

Briefing Paper

Trade Facilitation as a Means to Improve SME Competitiveness and Consumer Welfare in Developing and Least-Developed Countries

by Krista Joosep*

Summary

The briefing paper outlines the potential benefits of the WTO Trade Facilitation Agreement (TFA) from the perspective of the LDC and developing country consumers and small and medium-size enterprises (SMEs). The consumers are expected to benefit from general cuts to prices of goods while the SMEs should benefit from more predictable administrative procedures and formalities, which currently create disproportional disadvantages to them. The concerns and needs of LDCs and developing countries are also outlined that require urgent, substantial and demand-driven capacity building assistance and balanced implementation of TFA.

WTO Trade Facilitation Agreement

Research shows that the costs of border procedures may range from 2% to 15% globally of the value of traded goods.¹ The concept of trade facilitation (TF) is therefore important as trade facilitation measures help to reduce trade transaction costs. TF reduces the costs that are associated with moving, clearing, and releasing import and export goods through simplification and harmonisation of international trade procedures with respect to activities, practices, and formalities involved in collecting, presenting, communicating and processing data, and other requirements for cross-border movement of goods.

Trade facilitation was first brought to the table at the 1st WTO Ministerial Conference held in

Singapore in 1996. The actual negotiations started in July 2004 under the modalities for negotiations on Trade Facilitation contained in the 'July Package', mandating members to clarify and improve GATT 1994 V (Freedom of Transit), Article VIII (Fees & Formalities with respect to importation and exportation) and Article X (Publication and Administration of Trade Regulations). Besides establishing customs cooperation, the aim was also to enhance technical assistance and capacity building on the subject. The Agreement on Trade Facilitation (TFA) was approved by the WTO Members in December 2013 at the 9th Ministerial Conference at Bali and is expected to come to force by 31 July 2015 if 2/3 of Members ratify it by that time. The TFA is part of the Doha Development Agenda (DDA) but due to the impasse of the DDA, for it to become legally effective, it needs to be adopted through an amendment to the WTO Agreement. This raises the

* Assistant Programme Officer, CUTS International, Geneva

need to make sure that the entry into force of TFA is part of the DDA single undertaking to ensure a balanced outcome of the Doha mandate.

The WTO TFA holds great potential for developing countries, their businesses and their consumers. According to ITC, the average cost of moving a container across the borders for an LDC, compared to the developing countries is higher by 43%.² These costs are passed onto consumers and affect disproportionately small and medium-size enterprises (SMEs), since they have a lesser ability to comply with rules, procedures, and non-tariff measures (NTMs) due to the scale and volume of their trade.

Implementation requirement for the WTO members that have accepted it starts upon it coming into force. Developing and least developed countries (LDCs) have expressed implementation concerns, which the TFA mainly addresses through inclusion of flexibilities and technical assistance provisions in the agreement. Section I of the Agreement deals with substantive and procedural obligations, such as availability of information, predictability of rules, regulations, and procedures, customs cooperation, advance ruling, disciplines on fees and charges, release and clearance of goods, formalities, etc. Section II deals with Special and Differential Treatment for developing and LDCs.

The LDCs and developing countries can categorize Article 1 to 12 provisions' implementation into Categories A, B, and C.³ Upon entering into force of the TFA, "each developing country Member shall implement its Category A commitments" and the least developed country Members "may notify the TF Committee provisions it has designated in Category A for up to one year after entry into force of this Agreement." Implementation of category B and C provisions can be delayed and re-delayed by the developing⁴ and least developed countries⁵ if they have not acquired the capacity to implement these provisions (see Annex 1). However, UNCTAD has estimated that the time for the implementation of the majority of the measures, should take place in three years and no longer than five years for the

rest of the reforms after the coming into force of the TFA.⁶

For developing countries' consumers and SMEs to benefit from the TFA, the prerequisite is that their countries accept and start implementing the WTO TFA. Many of the developing and least developed countries will be requiring help now with defining their Categories and matching the implementation needs with the technical assistance. As SMEs are disproportionately faced with the complexities of business environment, it would be particularly interesting for them to have the provisions with greatest interest to them implemented first.

