A CASE OF IMPLEMENTING TRADE FACILITATION MEASURES IN LEAST DEVELOPED COUNTRIES

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Introduction and Context

Both trade liberalization and Trade Facilitation are acknowledged as proponents of increased growth and development. However, trade liberalization disproportionately provides growth for countries that already have the institutional capacity to support their rising role in the global economy. Many of the goods that least developed countries (LDCs) export are low value added goods, which do not yield high returns on the international market. As LDCs' economies begin to grow, their methods of economic engagement must diversify as well. The fact that many LDCs are dependent on few exports makes them price takers not price makers. Inevitably, this leaves LDCs vulnerable to external terms-of-trade shocks; continuing the cycle of low productivity and investment. LDCs focus their trade on these low value added goods because of the probability of the commodities perishing due to time delays (caused by cross border procedures, red tape costs[1], and customs documentation). The implementation of Trade Facilitation measures provides opportunities for LDCs to break the cycle of low productivity and investment that hinder economic expansion and competitiveness.

The time it takes to import a container in Africa (37 days) versus East Asia (22 days)[2] reveals the competitive edge that Trade Facilitation is capable of providing. These regulations hinder LDCs from expanding their import/export markets and fully utilizing their resources. Barriers to trade contradict the purpose of trade because countries cannot specialize nor increase their economies of scale. Trade Facilitation differs from trade liberalization because it is a solution to regional trade barriers that will augment competitiveness and growth. Trade Facilitation has the opportunity to greatly impact LDCs by expanding supply-side capacity and trade-related infrastructure; allowing them to take greater advantage of trade liberalization.

What is Trade Facilitation?

As defined by the WTO, Trade Facilitation is the "simplification and harmonization of international trade procedures. Trade procedures include the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade." Specific examples of Trade Facilitation measures (trade procedures as described by the WTO) that can enhance trade among LDCs are: electronic payments for customs transactions, single window operations, one-stop border control, and/or a border agency corporation.

Research and financial support for Trade Facilitation is gaining momentum within multilateral and bilateral discussions on trade and development. In the 2013 Aid for Trade report, eighteen out of thirty-one countries identified Trade Facilitation as one of their top priorities. Recent studies have shown that Trade Facilitation measures can:

[1] Red tape is understood to mean excessive regulations, procedures or rigid conformity to formal rules that are considered redundant or bureaucratic.

[2] CUTS International, Geneva, "Trade Facilitation: Addressing Consumer and SME interests and Concerns in Developing Countries Report." Last modified October 03, 2013. http://bit.ly/1f6B4gx

- Large scale implementation will reduce total trade costs as much as 17% for low income countries[3]
- Cause the world economy to grow by more than $1 trillion USD[4]
- Measures to harmonize and simplify documents alone can reduce trade costs by 3%

Implementing Trade Facilitation measures through regional economic communities, such as COMESA and ECOWAS, is key to fully utilizing the estimated benefits of Trade Facilitation. Both mentioned regional economic communities have acknowledged Trade Facilitation as a priority within their regional development strategies. COMESA's Aid for Trade Strategy 2012 – 2015, states that "COMESA will use innovative financing mechanisms allowing for resource mobilization that addresses Member States' needs regarding Trade Facilitation and trade related infrastructure." The inclusion of innovative methods of financing in order to support Trade Facilitation measures reveals the determination to find funding to support Trade Facilitation measures in the South African region. In the EAC "Trade Facilitation refers to easing trade within the member states of the EAC ...addressing...deficits that impede trade follows within and outside of the EAC."[5] Trade Facilitation can be greatly utilized if implemented at the regional level within Africa due to the similar characteristics of traders and barriers within the continent.

Every regional economic community in Africa has landlocked member states and SMEs (small and medium enterprises) whose trade could be significantly impacted if it were easier to import and exports goods to and from those countries. Landlocked LDCs' (LLDCs) exports are completely dependent on transit through other countries in order for their goods to be exported. Distance, non-tariff transaction costs, and multiple customs documents all raise transportation costs for LLDCs. These same barriers to trade are what disable SMEs from increasing their economies of scale; the collective transportation costs are too high.

