes to lowering trade transaction costs and creating standard efficiencies. This broad approach guided the development of the Enabling Trade Index, which is outlined and explained in Chapter 2. For the WTO, the scope of trade facilitation is narrower and consists of “expediting the movement, release and clearance of goods, including goods in transit”, as highlighted in both the Doha Declaration and the Trade Facilitation Agreement (TFA).

The costs of inaction on trade facilitation are several. There are the direct and administrative costs to traders, the direct administrative cost to governments, the time cost, which results in higher working capital needs, and the uncertainty cost. The latter two are particularly important for modern lean production strategies in which inventory holdings are minimized. For example, excessive variance in border hold times can result in wasted product or missed sales, the cost of which may be many times that of the direct cost. Ultimately these transaction-specific costs can result in forgone trade or investment with attendant economic cost to nations and revenue loss to governments. Box 1 presents three case studies of traders in Ghana, Kenya and Colombia who face those challenges on a daily basis, thus highlighting the importance of trade facilitation.

In recognition of these issues and of the potential impact of addressing them, trade facilitation has been high on the agenda of governments, businesses and development partners since the beginning of the 2008 global recession. The adoption in 2013 of the TFA has provided trade facilitation with new impetus and momentum (see Box 2). This heightened interest represents a window of opportunity for policy-makers, especially in developing countries, to push through trade-enabling measures.

Box 1: Three trader stories

Ghana: Chartered Impex

Based in Ghana's capital, Accra, Solomon Benjamin has been in the pineapple business since 1997, selling pineapples for juices as well as salads. Some of his fruit is targeted for domestic consumption, but most is exported to Germany, France, Italy and North Africa. Today, more than 100 people work for his company, Chartered Impex Ltd, where he is the Managing Director. The company exported approximately 3,000 tons of pineapple in 2015—a difficult year due to low rainfall that affected produce. Business has been good in general, says Solomon. His company has been growing “significantly” in recent years. Weather patterns, however, are not the only factors casting a degree of unpredictability on his supply chains.

When asked whether it has become easier for him to export, Solomon replies that it has actually become more complicated, with control mechanisms designed to crack down on illicit trade at ports cutting across to other products, including his time-sensitive pineapples.

At the airport for example, Chartered Impex must arrive with its pineapples before customs and other regulatory authorities close for the night, which itself is a challenge given the unpredictable traffic situation on Ghana's highways. “What we go through before getting to the airport is already a problem,” Solomon notes. Several government authorities must then scan the goods before undergoing physical checks, after which they must get to the plane on time. At the seaport, there is a danger of missing the vessel that takes the pineapples to their destination. This means the company must not only wait an extra week for the next ship; it must also pay for the storage and electricity that keeps the fruit fresh in the meantime. All of this risks delaying the delivery of the pineapples, which have a very clear expiry date.

“It's not that we are against the process,” Solomon maintains, “it is about improving the efficiency of the process. Predictability is crucial [when] you're dealing with perishables. If your transit time is 10 days, it should take 10 days, not 12 or 14.”

Nevertheless, Solomon says he remains more positive than negative about the future of trading internationally from Ghana, arguing that relatively small reforms could make a big difference for his company. “If we could get a separate scanner for perishables [for instance], that would solve the problem,” he offers. “When you stay in the queue for hours, it affects the quality of the product. We say time is money, and that is true.”

Kenya: Royal Garments Industries EPZ Ltd

The first time Sharon Kimanini engaged in international trade was when she joined the procurement team of Royal Garments Industries EPZ, a Kenyan company that supplies approximately one million items of clothing each month to clients in the United States. Royal Garments sits at the centre of its global supply chain, importing fabric from China, Hong Kong and Dubai that it then manufactures into hospital uniforms and other garment pieces in Kenya before shipping them stateside.

After gaining experience in procurement alongside her American and Kenyan colleagues, Sharon slowly moved into the shipping department, dealing with import and export documents. Today, she serves as the company's Head of Logistics, overseeing the company's global logistics operations.

“There are so many processes, so much documentation,” Sharon says when asked about the key challenges of her work. A recurring problem is the temperamental computer systems on which everyday customs operations depend.

“We use a system for booking shipping containers. If it's not working, you can never pick up a container. We have a customs system. If it's down, you can never have the export documents.”

For Sharon, the key issue is efficiency. “Sometimes you're stuck for three days,” she explains. “You have the entry in the system but the system is down and the customs officers will never release your shipment unless they see the message online.”

When Sharon's garments are delayed, Royal Garments must pay for the cost out of pocket, sometimes resorting to expensive air shipments to make sure clients get their orders on time.

Sharon offers an example: “Maybe I was supposed to produce 1,000 pieces and was only able to get 500 to the ship on time. I would then have to airlift at my own cost, and airlifting to Dallas is US\$3.30 per kilogram.”

Importing can also be burdensome, as Royal Garments must consult individually with a host of public authorities, including the Kenya Trade Network Agency (KenTrade), the Kenya Revenue Authority (KRA), the Kenya Ports Authority (KPA) and the Kenya Bureau of Standards (KEPS) during the process. “It's like you have to deal with everybody,” says Sharon.