Consumer Welfare

TF has an important impact on prices, and provision, diversity, quality and availability of essential products, such as food and medicines. On average, trade transaction costs amount to 10% of the value of the goods traded,⁷ which gets passed onto the consumers. Trade transaction costs incurred due to border procedures hamper business and economic growth, particularly in developing countries. TF can lead to lower prices, which increases consumers' purchasing power and access to essential goods. Consumers will gain as they do not need to pay for the extensive border delays. Faster border procedures will enhance delivery of goods to the consumers and increase trade flows, and lower costs, which in the end boosts development. ICC claims that increase trade efficiency through trade facilitation would triple the benefits for consumers.⁸

Consumer associations can and have lobbied for supporting import inflows in order to ensure supply of essential goods at affordable prices. Consumers would care about the fast implementation of the WTO TFA provisions in their countries that specifically link with their increased access to essential goods. Implementation of the Article 7 paragraphs 8 and 9 of the TFA on 'expedited shipment' and 'perishable goods' respectively would be of interest to them. 'Expedited shipment' would allow goods delivered by air cargo be released faster, which is important for the 'just-in-time' goods;

and the provision on ‘perishable goods’ requires each WTO Member to provide for a quick release of perishable goods. According to UNCTAD, as of right now the TFA Article 7 on release and clearance of goods, under which ‘perishable goods’ are listed, is fully implemented only in about 42% of the countries (based on a sample of 26 countries in the world), but often the LDCs have implementation levels even lower than 40%.⁹

Consumers’ welfare would be enhanced also through increased protection from unsafe food products. Food, beverages, and feedstuff would be subject to border controls and health risk inspections as outlined in Article 5.

SMEs’ Competitiveness

Small and medium size enterprises (SMEs) are the backbone of developing economies. For example, in Sub-Saharan Africa most intra-regional trade of food commodities, textiles and other consumer goods is done through individual traders and SMEs.¹⁰ The same happens along certain borders in Asia and Latin America. But SMEs face many barriers to active participation in regional and international trade. The lack of their participation in the international trade sometimes has more to do with “red tape” than with tariff barriers. For example, in Sub-Saharan Africa, the tariff equivalence of “red tape” for imports corresponds to an additional tariff of 25.6%.¹¹ Jointly with tariff peaks/distortions, access to credit and NTMs, the “red tape” costs and expensive logistics services tend to be perceived as the most significant barriers to SMEs’ export competitiveness.

Cutting the “red tape” through TF can have a strong impact on SMEs’ competitiveness and integration into regional and global value chains. A survey conducted from 2002-2006 in ten East and Southeast Asian countries and four South Asian countries involving 14862 firms and SMEs operating in fourteen manufacturing sectors indicated that SMEs appear to be less responsive to improvement in transportation infrastructure than large enterprises. On the other hand, increasing regulatory predictability affects SMEs more. In order

to expand the benefits of trade to SMEs, countries need to make more substantial investment in the “soft” part of trade facilitation.¹² The provisions that are significant are those that increase predictability of rules, regulations, and procedures, and customs cooperation at the regional level.¹³

The ITC Business Guide for Developing countries highlights that in a study of business needs in selected African countries, the main private sector needs with regards to TF were fast track customs services, customs consulting the private sector on customs and administrative changes, automation of customs procedures for faster processing, removal of post clearance audits and valuation duplication bureaucracy.¹⁴ According to OECD, the greatest cost cutting opportunities of the TFA would come from advance ruling, information availability, streamlined fees and charges, harmonization and simplification of documentation and other administrative procedures.¹⁵ More specifically, these concern *inter alia* Articles 1, 3, 6, 7, and 10 of the TFA. OECD has equally highlighted that these measures are particularly important for manufactured goods. For agricultural goods, the measures particularly beneficial are in parts of Article 7 and Article 10 of the TFA.