Bilateral and multilateral agreements that implement Trade Facilitation measures alone are insufficient options. The former minimally reduces trade costs because all countries have more than one trading partner, and the latter can become complicated with competing national interests. The best way to address the most prevalent barriers to trade within Africa is to address them on a regional level. Once those barriers have been removed on a regional level then interregional African trade can expand. One of the ways that several lower income countries outside of Africa have reduced their red tape costs is by participating in regional economic communities. The admittance of developing countries, such as Hungry and the Czech Republic, to the European Union boosts their economies because they have been easily linked to the develop countries around them who have flourishing import/export markets. If African regional economic communities enhance the implementation of their Trade Facilitation

[3] Organization for Economic Co-operation and Development, "OECD Trade Facilitation Indicators – Sub-Saharan Africa." http://bit.ly/1kyRfV3

[4] Lamy, Pascal. "A trade facilitation deal could give a $1 trillion boost to world economy." Speech, Bangladesh, February 1, 2013. http://bit.ly/1dpgsz5

[5] Sologny, Nathan. CUTS International, Geneva, "Trade Facilitation in the EAC Issues and Options." Last modified May 2013. http://bit.ly/1f6Bio3

measures, they can create an effective support system of mutually beneficial growth for LDCs, LLDCs, and the SMEs within them.

Importance of Trade Facilitation for SMEs

SMEs within Africa account for 60% of GDP and more than 70% of employment[6], yet they are the least equipped enterprises to manage the risks associated with barriers to trade. SMEs' inability to absorb those risks is a two sided coin. Their inability to absorb risks highlights their candidacy as the enterprises that stand to gain the most from the implementation of regional Trade Facilitation measures. Regional Trade Facilitation is incredibly important to African countries because the efficiency gains that SMEs are capable of incurring are guaranteed to have widespread effects across the continent. David Vivas, Senior Advisor at CUTS International, Geneva, noted in an UNCTAD meeting that, "SMEs are fundamental for intra-African trade, employment, revenue collection, social welfare, and women empowerment." Yet, SMEs and consumers are rarely consulted in the development of Trade Facilitation measures, which is a greatly hinders the effectiveness of the measures' implementation. Due to the large percentage of GDP that is constituted to SMEs in African countries, this deficit in the Trade Facilitation negotiations is of great significance.

SMEs inability to absorb risks from barriers to trade are rooted in the institutional hurdles that prevent them from becoming authorized traders, comprehending regulations and procedures, access to credit, training in computerized procedures, access to hard and software, and costs and fees disproportionate to their size. Structural changes—that could be ushered in via Trade Facilitation measures—counter some of the inherent disadvantages and limitations that SMEs are subject to due to the size of their enterprises. Diseconomies of scale derived from the above mentioned trade barriers raise the per-unit costs for SMEs, curbing SMEs' ability to diversify and expand. These transaction costs travel downstream, creating residual negative effects on consumers in additional to SMEs.

Importance of Trade Facilitation for consumer affairs

Consumers are the ones who ultimately pay the high transaction costs of imported and exported goods caused by diseconomies of scale. The average trade transaction costs are about 10% of the total cost of the good[7]. Therefore, if you reduce the transaction costs of the imported and exported goods through the expansion of SMEs' economies of scale, then the price of the goods will decrease. Pushing down prices works hand-in-hand with improving the variety, quality, and quantity of goods offered to consumers. The lower the prices, the more individuals are able to purchase, and that profit is conducive to growth and development. Production of commodities for consumption is the purpose of trading. This means that consumers are the cornerstone of

[6] CUTS International, Geneva, "Trade Facilitation: Addressing Consumer and SME interests and Concerns in Developing Countries Report." Last modified October 03, 2013. http://bit.ly/1f6B4gx

[7] Grollier, Julien . CUTS International, Geneva, "Trade Facilitation: High Transaction Costs are a Burden to Both SMEs and Consumers Press Release." Last modified October 03, 2013. http://bit.ly/J5a9a4

trade, yet they have been neglected in Trade Facilitation negotiations. Consumers are underutilized proponents of Trade Facilitation. They have the ability to put local pressure on their governments, which can assist in solving national barriers to trade, such as inter-institutional coordination and structural reform.

Protests in South Africa and Uganda have sparked international attention within the public health sector as their citizens demand access to cheaper, generic medication. Although the issue of generic medication is a multi-faceted one, these protests attest to the power rooted within consumers. If this power is harnessed through the explanation of Trade Facilitation's significance, consumers can become a partner in progressing Trade Facilitation negotiations and national implementation.