What kind of trade facilitation reform would be most meaningful for her business?

(Continued)

Beyond anecdotal evidence, empirical research lends support to the positive impact of trade facilitation on trade and economic growth. A 2013 study by the World Economic Forum, for example, estimated that if all countries improved their performance in terms of border administration, trade infrastructure and services to just halfway to the optimum level of global best practice, this could yield an increase of approximately US\$ 1.6 trillion (14.5 percent) in global exports and of approximately US\$ 2.6 trillion (4.7 percent) in global GDP.

Developing regions and smaller enterprises would see the largest relative gains.¹² Other studies have estimated that the TFA could provide a US\$1 trillion boost to the world economy¹³ and that reducing trade costs by half globally could bring a US\$1.2 trillion gain by 2020.¹⁴ The OECD finds that specific trade facilitation activities with the largest impact on trade are: improving information availability, expediting border documentation, process simplification and automation, and enhanced customs transparency and governance.¹⁵

Box 1: Three trader stories (cont'd.)

“If we could have a centralized information centre and deal with just one body instead of KenTrade, KRA, KPA... it would be much easier. A centralized place of clearance could solve anything.”

Colombia: Calderas Continental

Founded in Bogotá, Colombia 49 years ago, Calderas Continental began by buying technology from a recently closed Pennsylvania (USA) boiler company. Calderas initially imported boilers from the U.S. while the dollar-Colombian peso exchange rate was stable, then eventually built its own steam boiler and hot water boiler manufacturing workshops in Bogotá. Now, in 2016, the company employs 36 people and imports only around 10% of its basic building materials.

“We started trading internationally with a dairy company in Venezuela,” Gonzalo Gomez, General Manager, explains. “Now Venezuela is one of our main targets. It’s a really good market for us.”

Calderas also exports boilers to Ecuador, Nicaragua, Guatemala and Peru—countries Gonzalo describes as “really diverse and really difficult” because of the varying customs procedures and requirements.

“This region is a tough neighborhood,” says Gonzalo. “Each country has its own personality, which changes a lot. You might think you know all the paperwork for one export to Venezuela, but if we’re going to trade with Ecuador, it’s a different situation.

“You get all your papers, you hand them in and usually there’s something wrong but you don’t know what. Someone will come up with something you had no clue that you needed—an extra copy of something or a whole other paper.”

Crucially, a missing document and other bureaucratic mysteries often lead to rigorous physical inspections, increasing the time and cost of trading. “For three major boilers we shipped last year, we weren’t able to submit our certificate of origin online and had the DIAN [Colombia’s National Taxes and Customs Direction] in our office for three days checking everything in the boilers,” Gonzalo says. “With physical inspection, they check everything.”

The complexity and diversity of export procedures have led Calderas to sell most of its boilers ‘Ex Works’: buyers pick up the equipment in Colombia and take on the export responsibilities themselves.

“If we could have one standard trade system for all the countries in the region, then we could export ourselves. Because they’re all different, we need somebody that knows all the little details. If that standard system could be on the internet as well, that would be amazing. The less time you need to spend on customs, the easier life is.”

Reform of border and domestic barriers is less straightforward than changes to explicit outward-facing trade policy. Collaboration is needed among multiple government departments, outsourced providers, infrastructure investors and other actors.

To help in this effort, significant capacity-building work has already been done by international

Box 2: The WTO Trade Facilitation Agreement

In December 2013, the members of the World Trade Organization (WTO) adopted the so-called “Bali Package” during the Ninth WTO Ministerial Conference. A major component of the Package, the Trade Facilitation Agreement (TFA) has the potential to accelerate progress on many of these practical obstacles. The TFA is structured around twelve issues (Section I):

1. Publication and availability of information
2. Opportunity to comment, information before entry into force and consultation
3. Advance rulings
4. Appeal or review procedures
5. Other measures to enhance impartiality, non-discrimination and transparency
6. Discipline on fees and charges imposed or on in connection with importation and exportation
7. Release and clearance of goods
8. Border agency cooperation
9. Movements of goods under customs control intended for import
10. Formalities connected with importation, exportation and transit
11. Freedom of transit
12. Customs cooperation

Further, the TFA contains provisions for special and differential treatment (SDT) for developing and least-developed countries (Section II). In accordance with these, countries can decide which provisions of the TFA to implement immediately after the agreement is in force, after a transitional period, or after capacity building support has been provided. To benefit from SDT, a member must categorize each provision of the Agreement, as follows:

- Category A commitments: provisions that the member will implement by the time the TFA enters into force (or in the case of a least-developed country member within one year after entry into force)
- Category B: provisions that the member will implement after a transitional period following the entry into force of the TFA
- Category C: provisions that the member will implement on a date after a transitional period following the entry into force of the TFA and requiring the acquisition of assistance and support for capacity building
- For provisions designated as categories B and C, the member must provide dates for implementation of the provisions

The Economy Profiles at the end of the Report lists the notifications by category. Section III of the TFA contains provisions for institutional arrangements.