Advance ruling of TFA Article 3 would help to eliminate inconsistent classification and origin decisions on the borders. This helps to better predict the duties to be paid and the price of the final product, which further creates an enabling environment for supply chains to be attracted to the reforming country. The growing importance of value chains in the world gives developing country SMEs opportunities to participate in value chains and acquire expertise in certain aspects of production, which is often more attainable to developing countries. The prerequisite for value chains is faster movement of inputs across borders that need to cross borders multiple times during production process. Therefore the bottom line is that inputs for imports and exports have to be able to move with ease across the borders. Implementing Article 3 of the TFA would provide benefits to the developing countries’ SMEs by attracting value chains.¹⁶

Article 7 paragraph 7 provisions on *authorized traders* is of particular importance to advancing the SMEs competitiveness because of additional trade facilitation measures for import, export, and transit shall be established by WTO Members for operators, such as SMEs. These measures shall include ‘low documentation and data requirements,’ use of reduced guarantees,’ ‘single customs declarations,’ etc, which can greatly enhance the participation and competitiveness of SMEs. These provisions should be prioritised by the developing country WTO Members in implementing the TFA. There are other important provisions for the SMEs under article 7, such as *pre-arrival processing* (allowing documents to be dealt with prior to arrival of goods), *electronic payment* (allowing for payment of duties, charges and fees electronically), *release before final determination of duties* (faster release of low-risk consignment), etc.

As burdensome documentation are challenges to SMEs, Article 10 requires from implementing country to review documents and formalities making sure that they allow for rapid release and clearance of goods. It also outlines measures on simplification of documentation requirements, acceptance of copies for documentation, and uniform documentation and data requirements for import, export, and transit. Administrative procedures and fees apply per procedure and are not connected to the value traded.¹⁷ Therefore, other important articles with regards to SMEs are Article 6 with regards to reforming provisions on ‘export and import fees and charges’ as well as Article 1 on ‘availability of information,’ which can often be a challenge, as SMEs do not have extensive resources to search for information.

All in all, the greatest benefits for SMEs would come from the reforms where the specific countries are lagging behind but particularly from access and availability of information, faster release of goods, more predictability of rules, and simplified documentations and data requirements.

SMEs and Consumers Participation in Policy Making and Implementation

Currently, there is a lack of involvement of a wider range of stakeholders that go beyond traditional customs and trade functionaries in the TF negotiations and implementation. Consumer groups, civil society, SMEs and parliamentarians have not usually participated in these efforts compromising a wider-based participation and support for TF policy reforms. Consumers should be better involved through the National TF Committees that are to be set up or maintained according to Article 13 of the TFA, as educating consumer groups about TF and involving them in the TF policy making increases better design and acceptance of the countries’ TF reforms.

Similarly, governments should consult the relevant stakeholders, such as the local private sector for sustainability of the TF policies/strategy. For the national SMEs it will be beneficial to know when certain commitments are implemented. According to the TFA Article 2, each WTO Member shall provide opportunities for traders to comment on changes to laws and regulations with regards to release and clearance of goods and provide opportunities for consultations with other stakeholders.

Finally, the business community should be included in the design and implementation of the TFA in the countries, as they often have a great deal of institutional knowledge about the problems in the sector and solutions that have worked and failed previously.

Concerns and Capacity Building Needs

The developing and least-developed countries are realizing the importance of trade facilitation for their economies. Despite the possible benefits, the negotiation process that led to the TF Agreement, made it clear that developing and least developed countries feared that the agreement could lead to an increased inflow of imports to their countries instead of facilitating their exports and thus having

an adverse impact on their trade balances. Despite the criticism of the ‘import-facilitation agreement’ for large firms, some other research and computable general-equilibrium models by Hoekman and Shepherd (2013) show that small firms can benefit from improved trade facilitation in the same way as larger firms due to reduction of time to export, etc. In competitive markets, all exporting firms should be able to export more due to improved trade facilitation while the consumers should gain from lower prices of goods.¹⁸ However, Hoekman and Shepherd remind that more rigorous analysis is needed and the argument does not deny that trade facilitation benefits could be distributed unequally.¹⁹

While SMEs usually represent the largest share of employers in most developing countries, they are the ones with the lowest capacity to overcome border barriers that hinder import or export flows.²⁰ These administrative and customs barriers need to be eliminated for the SMEs nationally as well as internationally by differentiating their treatment and creating for them enabling environments. Lack of implementation of TF measures in the developing and least developed countries is visible with regards to cross-sector or cross-agency measures (publication of information, disciplines on fees and charges, advance ruling, authorized operators, reduction of formalities and documentation requirements).²¹