21st century challenges

International discourse on how to better integrate LDCs into the global economy has predominantly revolved around trade liberalization. In the 21st century, several international organizations (including GIZ and CUTS International) have acknowledged that trade liberalization falls short of addressing the institutional, structural, and regional barriers to trade that would actualize the ability of LDCs to take advantage of trade liberalization. The main question of how to better serve the needs of LDCs is shifting the solution from trade liberalization to Trade Facilitation. Creating a framework for Trade Facilitation measures and then investing in the implementation of those measures have become the 21st century challenges to LDCs' growth and development.

The unity that is built through the collaborative effort of regional economic communities, such as the EAC, COMESA, and ECOWAS, in making Trade Facilitation a priority on the international trade agenda has finally come to fruition in the Agreement on Trade Facilitation (WT/MIN (13)/W/8) that was adopted at the Ninth Ministerial Conference in Bali. This agreement reinforces how Trade Facilitation has evolved from a static conversation to an active one. Yet, the crux of actualizing these Trade Facilitation measures within countries and regional organizations will be the investment needed for research, capacity building, and training.

Jan Hoffmann, Chief, Trade Facilitation Section, TLB, DTL, UNCTAD stated at a Trade Facilitation discussion hosted by CUTS International that a "chicken and egg" problem exists when it comes to the implementation of Trade Facilitation measures. Trade Facilitation measures are expensive to implement - especially if something such as an automatized system needs to build up from the ground. Yet, you cannot increase growth, development, and revenue without investing in these expensive measures. The WTO agreement opens the floor for discussion on what the back end needs are in order to implement the Trade Facilitation measures. These needs parallel the reasons that trade liberalization has not produced its intended outcomes for LDCs. There remains a need for enabling regulatory frameworks, building up national institutions, infrastructure building, providing resources for compliance, and inter-institutional coordination within these individual countries. Until these issues are addressed in a practical manner – the identification of investors, donors, and international actors who are dedicated to capacity building and reform - Trade Facilitation will also fall short of producing the desired outcomes for LDC growth and development. Until these fundamental institutional capacities are built up, LDCs will continually fall back into low investment and production cycles that obstruct growth.

Opportunities that can be unveiled through Trade Facilitation

David Vivas has summarized three ways that Trade Facilitation measures are able to provide growth and development opportunities for Africa.

1. Reducing the cost of doing business
2. Increasing transparency and predictability in trade transactions
3. Increasing the efficient functioning of the trade logistics supply chain

Majority of the barriers to trade that have been acknowledged throughout this discussion paper can be solved through the implementation of Trade Facilitation measures. To reiterate, non-tariff transaction costs, multiple customs documents, complicated cross border procedures, and red tape costs are some of the most significant barriers to trade. If removed or reformed, they can help to achieve one (or all) of the three growth and development outcome that all enhance competitiveness.

Trade Facilitation focuses on technical assistance, capacity building, efficiency of import/export market, and supply-side reforms. The greatest outcome that can be unveiled through Trade Facilitation is the opportunity for foundational advancement of LDCs. Trade Facilitation encompasses regional, governmental, market, enterprise, and consumer reforms that all aim at smoothing the access to goods and increasing economic growth, which can in turn promote social development.

Trade Facilitation promotes self sustenance, and the affects of these measures on a country's institutional structure are the building blocks for greater ascension to the global economy. Trade policies such as the Trade in Services Waiver provide windows of opportunities for the integration of LDCs. When that window closes, if the LDCs do not have the infrastructure or resources to continue competing with others countries that were not given preferential treatment, the likelihood to fall back into the cycle of lower levels of investment and production is very tangible. These types of trade policies do not promote sustainable development. Trade Facilitation provides growth without preferential treatment. Thus, it simultaneously provides the resources for growth through aid and investment as it dispels the reliance on international aid.

Moving forward with Trade Facilitation

Trade Facilitation will continue to remain a priority among LDCs across the global. Through various UNCTAD, World Bank, and WTO programs the economic, social, and governmental benefits of Trade Facilitation are being uncovered on a regional scale. These activities provide communication and technology transfer to LDCs, empower women, decrease informal trade, and strengthen regional and interregional cooperation among LDCs. Trade Facilitation strengthens LDCs by building up their informational, technological, social, and economic capital. As more LDCs begin to find sources of investment that support their trade facilitation priorities, it will become easier to advocate the importance of multilateral Trade Facilitation agreements. Trade Facilitation measures are one of the few win-win trade policies, and as more information and statistics support this it will enable sustainable development for more LDCs and developing countries.

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