In November 2014, the final version of the TFA was adopted and opened for ratification. Once the agreement is ratified by two thirds of all WTO members, it will enter into force. As of October 2016, 96 of the 164 members had ratified it, which means the TFA will enter into force once a further 15 members have ratified.¹

Notes

- 1 See <http://www.tfafacility.org/> for up-to-date list of ratifications and notifications.

Box 3: Data for policy-making

Data and evidence are critical factors that should drive feasible and effective policy-making. Among the seven pillars of the Enabling Trade Index 2016, Border Administration exhibits the second largest score differential—between the country at the bottom, Yemen, and top performers such as Singapore—after the ICT Infrastructure pillar (see Chapter 2). Moreover, modernizing border administration is, relatively speaking, less costly, less time consuming and politically easier than other interventions. Therefore, border administration appears to be an appealing choice for countries wishing to implement speedy reforms; in other words, a ‘low-hanging fruit’ for policymakers.

TF data is also important for targeting some US\$40 billion of Aid for Trade (a WTO initiative) annual funding to where it has the most impact.¹ Case studies conducted by the World Economic Forum and World Bank suggest that the effect of reducing barriers is not a continuous function, but rather depends on tipping points being reached.² Broadly speaking, appropriate targeting appears to be happening at a macro level. Countries with the weakest performance on the ETI, including Burundi, Mozambique, Gambia and Madagascar, have indeed received the highest amount of Aid for Trade funding relative to the size of their economies.³ The outcome, as assessed by the OECD/WTO (2013), is that US\$1 invested in aid for trade is associated with an average increase of US\$8 in exports from developing countries.

Notes

- 1 De Melo and Wagner 2016.
- 2 World Economic Forum 2013.
- 3 OECD/WTO 2015.

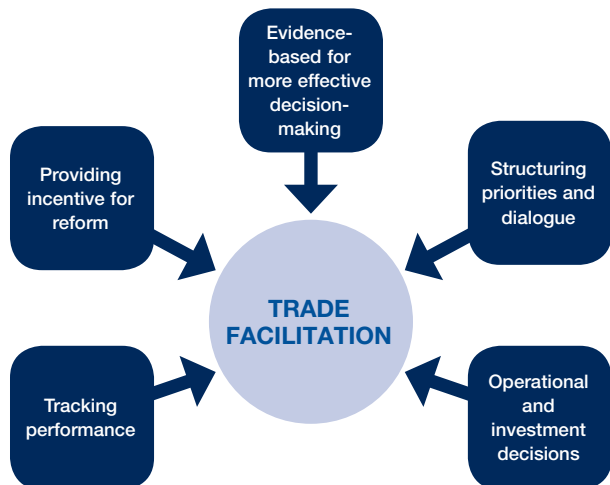
organizations including the World Bank, WTO, United Nations Conference on Trade and Development (UNCTAD), International Trade Centre, World Customs Organization, United Nations Economic Commission for Europe (UNECE) and others. Many businesses, too, have supported their national governments in improving trade management through best-practice sharing as well as investment in supply chain operations and assets.

For greatest impact on trade facilitation, the World Bank suggests leveraging the dynamism of the private sector via public-private partnerships to strengthen trade capacity.¹⁶ Such partnerships could strengthen impact through (i) project identification, (ii) project conception, (iii) project implementation, and (iv) project management and evaluation.

THE GLOBAL ALLIANCE FOR TRADE FACILITATION

Recognizing that neither governments nor the private sector can deliver on the full potential of trade facilitation on their own, the World Economic Forum, the International Chamber of Commerce and the Center for International Private Enterprise, together with the governments of Australia, Canada, Germany, the United

Figure 4: Enabling reforms through measurement and benchmarking



Kingdom and the United States, joined forces to form the Global Alliance for Trade Facilitation, which was launched in December 2015 at the WTO’s 10th ministerial conference in Nairobi.