In order that every developing and least-developed country would be able to enjoy the benefits that implementation of the WTO TFA would provide, there are investments and actions needed with regards to institutions, human resources and training, information and communication technologies, infrastructure and equipment, as well as with procedures and policy. According to the European Commission (2013) estimates, developing countries’ implementation assistance need is about €1.2 billion, and the per country average needs for implementation of the TFA would be about €11.6 million over a 3-5 year period.²² There are differences with regards to capital costs and recurring costs. Capital cost being introduction of automated systems, single windows, purchasing

of equipment, and initial training. Recurring cost would be salaries, maintenance of equipment, and regular training. According to an OECD study on four developing and least developed countries (Burkina Faso, Mongolia, Kenya, and Dominican Republic) in 2012, the total trade facilitation costs in these countries ranged between €3.5 and €19 million and the annual operating costs about €2.5 million. The most expensive measures are related to information technologies, particularly the single window mechanism of Article 10.4 of the TFA, which in Mongolia cost €17 million and in Burkina Faso €3 million, recognising that the subsequent operating costs of these would be much lower, e.g. about €33 000 per year in Mongolia.²³

Many developing and least-developed countries do not have the required up front resources for starting the implementation. Therefore, the importance of providing financial, technical, and capacity building assistance is paramount. For example in Kenya, out of the WTO TFA 12 Articles and their sub-paragraphs, in their internal assessment of their TF needs they have categorized only 8 issues into category A, meaning that they have the capacity to implement these measures now; only 3 in category B, meaning that they will be able to implement these but with a delay; and 34 measures into category C, meaning that they would need technical, financial, capacity building, and other assistance with regards to their implementation. Out of these provisions and sub-provisions, those that are particularly relevant for SMEs and consumers, only 2 are in categories other than C.²⁴ Kenya is not a unique case among the developing countries and in the coming years there will be important work needed in training, regulatory, policy, and institution building in order that the trade facilitation agreement can rise to its full potential with regards to providing the promised benefits.

Conclusion

As consumers and SMEs in the developing and least developed countries have the potential of being the largest groups benefitting from the Trade Facilitation (TF) reforms, the reforms should be assessed and prioritized from the SMEs’ and consumers’

perspective to assure benefits to these groups. This can be achieved, *inter alia*, through:

1. Involving consumers and SMEs, including through their adequate representation and participation in the National TF Committees, in the design and implementation of national TF reforms;
2. Identification of provisions for inclusion in Categories A, B and C, based on their relevance and benefit for consumers and SMEs;
3. Prioritisation for implementation of those TFA provisions that are expected to benefit SMEs and consumers;
4. Helping to match the TF needs and priorities to the capacity building assistance available;
5. Provision of capacity building assistance for the implementation of TFA provisions and TF reforms that are directly beneficial for SMEs and consumers; and
6. Adoption of a multi-stakeholder approach for the design and implementation of capacity building interventions.