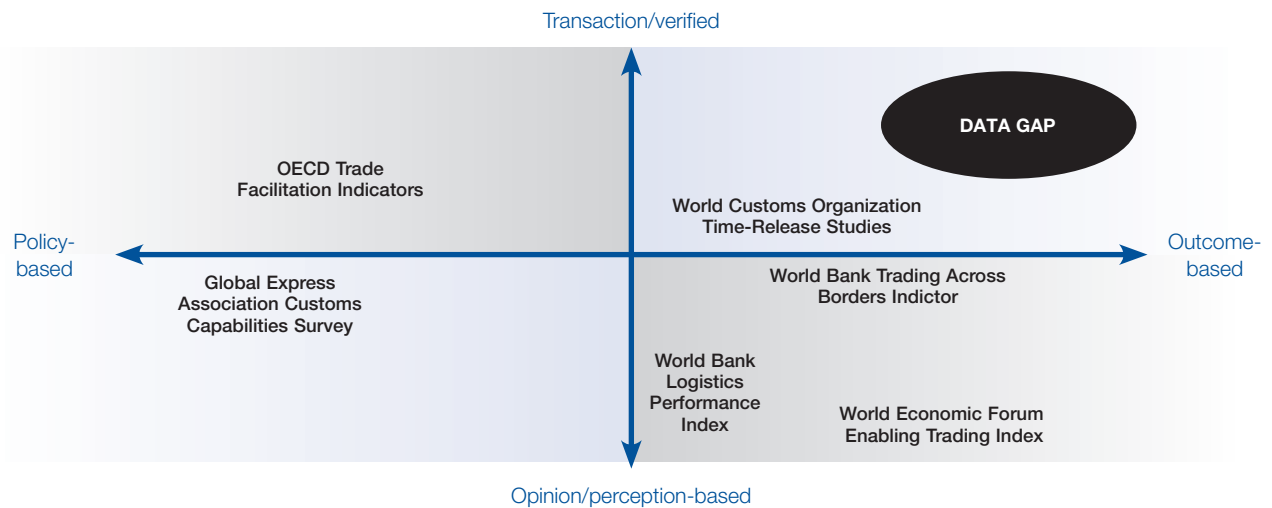
Since then, Alliance partners have worked closely to establish a unique public-private platform to leverage business expertise, leadership and resources to support effective trade facilitation reforms measured by real-world business metrics. With the overarching aim of accelerating ambitious trade facilitation reforms, the core activities of the Alliance include:

- Building understanding of the benefits of trade facilitation within both the public and private sectors
- Establishing sustainable multi-stakeholder dialogues on trade facilitation
- Mobilizing public-private partnerships to drive change, engaging local businesses and associations
- Technical and financial assistance in support of capacity building
- Benchmarking and evaluation based on established business metrics

As of October 2016, the Alliance is active in four pilot countries: Colombia, Ghana, Kenya and Vietnam. Going forward, the Alliance intends to support more developing and emerging countries while also working at global and regional levels to enhance stakeholder awareness of the importance of the TFA and of public-private cooperation in implementing customs and border reforms. To ensure synergy with the activities of other international programmes, the Alliance will actively engage with other international bodies, donors and associations.

With the support of national governments, the Alliance’s in-country projects will leverage the expertise and resources of leading companies and international

Figure 5: Overview of currently available trade facilitation indicators



organizations—as well as provide a platform for local business communities to identify trade bottlenecks and to work collaboratively with governments to support effective reforms. With the implementation of these in-country programmes, the Alliance also benefits from the expertise and network of GIZ—the German government’s enterprise for international cooperation.

Measuring trade facilitation

There are a number of key mechanisms in which measuring trade facilitation contributes to enabling trade (see Figure 4), resulting in actionable data. Trade facilitation data enables data-driven decision-making, notably in prioritizing reforms and allocating resources (see Box 3). Furthermore, it incentivizes reforms, and allows policymakers to monitor progress. It also provides businesses with information for operating and investment decisions, and helps all stakeholders to identify good practices that can be emulated. The data gathered through these efforts is the indispensable ingredient for empirical research—including all the studies cited earlier in this chapter.

Until the 1990s, attempts to measure trade frictions essentially consisted of quantifying the trade-reducing effects of crossing a border, or of geographic remoteness or distance, notably through augmented gravity models pioneered in the 1960s. But the ability to conduct and unpack a more granular analysis of the causes of the “border effect” was limited by the lack of data.

By the late 1990s and early 2000s, it became clear that various non-tariff barriers contributed as much if not more than trade tariffs—which had already begun to be reduced—to explaining trade flows and patterns. Amid rapid globalization, economic integration and the development of global value chains, the need to identify and quantify these barriers that existed at as well as behind the border became more pressing. This led several organizations to launch initiatives to identify and

compile data and indicators measuring these barriers (see Box 4). These new initiatives have given rise to an abundant stream of empirical literature (including the Enabling Trade Index, launched by the World Economic Forum in 2008) that has provided new insight about trade costs and the benefits of reducing them.

Despite the ongoing efforts, gaps in trade facilitation data remain vast. In areas covered by existing efforts, higher frequency, more granularity, and larger scope would greatly enhance the quality of the data. The need is particularly acute in terms of actual border administration performance, as good policies (*de jure*) are merely necessary and not sufficient conditions to good outcomes (*de facto*).

Figure 5 organizes the existing data collection efforts (see Box 4) into four quadrants, where data initiatives are placed along the vertical axis on the basis of their nature (primary- or transaction-level data vs perception- and opinion-based data) and along the horizontal axis according to their scope (policy/environment vs outcome/performance). The upper-right quadrant is where the gap currently lies with the only relevant initiative (i.e. the World Customs Organization’s Time Release Studies) being done on an ad hoc, periodic basis and kept, in the vast majority of cases, confidential. There is, therefore, a need for real-world, actionable and public data on trade facilitation on a global scale that can spur transparency, guide trade facilitation reform efforts and act as yardstick in tracking implementation and actual performance.

In this context, the Global Alliance for Trade Facilitation has set up a Metrics and Measurements effort with activities organized into three categories: metrics development, knowledge development and knowledge diffusion. The Enabling Trade Index, co-produced by the Alliance and the Forum, is one deliverable of the Working Group. Composite indicators and benchmarking tools have proven very effective in

Box 4: Overview of existing trade facilitation data initiatives

There are numerous ongoing initiatives to measure various aspects of the trading environment at national, regional and global levels. Below is a review some of the most prominent ones.

Introduced in 2005 as part of the World Bank's Doing Business project, the Trading across Borders indicators cover 189 economies (as of 2015) and are updated on an annual basis.¹ They are based on a scenario approach in which each country is studied using the same hypothetical import-export scenario. In this scenario, a shipment of containerized auto parts is imported from the main importing partner for that product group, irrespective of how relevant auto parts are for the country or of who that trading partner is. The exporter is the country-product pair (at an HS2 level) with the highest trade value, thus potentially running into problems of endogeneity and—especially in the case of highly-diversified exporters—representing a small percentage of the country's total export.

In a 2014 study of 10 countries, the World Bank found that the Trading Across Borders estimates were 20-30 percent higher when compared to findings from a more detailed step-by-step analysis.² Despite the limits of a scenario-based approach, the Trading across Borders indicators remain the best resource currently available to measure countries' actual performance in facilitating trade and, as such, they are used widely in the empirical literature. The indicators are also included in the Enabling Trade Index (ETI).

Time Release Studies—developed by the World Customs Organization—provide a systematic approach to measuring the time for each step in the border clearance procedure and, by looking at total time of release in a disaggregated way, complement the Trading across Borders indicators and provide useful understanding of where key bottlenecks are.³ However, given the amount of resources necessary for such detailed studies, they are generally done on ad hoc basis and remain largely confidential documents.

Other attempts at capturing countries' performance in terms of clearance processes and overall efficiency is represented by both the Logistics Performance Index (LPI) by the World Bank and, to a lesser extent, the World Economic Forum's Executive Opinion Survey (EOS), whose results feed into a number of indexes, including the ETI.^{4,5} Both exercises are broader in nature; the former looks at the overall logistics environment, and the latter at the general competitiveness performance of a country. Both also share similar limitations. Since they are opinion surveys, respondents give an approximate assessment on a 1-5 and 1-7 scale, respectively, of a number of relevant aspects.

Other initiatives are designed to gauge the policy environments within countries. The OECD's Trade Facilitation Indicators track the implementation of key reforms around border procedures, indirectly providing a useful snapshot of how far countries are in terms of meeting the obligations laid out in the WTO Trade Facilitation Agreement.⁶ Similarly, UN Regional Economic Commissions have undertaken the Global Survey on Trade Facilitation and Paperless Trade on an annual basis since 2012, while the Global Express Association's Custom's Capability Surveys aim to gather the perspective from express courier operators on the ground.^{7,8}

Notes

- 1 <http://www.doingbusiness.org/data/ExploreTopics/trading-across-borders>.
- 2 Bilotserkivska 2014.
- 3 <http://www.wcoomd.org>.
- 4 <http://lpi.worldbank.org>.
- 5 <http://gcr.weforum.org>.
- 6 <http://www.oecd.org/trade/facilitation/indicators.htm>.
- 7 See <http://www.unescap.org> among others.
- 8 <http://www.global-express.org/>.

promoting data-driven, evidence-based dialogue and policy-making, as well as creating impetus for reforms.

In considering the development of new metrics, the Alliance will leverage the potential offered by business data, Big Data and technology. It will focus primarily on assessing outcomes and countries' actual performance using disaggregated, transaction-level data through partnerships with the private sector. It will also work with governments to increase transparency around key performance indicators related to customs clearance and border procedures. Filling these gaps will, in turn, help increase transparency and accountability and raise awareness on the importance of trade facilitation, ultimately contributing to driving reforms.