Endnotes

1. Catherine Ashton (April 22, 2009), conference “The role of Trade Facilitation: promoting market integration with a focus on Africa,” Rome <http://bit.ly/1mautDR>
2. ITC (2013), World Trade Facilitation Agreement: A Business Guide for Developing Countries, Geneva, Technical paper, Doc. No. BTP-13-239.E
3. Category A provisions “are to be implemented upon entry into force;” Category B “after a transitional period;” Category C “after a transition period [...] and acquisition of implementation capacity through the provision of assistance and support for capacity building.”
4. One year after the entry into force of the Agreement, the developing country members have to notify the WTO TF Committee of the definitive dates of implementation for Category B provisions, and for Category C, notify their indicative dates for implementation and submit the notification together with information on “the assistance and support for capacity building that the Member requires in order to implement.”
5. For LDCs, Category B provisions are to be notified to the Committee no later than three years after the entry into force of the TFA or a request for additional time needs to be made to the Committee. Provisions designated as Category C are to be notified to the Committee one year after the entry into force of the TFA in order to “facilitate arrangement with donors.” One year after that date, the requesting Member is to notify the Committee of the “assistance and support” needed for implementation and two years after that date an update is to be provided to the Committee on arrangement maintained or entered into for implementation.
6. UNCTAD (2013), Review of Maritime Transport, New York and Geneva
7. Moisé, Evdokia, Thomas Orliac and Peter Minor. 2011. Trade Facilitation Indicators: The Impact on Trade Costs. OECD Trade Policy Working Paper No. 118. Paris: Organization for Economic Cooperation and Development.
8. ICC (2013), Payoff from the World Trade Agenda 2013, Peterson Institute for International Economics
9. UNCTAD (2013), Review of Maritime Transport, New York and Geneva
10. Caroline Lesser and Evdokia Moisé-Leeman (2009). Informal cross-border trade and trade facilitation reform in sub-saharan Africa. OECD Trade Policy Working Paper No. 86.
11. Nathan Associates Inc (2007), Calculating Tariff Equivalence for Time in Trade
12. Yue Li and John S. Wilson (June 2009), Trade Facilitation and Expediting the Benefits of Trade: Evidence from Firm Level Data, Asia-Pacific Research and Training Network on Trade, Working Paper Series, No. 71.
13. Arancha Conzalez (Nov 15, 2013), Boosting SME competitiveness through trade facilitation, ICTSD, Bridges Africa Review, Vol 2, No. 8.
14. ITC (2013), World Trade Facilitation Agreement: A Business Guide for Developing Countries, Geneva, Technical paper, Doc. No. BTP-13-239.E
15. Moisé, Evdokia, Thomas Orliac and Peter Minor. 2011. Trade Facilitation Indicators: The Impact on Trade Costs. OECD Trade Policy Working Paper No. 118. Paris: Organization for Economic Cooperation and Development.
16. Arancha Conzalez (Nov 15, 2013), Boosting SME competitiveness through trade facilitation, ICTSD, Bridges Africa Review, Vol 2, No 8.
17. Margareta Drzeniek-Hanouz (Dec 1, 2013), Trade facilitation, international supply chains and SME competitiveness, ITC, International Trade Forum Magazine <http://bit.ly/1hxxAFJ>
18. Hoekman and Shepherd (June 3, 2013), Who profits from trade-facilitation initiatives?, VoxEU <http://bit.ly/19yOofo>
19. Hoekman and Shepherd (May 8, 2013), Who profits from trade-facilitation initiatives?, <http://bit.ly/1dB6K09>
20. ICC (2013), Payoff from the World Trade Agenda 2013, Peterson Institute for International Economics
21. UNCTAD (2013), Review of Maritime Transport, New York and Geneva
22. European Commission (Dec 6, 2013), EU pledges new financial support to help developing countries implement WTO Trade Facilitation Agreement, Brussels. <http://bit.ly/1dd36Dw>
23. Moisé, Evdokia (2012), The Costs and Challenges of Trade Facilitation Measures, OECD, Paris <http://bit.ly/1b7F7WL>
24. Official data from Kenya Ministry of Foreign Affairs, “Needs Assessment Carried out for Kenya before the WTO Bali Ministerial Conference”