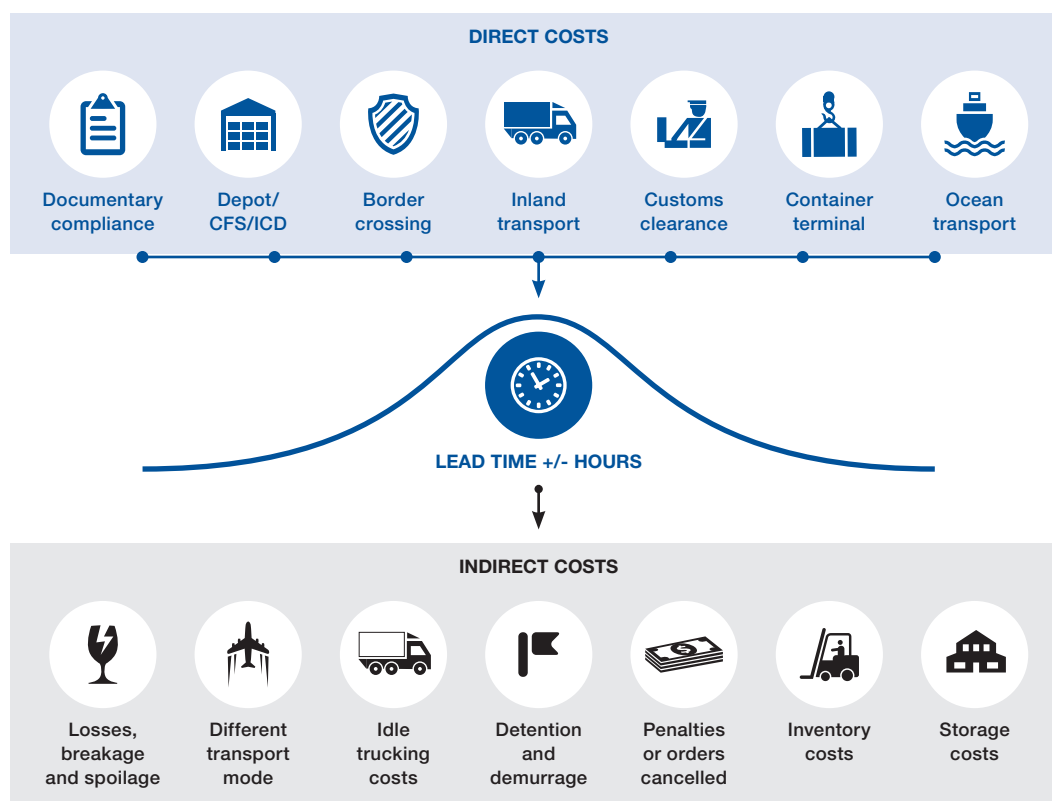
Even within the space of transaction-level, outcome-based data, the challenge of accurately measuring all the relevant aspects of trade facilitation remains. Trade is a multi-faceted, complex process involving multiple actors and using different transport modes. In light of the

Alliance's mission and consistent with the scope of the TFA, its data initiatives will focus primarily on assessing border administration performance of countries, entry points and trade corridors.

Processes at a border point can vary depending on the mode of transport (e.g. sea, air, train, truck, river shipment, etc.), the type of cargo (containerized-FCL, containerized-LCL, containerized-FCX, bulk cargo, break-bulk cargo, etc.), the duty regime (dutiable, non-dutiable, exempt/relief, preferential, inward processing, free zone, transit, de minimis, informal, etc.), and the product itself. Forms, procedures, inspections regimes and, ultimately, efficiency levels can vary significantly across these different scenarios.

Measuring performance for so many different scenarios is a daunting task. Some organizations, such as the World Bank, have focused on one or more specific scenarios. While aiming to conduct benchmarking exercises across the largest possible number of

Figure 6: Total Transport and Logistics Costs study: scope for export leg



Source: Maersk.

scenarios, experts recognize the need to focus on the most relevant and realistically measurable ones.

For this reason, one area where the Alliance has been focusing its data efforts is express shipping. This activity has the initial benefit of being handled typically by a single company, which, therefore, has visibility over the full shipping process, from pick-up to drop-off. For non-express shipments, the process is much more fragmented and involves multiple actors (e.g. shipping companies, freight forwarders and customs brokers).

A number of express companies have agreed to share transaction-level data on incoming shipments to a set of 31 economies, including the Alliance's target countries, G20 economies and selected trade hubs. The objective is to eventually cover more than 100 economies. Anonymised data from each providing organization will be aggregated to produce estimates (for each gateway within those countries) of the time for clearance, variance from one shipment to another, the incidence of inspections by local authorities, and share of shipments being held beyond one day. While express shipments allow the Alliance to analyse only one transport mode (air transport) and account for a relatively small portion of total merchandise trade (but for a sizeable fraction of its value), they are a key component of the global value chains of some of the most advanced manufacturing companies. In addition, despite the special arrangements that are in place for express shipping in most countries, this exercise is likely

to provide a good, initial proxy for the overall relative level of trade performance of the countries.

Another ongoing project under the auspices of the Alliance is the Total Transport and Logistics Costs (TTL) study, currently being piloted in Kenya and Ghana. The TTL study aims to quantify the costs of long lead times caused by inefficient border administration and frictions along the supply chains. It combines measures of indirect costs with measures of direct transport costs, tariffs and customs fees for a more comprehensive assessment of trade barriers. The TTL study covers both export (as illustrated in Figure 5) and import processes.

Long lead times and delays generate idle costs, penalties, demurrage and detention charges, extra storage and inventory costs, as well as lost orders and, eventually, lost customers. When reliability is low, importers need to keep higher inventory in order to prevent interruptions in production and/or in the supply to the customers. In some countries, such safety stock can equal one year of expected sales. Similarly, exporters can either try to ship goods days in advance to try to prevent late deliveries or they can incur penalties for late arrival and risk damaging customer relationships.

The input required to deliver on such a complex assessment is of both public and proprietary nature. For instance, data on length and variation in lead times and assessments of how these factors impact indirect costs is typically not available online and therefore

Box 5: OECD Trade Facilitation Indicators for Brazil: A roadmap for trade reforms

Evdokia Moisé and Silvia Sorescu, Organization for Economic Co-operation and Development (OECD)

The OECD developed in 2012 a set of Trade Facilitation Indicators (TFIs) that identify areas for action and enable the potential impact of reforms to be assessed, as a way to help governments improve their border procedures, reduce trade costs, and reap greater benefits from international trade.¹ The TFIs cover the full spectrum of border procedures and allow for deep analysis of specific measures. They have proven to be an important tool in supporting countries as they seek to identify their strengths and weaknesses and track their progress in implementing trade facilitation measures.

Currently covering more than 160 economies at all levels of development, the 11 TFIs track the policy areas of the WTO Trade Facilitation Agreement (TFA): information availability; involvement of trade community; advance rulings; appeal procedures; fees and charges; formalities (documents, automation, procedures); border agency cooperation (internal and external); governance; and impartiality.

The TFIs reflect not only the regulatory framework in each country, but also, to the extent possible, implementation of trade facilitation measures. The OECD has been further developing the indicators so as to reflect specific implementation challenges in more detail.

The OECD is testing the relevance and validity of such extensions to the indicators through a first case study on Brazil.² The project thus aims to construct such an implementation-oriented set of TFIs and adapt them to Brazil's current economic conditions, which will provide a more targeted and practical diagnostic tool at an individual country level.

Information is currently being collected from all government agencies involved in the border process,³ from different parts of the country,⁴ as well as from selected private sector associations that can provide a user's view of those agencies' trade facilitation performance.⁵ The data collection process seeks objective replies from each of the concerned authorities to the questions included in the OECD TFIs questionnaire. Where questions refer to border-post specific practices rather than nationwide policy, the objective is to obtain an array of replies for representative border posts for each agency. Interviews with representative private

sector entities also seek factual replies—not perceptions—to selected questions included in the TFIs questionnaire.

Initial interviews are already reflecting the challenges relating to the diversity and bureaucratic complexity of Brazil. Processing the information from the data collection stage will allow the OECD to:

- Assess the various agencies' strengths and weaknesses in absolute terms and in comparison to each other
- Put into perspective differences between government agencies' replies and views of the private sector, as well as the impact that the identified strengths and weaknesses have on the facilitation of cross-border trade and involvement in global and regional supply chains
- Highlight specific implementation challenges across different Brazilian ports, land border posts and international airports

The refined and implementation-oriented TFIs would be used jointly with country officials and capacity-building operatives as a basis to discuss and identify remaining reform bottlenecks and specific trade facilitation domains of action over the short-, medium- and long-term. The project should also provide a transparent basis for effective cooperation between border agencies and relevant supply-chain stakeholders.

Notes

- 1 <http://www.oecd.org/trade/facilitation/indicators.htm>.
- 2 Project conducted with the support of the UK FCO Prosperity Fund.
- 3 Relevant border authorities in Brazil include Customs (Receita Federal), MDIC, Vigiagro, Anvisa, IBAMA, INMETRO and the Federal Police.
- 4 The data collection process covers the South, Southeast, Northeast, and North regions of the country.
- 5 This includes additional responses from: industry associations, Chambers of Commerce, sectoral associations, importers and exporters, customs brokers, airport operators, port operators, dry port operators, express industry, freight forwarders, road carriers, ocean carriers, and consulting companies.

requires targeted data collections among stakeholders (forwarders, importers and exporters) across international supply chains. Further, considering that each supply chain is distinct, data needs to be collected separately for each good (tea, coffee, textiles, etc.) transported on a particular transport corridor. Such data collections are key parts of the practical implementation of the TTLC methodology.

The TTLC's comprehensive cost and supply chain methodological approach is critical to identifying the barriers that have the strongest impacts on competitiveness in a given context. Through this ability, the TTLC methodology is expected to enable better assessments of the potential returns from removing

transport barriers and, as such, more optimal decisions on how to facilitate trade.

In parallel with the TTLC program, the Alliance is leading conversations with relevant authorities. Governments are arguably the best positioned to assess the performance of agencies involved in import-export processes, but incentives and/or capacity to collect, analyse, and share such information are often lacking. In particular, the increased uptake in electronic single windows can provide governments access to near real-time data on how quickly goods are cleared by each border agency, but rarely are these indicators made public. The new generation of electronic single windows provides an opportunity for better tracking of these

Box 6: Smart statistics for intelligent progress: TRANSPark and GPS tracking

International Road Transport Union (IRU)¹

The burden of high transport costs, resulting from poor infrastructure, lengthy border controls and other non-tariff barriers impacts the costs of goods for consumers, export competitiveness and the attractiveness of a country to potential investors. Research into patterns, problems and transport trends is therefore vital to identifying the specific challenges required to bring about positive change.

The International Road Transport Union's (IRU) main focus in Africa is to support governments and the private sector to reduce the cost of trade. By working with national governments, regional economic communities and the private sector, IRU is helping businesses and transport operators look at ways to achieve this, and, crucially, to more efficiently connect with global and regional markets via ports and trade corridors.

TRANSPark, an app currently used in over 50 countries, is one such significant innovation.² Developed by the IRU for professional international drivers, TRANSPark is designed to hold all the information a driver needs to find rest stops, detailed directions, ports, information of security standards and vital transport points. Some versions of the app are region-specific, designed for the particular needs of drivers in, for example, East and Southern Africa.

Earlier this year, TRANSPark was launched along the North–South corridor in Southern Africa. As a result, drivers have been able to plan their routes and rest stops in floodlit, guarded areas from Durban, South Africa to Tanzania. This encompasses Botswana, Democratic Republic of Congo, Mozambique, Zambia and Zimbabwe. Drivers also have access to information on the locations of border posts, weighbridges and tollbooths.

TRANSPark has already proven valuable, and once its GPS tracking capability is deployed, small transport operators—who often don't have their own fleet management system—will be able to use it as a cost-effective way of knowing where their fleet is at any one time. Potentially even more interesting for Africa is the app's GPS tracking capability

to monitor corridor performance to determine how long it will take for goods to move along a trade corridor, by identifying blockages and delays. This performance-monitoring is important for evaluating the impact of reforms and identifying scope for further investment and reform.

Currently, corridor performance is assessed using a range of data collection methods. Some of these include physical surveys with researchers sitting in the cabs of trucks; traditional surveys where truckers, traders and other stakeholders respond to questionnaires; surveys using GPS tracking hardware inside trucks; and data collection from customs systems on processing times.

TRANSPark's GPS tracking functionality is a useful addition to these existing methods, offering compelling advantages. It is cost-effective, there are minimal costs in terms of hardware or personnel and the app itself is currently free. The data collection group is virtually unlimited; in theory, thousands of trucks could be operating on one corridor, contributing data to the system. Data collection is also continual, not relegated to just one specific time period.

The IRU is currently working with partners to potentially launch pilot projects of the app on the Maputo and Walvis Bay Corridors. While a recent IRU study has shown how IRU's International Road Transport harmonized system (known as "TIR" using its French-language acronym) can radically reduce the cost of trade across Africa, this new initiative is now poised to help streamline the sector even further.³ By providing the essential data necessary to tailor the road transport industry to the specific challenges of the continent, the GPS tracking function offers smart statistics for intelligent progress.

Note

- 1 www.iru.org.
- 2 www.iru.org/apps/transpark-app.
- 3 www.iru.org/resources/iru-library/transit-costs-east-and-southern-africa.

outcomes, but governments must commit to making this data more transparent. In this respect, Kenya provides an example of a country moving very much in the right direction vis-à-vis data transparency. The Kenyan Revenue Authority and Kenyan Ports Authority provide the Northern Corridor Transport Observatory with monthly data on both customs clearance and port dwell times, providing a useful yardstick for tracking performance.¹⁷

Indicators developed under the auspices of the Alliance will be featured on the Alliance's Trade Facilitation Dashboard. Accessible free to all, the Dashboard will be a one-stop repository of trade facilitation data, enriched by qualitative and contextual information. In the longer run, the Dashboard might serve as a channel for those governments willing to share relevant data on customs regulation and performance.

The new indicators will allow for a more granular assessment of the areas directly covered by the TFA. They will also pave the way for either an enlarged border administration category in the Enabling Trade Index (see Chapter 2), or a separate composite indicator focusing exclusively on the areas covered by the TFA.

The Alliance will also promote multi-stakeholder dialogue and exchange among international organizations, trade actors and experts. When possible and relevant, it will support data initiatives. Boxes 5 and 6 present two pilot initiatives, by the OECD and the International Road Transport Union, respectively.

CONCLUSIONS

Implementing the provisions of the Trade Facilitation Agreement will remain front of mind for years to come.

The practical and flexible structure of the agreement, however, provides a model for future efforts to address other pragmatic concerns of business. A TFA 2.0, more closely attuned to the opportunities and needs of e-commerce, is much discussed. So too, are investment facilitation and services facilitation agreements, designed to enable easier flows. Recognizing the crucial complementarity of investment and services to goods trade, governments and trade facilitation actors do not need to wait for an international agreement to advance the holistic reforms needed to enable trade.

In this context, the Global Alliance for Trade Facilitation has been set up as a public-private partnership to help implement these reforms, by leveraging the respective strengths and resources of all actors. In parallel, the Alliance's work on metric development and benchmarking helps support policy dialogue, monitoring efforts and evidence-based decision making. The Enabling Trade Index, discussed in Chapter 2, is an attempt to fulfil these objectives.

NOTES

- 1 See Bhagwati 2013.
- 2 See WTO and World Bank 2015.
- 3 WTO 2016c.
- 4 Authors' calculation based on World Bank 2016.
- 5 IMF 2016a.
- 6 IMF 2016b.
- 7 IMF 2016a.
- 8 World Economic Forum 2016.
- 9 Acemoglu, Johnson and Robinson 2001.
- 10 World Trade Organization 2016b.
- 11 Hoekman and Shepherd 2013.
- 12 World Economic Forum 2013.
- 13 Hufbauer and Schott 2013.
- 14 Zaki 2014.
- 15 Moisé and Sorescu 2013.
- 16 Hoekman and Wilson 2010.
- 17 Northern Corridor Trade Observatory (<http://top.ttcanc.org/>).

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