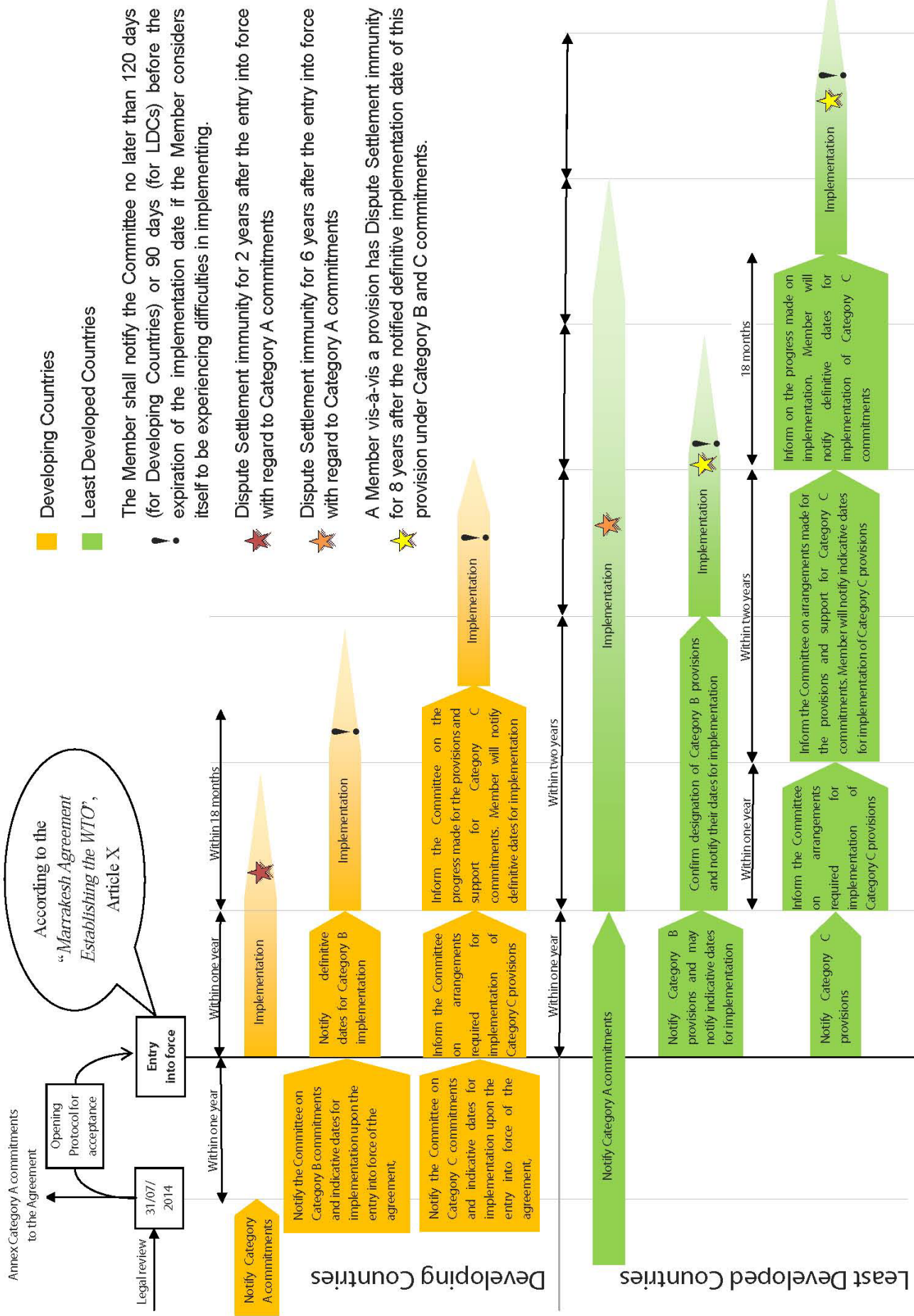
CUTS International, Geneva

37-39, Rue de Vermont 1202 Geneva, Switzerland
 Ph: +41 (0) 22 734 60 80 | Fax: +41 (0) 22 734 39 14
 Email: geneva@cuts.org | Web: cuts-geneva.org
 Skype: cuts.grc

© This Briefing Paper is published by CUTS International, Geneva.

CUTS Briefing Papers are to inform, educate and provoke debate on specific issues. Readers are encouraged to quote or reproduce material from this paper for their own use, provided due acknowledgement of the source is made.

Annex 1: Implementation aspects & timeline of the WTO TFA



Developing Countries

Least Developed Countries

The Member shall notify the Committee no later than 120 days (for Developing Countries) or 90 days (for LDCs) before the expiration of the implementation date if the Member considers itself to be experiencing difficulties in implementing.

Dispute Settlement immunity for 2 years after the entry into force with regard to Category A commitments

Dispute Settlement immunity for 6 years after the entry into force with regard to Category A commitments

A Member vis-à-vis a provision has Dispute Settlement immunity for 8 years after the notified definitive implementation date of this provision under Category B and C commitments.

Indicative dates: