

# Trade Facilitation from a Developing Country Perspective



## **The National Board of Trade**

The National Board of Trade is a governmental agency and the central administrative body in Sweden dealing with foreign trade and trade policy. The Board provides the Government with analyses and recommendations.

Within the framework of the European Union, the Board works for an effective Internal Market, an open trade policy in the EU and a strengthened multilateral trading system within the WTO. The Board also acts as ombudsman for free trade and free movement within the EU as partners of the SOLVIT network. This connects governmental agencies across Europe helping companies and individuals caught between differing regulatory systems.

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# Foreword

The need for awareness and knowledge of trade facilitation is becoming increasingly more important as a tool for increased and smoother trade between countries. This is due to the substantial negative effects that burdensome trade procedures have on economic development and in the light of the approaching WTO negotiations, where trade facilitation is included.

The National Board of Trade has in view of the importance of this issue made a two-pronged report on trade facilitation of which this is second and last part. As part one - "Trade Facilitation – Impact and Potential Gains" - shows, the benefits from trade facilitation are numerous and can be seen not only in direct monetary gains, but also in increased transparency, time, increased business opportunity, amplified customer value and improved security. What also became obvious was that these effects were especially evident in developing countries.

This report focuses on the particular developing country perspective. It shows how trade facilitation can be conducted in all types of environment with the associated positive welfare effects as shown in the first part of the trade facilitation study. This second part demonstrates that even if the preconditions and requirements naturally varies a lot between developing countries, there are several aspects that are common and needs to be recognized. It further illustrates a vast array of possible cost efficient trade facilitation measures that might be extra suitable in a developing country context.

In order to acquire the necessary understanding of the situation of trade procedure in developing countries, data have been collected from all major international organisations, from the academic world and most importantly from close contact with several developing countries. We would in particular give our deepest gratitude to the Socialist Republic of Vietnam. The openness and very useful assistance from several representatives of the government and private sector in Vietnam have been of significant importance in forming a clearer picture of how trade facilitation fruitfully can be conducted in a developing country.

With this report the National Board of Trade, which includes the secretariat of the Swedish Trade Procedures Council / SWEPRO, wishes to emphasize the nature of trade facilitation, not as an expensive developed country issue, but as an issue with real, achievable development gains and which with relatively low inputs still can reap the major benefits from trade facilitation.

This report is written by Marcus Hellqvist, Senior Research Officer, the National Board of Trade / SWEPRO secretariat.

Stockholm, April 2003



Peter Kleen  
Director General  
National Board of Trade

## Executive Summary

Trade facilitation is an essential dimension in economic development in today's globalised world, especially from a developing country perspective.

Developing countries normally have more cumbersome trade procedures, are more dependent on healthy environment for SMEs and are more dependent on Customs revenue collection and FDIs.

Trade facilitation simplifies, increases security and lowers the cost of complying with, rules and procedures both for governments and businesses. It will level the playing field for SMEs in relation to larger companies and enable them to grow and trade more efficiently, while at the same time governments will benefit directly in terms of increased security and Customs revenue.

The differences in the developing world are large, not only in relation to developed countries, but also amongst developing countries. Any facilitatory reform must thus be adapted to the trade environment of each specific country. This said, it is still essential that each trade facilitatory reform is based on globally accepted standards, rules and methods, be it banking, licenses, EDI or Customs procedures.

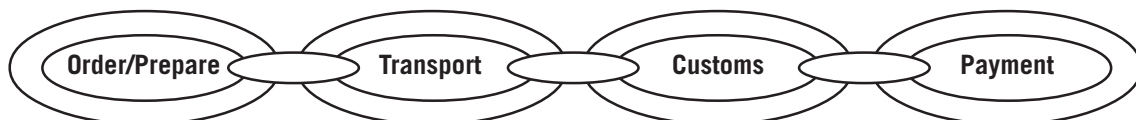
Experience shows that it is imperative that four key elements are present for a successful trade facilitation process:

- A strong political will;
- A clear strategic plan;
- A close co-operation with the business community;

and for developing countries:

- A well-funded and long-term technical assistance programme based on a partnership between donor and recipient.

Trade facilitation is more than Customs facilitation and even if it often is within the Customs sphere that the need and benefits of facilitation *initially* are the highest in developing countries, it is imperative that the whole trade chain is encompassed.



The gains and benefits from trade facilitation are related to the whole chain of processes.

It is irrelevant for a trader if the cost of burdensome trade procedures stem from transport or Customs etc. The chain is never stronger than its weakest link.

The rather common misconception that all trade facilitatory reforms is dependent on advanced technology, vast monetary inputs or major infrastructural changes, are unfortunate. As shown in this report there are a vast array of examples of possible facilitatory measures that would require more modest inputs.

The need for trade facilitation in developing countries has accelerated as a consequence of:

- The increasing growth in trade volumes and importance of trade in GDP;
- The increased trade velocity and dependence on rapid supply chain management techniques;
- The amplified global focus on security issues, where countries with poor and opaque trade procedures rapidly will be excluded;
- The augmented trade between developing countries, with their costly trade procedures, resulting in developing countries increasingly hurting each other.

Trade facilitation is an important tool in amending this situation and will increase the competitiveness of a country.

Despite the apparent benefits of trade facilitation in developing countries, one should not underestimate possible adjustment effects. Three main aspects have to be taken into consideration:

- Institutional and infrastructural framework;
- Employment; and
- Competition.

The effects and costs of trade facilitation within each of these fields are heavily dependent on the conditions of the country and on which type of reform is implemented. Thus, by tailor-making trade facilitation reforms any possible negative effects will be minimised.

Even if trade facilitation reforms must have a global focus, the core of individual reform programmes in developing countries must focus on reforms that demand a low capacity level, have low or no innovation cost, be easy to implement, preferably with a rapid pay-back period and, initially be connected to technical assistance and capacity building.

Trade facilitation reduces the transaction cost and complexity of international trade and improves the trading and investment environment in a country, while at the same time enhancing government control. As a consequence, trade facilitation results in *mutually benefits for both the public and private sector* and thus, in the end, transforms into increased welfare for the individual citizens.

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# 1 Introduction<sup>1</sup>

One of the fundamental logics behind a country's involvement in trade and especially in international trade is to increase its economic development and, by doing so, increase the welfare of the country. There is a strong relationship between trade and growth and at the same time no evidence that increased cross-border trade decreases income growth.<sup>2</sup> At the same time, as almost all economists agree on positive growth effects of trade liberalisations, debate has been taking place regarding the direct deductibility between growth and trade reforms. Because trade reforms are generally conducted alongside other institutional reforms, critics argue that the link between trade liberalisation and growth might be weaker than previously thought. Nevertheless very few deny that the positive link exists. The strong relationship between trade and growth is panached among many by the World Bank, which concludes that:

*“Trade can be a powerful force for growth and poverty reduction. Countries that have increased the share of trade in their GDP have grown faster and reduced poverty more rapidly”<sup>3</sup>*

Even if the accumulated global welfare would, according to pure economic theory, be highest with a completely open global market, there will in reality always be a need for control and structured way of trading both for governments and companies. However, when the complexity and thus cost of complying with trade procedures and information demands vastly overshadows necessary and legitimate needs of control, there will unconditionally arise a loss of welfare.

There is thus a crucial need amending this situation by developing systems that improves, simplifies and facilitates complicated and bureaucratised trade procedures. Trade facilitation reduces the transaction cost and complexity of international trade and improves the trading environment in a country, while at the same time enhancing government control.

There exists a widespread and unfortunate misperception of both what the role of trade facilitation is, as well as who benefits from it. There are several possible reasons behind this, to mention a few:

- the believed complexity of the issue, the lack of knowledge of the effects;
- the past overshadowing focus of the tariff reductions in the pre-1990s; and
- the misperception that trade facilitation is an issue for and by the developed world and not in the interest of the developing countries.

Trade facilitation is about increasing the economic growth for countries and their companies by reducing cumbersome unnecessary bureaucratic demands and procedures, to harmonise logistical and administrative systems while at the same time ensuring and strengthening each country's autonomous right to defend itself against illegal and unwanted trade practices.

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<sup>1</sup> For thorough exposition of trade facilitation, both its encompassment, status in the current system and especially regarding the effects and potential gains, see part I of SWEPRO study: Hellqvist, Marcus, 2002. “Trade Facilitation – impact and potential gains”. Stockholm: SWEPRO/National Board of Trade, Sweden.

<sup>2</sup> APEC 2002, “Trade Facilitation: A Development Perspective in the Asia Pacific Region”. [http://econ.worldbank.org/files/20929\\_APEC\\_TF\\_Report\\_Final.pdf](http://econ.worldbank.org/files/20929_APEC_TF_Report_Final.pdf), 2003-03-06.

<sup>3</sup> Nicholas Stern, World Bank Chief Economist and Senior Vice President for Development Economics. <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20072144~menupK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html>, 2003-02-06.

*“Trade Facilitation results in direct benefits both to Governments and to the business community in terms of increased economic efficiency, better security, faster delivery of goods, and reduced costs”<sup>4</sup>*

This report tries to shed some light on an issue that is often misunderstood and aims at spreading the awareness of an area that the World Bank and the United Nations see as central for economic development.

“Trade facilitation - a Developing Country Perspective” is the second part of a larger study on trade facilitation. The first focused on the gains and benefits of trade facilitation,<sup>5</sup> while this part takes a stronger focus on the development perspective of trade facilitation.

## **1.1 Trade Facilitation and Development**

One of the conclusions of SWEPRO’s recent report “Trade Facilitation – gains and potential benefits” was that trade facilitation is a plus-sum game, in which all involved actors benefit, but that there nevertheless are some circumstances, where trade facilitation will be extra beneficial. This is the case for:

- **Small and Medium Sized companies** (SMEs), where the cost of complying with cumbersome procedures are proportionally higher than for larger firms;
- **Developing countries**, where trade procedures are especially cumbersome and outdated<sup>6</sup> and where the role of FDI plays a comparatively more important role.

The fact that the greatest part of the business and employment sector of most developing countries are SMEs further increases the positive effects of trade facilitation. It is also a fact that SMEs are the major job-creators, particularly in developing countries.<sup>7</sup> It is not the multinational corporations that suffer the most from cumbersome trade procedures, firstly because they can often “bear the costs” and often have well-facilitated internal trade-systems concerning transport, Customs matters and payment, and lastly they ultimately have the option of choosing another market, options that no SME has. SMEs are often severely limited by cumbersome trade procedures and even if they might have the possibility of hiring a commercial third party to assist them in the management of international trade transactions, the reduction of an already strained profitability and loss of independency will limit even this possibility. This situation has been heavily stressed in article 4 in UNCTAD’s Columbus declaration.

Simplification of trade procedures may therefore significantly improve SMEs possibility to get involved in international trade as well as increasing their competitiveness.

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<sup>4</sup> UNECE, 2001. “Trade Facilitation...An introduction to the Basic Concepts and Benefits”. ECE/TRADE/289. <http://www.unece.org/trade/forums/forum02/docs/02tfbroch.pdf>, 2003-03-26.

<sup>5</sup> Hellqvist, Marcus, (2002) “Trade Facilitation – impact and potential gains”. SWEPRO/National Board of Trade, Sweden. <http://www.kommers.se/dokument/files/ACFBDA%2Epdf>, 2003-03-26.

<sup>6</sup> Such difficulties may include outdated or inconsistent legislation or regulations, burdensome official documentation or regulatory requirements, arbitrariness in the application of rules and procedures, difficulties in making payments or transfers, official hindrances at ports or airports, or lack of sources of information on markets and marketing practices.

<sup>7</sup> International Labour Organization, [www.ilo.org](http://www.ilo.org) [http://oracle02.ilo.org/dyn/empent//empent.portal?p\\_lang=EN](http://oracle02.ilo.org/dyn/empent//empent.portal?p_lang=EN), 2003-04-12.

Trade facilitation and in particular Customs reform directly improve tax returns by enabling effective collection of import duties. High duties combined with unsimplified Customs procedures generate an untrustworthy environment of systematic tax evasion, fraud and under-collection. Reformed Customs procedures reduce levels of evasion, under-declaration, fraud and collusion with Customs officials and thus generate obvious profits for the public revenue.

There are a number of recent developments in the international trade community that accelerate the need for especially developing countries to really start approaching the subject and commence facilitating their trade procedures.

- The increase in trade volumes and importance of international trade in world GDP, where trade partners are increasingly chosen from facts like transparency, predictability, stability and efficiency of the countries' trade rules and procedures;<sup>8</sup>
- The increased complexity of trade, where a unreformed and un-systematised methods of dealing with new issues will leave a country left behind;
- The augmented trade *among* developing countries<sup>9</sup> combined with the fact that trade procedures generally are the most costly in developing countries, resulting in a situation where developing countries increasingly are hurting each other;<sup>10</sup>
- The increased trade velocity, a fact that is underlined by the development of a vast array of supply chain management techniques, the use of rapid information technology. In such an environment countries with over-complicated trade procedures risk becoming fringe players in international trade;
- The amplified global focus on security issues, where countries with poor and opaque trade procedures will rapidly be excluded in favour of countries with well-facilitated trade procedures, i.e. developed countries.

These, for developing countries, negative development trends will of course not be amended only by facilitating trade procedures, but as an almost unanimous business community stresses and numerous country examples show, trade facilitation is imperative for an efficient participation in international trade as well as for attracting FDIs, technological transfers. Aspects that are at the centre of the economic development need of most developing countries.

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<sup>8</sup> WTO. (1998) "WTO Trade Facilitation Symposium 9-10 March 1998 – Report by the Secretariat". G/C/W/115.

<sup>9</sup> 28% of developing countries' exports were in 1985 to other developing countries; the figure was in 1990 32,5 %, in 1995 nearly 40% and the figure may rise to 50% by 2005.

<sup>10</sup> In addition to the very complicated South-South trade situation, the trade procedures of the South-North-trade is at the same time comparatively much more cumbersome than the North-North-trade.

## 2 Trade Facilitation in Developing Countries

Despite the fact that the majority of developing countries are lagging behind when it comes to well-functioning and facilitated trade procedures, one must still not get the picture that all developing countries do not see the importance of trade facilitation or that nothing is being done outside the developed countries.

The fact is that several developing countries have far-reaching trade-facilitating programmes, where many developed countries have not. Yet a continuation and spreading of this work among developing countries is crucial. It is though very important that this work is conducted with a strong linkage to the international environment. If all countries implement different standards and systems of simplification, there will be hundreds of different “facilitated” systems resulting in a very complex international system and thus in the end in no real progress at all.

In order for trade facilitation to function and generate the potential benefits, it must be based on globally accepted standards, rules and methods. This does however **not** mean that every country must use *exactly* the same system on trade facilitation. On the contrary there exists no universally applicable blueprint of trade facilitation. It does however mean that trade facilitation must be conducted in the light of international consensus on what procedures and system to use and aimed at a common platform, preferably a platform with legitimacy and power to get countries to implement necessary reforms.

There is at the moment a vast array of actors developing the trade facilitation, a situation that is on the whole very positive. However this also means that there is no clear first-choice platform. The most natural platform for a future “base-agreement” on trade facilitation is the WTO, but a WTO agreement must draw upon existing agreements and work by other valid organisation such UN/CEFACT, the World Bank, UNCTAD and the WCO’s Kyoto Convention. Trade facilitation, even with a slim definition, encompasses many sectors, which lie outside the scope of direct governmental control.

A future *binding* agreement on trade facilitation **must thus** focus on the basic, common and by government controllable, denominators. Measures, which are vital for the economic development of developing country and at the same time implementable (with appropriate technical assistance and capacity building) must be mandatory, while other more advanced measures, which in most countries are equally necessary, could be included on a best endeavour basis or excluding the least developed countries.

Even if it is vital that a WTO commitment has a substance and adds value, it cannot put impossible demands on developing countries. The development of an agreement will thus be a very delicate matter, which needs a strong involvement both from developing countries and appropriate international organisations within this field.<sup>11</sup> It is important that a WTO commitment is combined with a clear long-term political will from the countries in question and the fact that a country commits to a WTO agreement will support a government’s ability to work on the issue.

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<sup>11</sup> In all probability the World Bank, UN in particular UN/ECE, the WCO etc.

The level of trade facilitation differs very much between countries and even if all country programmes of trade facilitation must be adapted and constructed to fit the environment of each individual country, all work will collapse if it is not founded on four pillars, which figuratively speaking upholds the whole structure of trade facilitation.

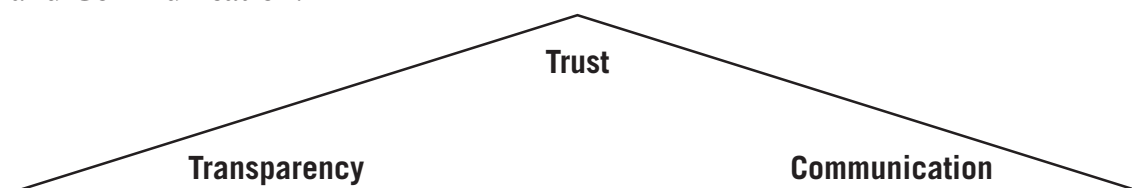
In order for a trade facilitation process to be fully successful four key elements need to be present:

- A strong political will and commitment;
- A clear strategic plan;
- A close co-operation with the business community;

And for developing countries:

- A well-funded and long-term technical assistance programme based on a partnership between donor and recipient.

It is thus not essential for a country to initially have a fully developed IT-infrastructure, even if IT-solutions in a longer perspective is very preferable. Many of the most basic and important trade facilitation measures that will be discussed in the following chapters do not demand costly infrastructural programmes to be developed. Very much can indeed be achieved by focusing on procedures and regulations that increase three key elements: **Transparency**, **Trust** and **Communication**.



**Figure 1**

These elements go hand in hand and improvements in one side of the triangle strengthen the whole structure.

## **2.1 Conditional Differences in the Developing World**

Even if it is to state the obvious that developing countries, as a group is far from homogenous, one can still see some aspects that to more or lesser degree is true for this group of countries. There are, with regard to conditions that are important for trade facilitation and efficient trade procedures, several aspects that often separate developing countries from developed. Below are just a few aspects that need to be kept in mind when discussing trade facilitation and developing countries.<sup>12</sup>

- Poor infrastructure (human resources, physical as well as electronical);
- Lack of trust between private and public sector;
- Lack of means to assess and ensure compliance of reforms;
- Inadequate coordination between governmental agencies;
- Lack of funds and competing development demands;
- Difficulties in meeting requirements of international standards.

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<sup>12</sup> These are just some examples of negative aspects, but their existence and effect varies widely between individual developing countries.

It is in the light of these conditions wrong to believe that the magic solution is to simply transfer pre-made trade facilitation programmes from a developed country environment to a random chosen developing country. One can not argue against the positive effects of the IT solutions of many developed countries and how they greatly improve the trade procedural situation, but it is impossible and misleading to believe that it is only to implement them without amending the existing underlying trade procedural situation in a developing country. Technical assistance and capacity building is vital, but equally important is that this assistance must be based on the need and current situation in each particular country.

## **2.2 Good Governance**

Central to transparency, trust and communication is the role and behaviour of governments and their officials/employees. One of the most deterring factors for a company's choice of country to invest in or establish a trade relationship with is bad governance.<sup>13</sup>

Even if the governance in the higher levels of a government is "good" and encouraging transparent and fair trade procedures, this might not always be the case in the practical interaction between public and private. A complicated and veiled judicial trade system unavoidably leads to increased room for dubious interpretations of regulations, resulting in costly and discouraging situations for the private sector.

The business community's trust for the country's public sector is weakened, which in unlucky circumstances might lead to incentives to bypass the legally correct channels in trade and initiating a negative cycle.

While trade facilitation is not synonymous with anti-corruptive work, good governance is nevertheless essential in trade facilitation. The work against corruption done by UNDP, World Bank, Transparency International WCO and not least nationally by most developing countries themselves greatly benefit the progress of trade facilitation, as does the endorsement by developing countries of the Arusha Declaration on Customs Integrity and the Kyoto Convention on Customs procedures.

The more room for interpretation of regulations, the larger the space for corruption. Clear defined rules decrease the potential scope for corruption, by minimising the room for dubious interpretations and thus limiting corrupt behaviour by all parties. Transparent, simple and clearly defined regulations further results in an increase in Customs collection, firstly because of a likely increase in trade flows and secondly because the money who previously might have been paid via dubious channels, now to a larger degree will enter via the official channels, i.e. increase the official Customs revenue of the governments. The revenue from Customs collection is for many developing countries a major and vital source of income for the government and to increase this source of revenue without increasing tax burden would undoubtedly be a much-needed contribution.

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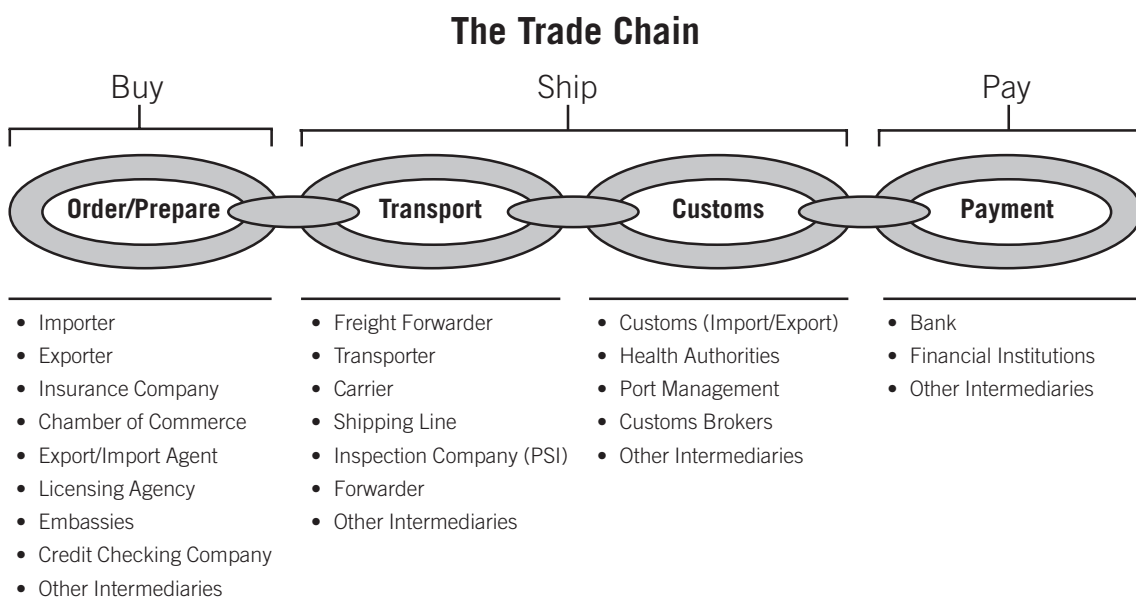
<sup>13</sup> WTO Secretariat, 1998. "WTO Trade Facilitation Symposium 9-10 March 1998 – Report by the Secretariat. WTO/G/C/W/143.

### 3 International Trade Chain

Trade facilitation is more than modernising the Customs procedures. From the perspective of a trader, a business agreement starts with the placing of an order and ends when the buyer receives the goods and the seller receives the payment. It ultimately does not really matter for a trader if the delay and cost of his goods/ money is caused by transport, Customs or bank formalities.

This fact is the fundament for viewing the different phases of a trade transaction, not as separate and isolated events, but as a natural chain of events.

The trade chain starts with the buying process, continues via the shipping process and ends in the payment process.<sup>14</sup> Under each of these links there are a multitude of possible different processes and rules that need to be functioning efficiently. It further involves potentially numerous different actors/ intermediaries, creating a very complex situation. Some of these actors are depicted in figure 2.



**Figure 2. The Trade Chain**

The most important part to focus upon from a governmental perspective is of course its own involvement in this chain. The role, efficiency and legitimacy of governmental involvement is very different between the different links in the trade chain.

As is highlighted by part one of this study, many of the trade procedures included in the trade chain lie within the mechanism of the private market, not the public. Even if several of these rules and procedures need some form of coordination and standardisation this is not the task of national governments. Trade facilitation within the private sector is either the task of the companies themselves or needs to be conducted either by recognised international organisations or in a multilateral context.

<sup>14</sup> Most of the requirements presented in chapter 3.1 "Order/Prepare" are of course controlled by the Customs and governmental bodies but the chosen methodology and structure of this report follows the trade chain from a business perspective, where the administrative preparations are separate from the actual physical control and interaction by the Customs.

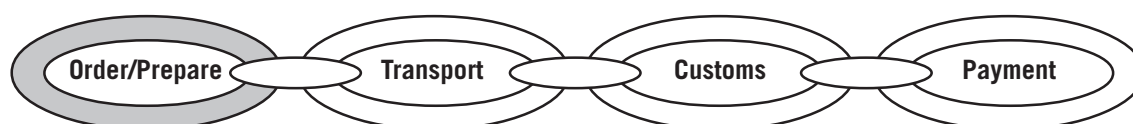
However, the procedures that lay outside the scope of normal market forces are basically impenetrable for the business sector without the participation of governments and these trade procedures are by far the most expensive. It is these procedures that most countries, developing and developed alike, primarily need to focus upon.

There are some aspects that can be argued to be of more importance than others and as countries vary in efficiency of trade procedures and face different procedural, logistical or administrative problems, the specific technical need for trade facilitation differs **among** countries and sectors. This fact, which must be borne in mind, means that it is close to impossible to grasp the whole picture within the very limited scope of this report, yet the method of thinking in chain effects, is applicable in all aspects of trade facilitation.

The importance of focusing on all parts of the trade chain cannot be stressed enough. It is, as has been said, irrelevant for an exporter, importer or for companies considering investing in a country, whether the physical Customs procedures are top-class, if the payment system is inefficient and costly. The result for all actors will still be delays and costs. A convoy is never faster than its slowest ship and it is of little importance if this “ship” is called, “Customs procedures”, “transport formalities” or “security administrative demands.” They all need to be functioning well together.

The following part of this chapter will focus on the separate links in the simplified trade chain.<sup>15</sup> Firstly, the contents of the different links will be defined and described after which suggestions will be made on various examples of potential trade facilitatory measures applicable in most developing countries.<sup>16</sup>

### 3.1 Order/Prepare



Before a consignment physically starts to be transported to its destination, participating actors need to prepare a number of administrative and procedural requirements that today to a large degree vary between different countries. The compliance with these administrative trade procedures is in many instances both unnecessarily burdensome and very costly for both authorities (indirect) and companies (direct and indirect). This problematic situation is in particular evident in most developing countries where the amount of required documentation, verifications, and authorisations often is overwhelming and clearly impedes both import and export, thus limiting the ability for the national business community to grow and prosper.

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<sup>15</sup> For a more thorough presentation of international supply chain management, see part one of this report or the work done by the Business Process Analysis Working Group within the UN/ECE: <http://www.unece.org/cefact/docum/sessdocs/bawg0398.htm>, 2003-02-06.

<sup>16</sup> Several of the suggested reforms have developed from both the discussions at the 1998 WTO Trade Facilitation Symposium, where over 350 delegates from 75 different states, intergovernmental organisations (IMF, World Bank, UN/ECE, WCO, ITC, UNCTAD etc) and private enterprises and industry groups participated and from the 2001 Workshop on Technical Assistance and Capacity Building in Trade Facilitation.

Even if there are several private enterprises and actors (insurers, credit checking companies, Customs brokers, various transport companies etc.) not controlled by the governments, who are involved in preparing and fulfilling a business agreement, the focus here will be on what is directly controllable (and reformable) by governments.

The need to rationalise, simplify and harmonise administrative requirements and obligatory trade documentation together with a more efficient and transparent internal Customs processing is one of the most pressing issues for developing countries. It not only constitutes a huge cost for both the public and private sector. The rationalisation of current paper-based system is a necessity if a country at a later stage wants to use electronic/IT procedures in improving its trade procedures. The implementation of computerisation can be a great enhancer of trade, but often such facilitatory reforms lay, for many developing countries, so far in the future, since any technological solution will be close to ineffective without a rationalised and standardised administrative foundation to build upon.

### **3.1.1 Reduction**

The reduction of required documentation is one of most important issues to start focusing upon. There are according to APEC studies an *average* of 40 documents that need to be handled in a *normal* trade transaction.<sup>17</sup> In countries with very cumbersome procedures the documentation to handle and requirements to fulfil are likely to be much higher and burdensome.

In addition to document requirements, several developing countries also demand an array of various stamps in defined colours to be included, a requirement that is both time consuming to fulfil and rules out the use of photocopies, faxes and electronic means of communication. On top of the cost of complying and handling of all documents and requirements, the time wasted waiting for stamps, official signatures and external handling is estimated to be quite costly. Examples of possible measures are:

- Reduction of the number of official documents required for exports and imports;
- Requirement of signatures and stamps on documents should be abolished.

### **3.1.2 Standardisation**

A reduction of required documentation goes hand in hand with the need to rationalise and standardise requirements and documents. By reducing, rationalising and standardising the information requested in a trade transaction it will be easier for government officials to control the documents, while it at the same time also will be easier for business to comply correctly with the information requested. This leads to an increased efficiency and reduction of costs on both sides and to better prevention of corrupt behaviour, since a smaller amount of information, fitted in a standardised format, is both easier to process and much harder to hide illegalities in. Examples of possible measures are:

- Rationalisation and alignment of formats, paper size, contents and numbers of documents in line with UN standards, i.e. documents printed on the same

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<sup>17</sup> There are further potentially 27-30 different parties involved handling the approximately 40 documents, with 200 data elements (30 which are repeated at least 30 times) of which 60-70 percent are re-keyed at least once.

size paper with common items of information set out in the same relative position on each form;<sup>18</sup>

- Review of labelling requirements, including standardisation of the wording of compulsory labelling, and the possibility of secondary labelling in the language of the importing country;
- Use of international standards for the exchange of information;
- Promotion of greater compatibility between import and export documentation, including the use of a single administrative document for all import and export regimes;
- Usage, to furthest possible extent, of commercially orientated data, instead of specific Customs and other governmental data requirements.

### **3.1.3 Computerisation**

Many trade procedures are becoming more and more computerised and even if this development in the long run is very important for developing countries, it can, if implemented untimely and wrongly, be very costly and counter-effective. Yet, there is a need for developing countries to at least prepare for basic computerisation, primarily with a focus on at least being able to receive key data messages from the business sector. It has in recent years, as an effect of the exploding IT-development and the growth of the Internet, become easier and cheaper to build a computerised system without lowering the level of efficiency. Examples of possible measures are:

- Increasing the possibilities for electronic data submission;
- Implementation of global standards, for example UN/EDIFACT, for adoption of basic tools of electronic communication;
- Creation of a central Internet accessible site or database where all relevant information can be found, preferably in conjunction with a downloading function of international forms and documents.

### **3.1.4 Publication**

In order to comply with regulations, a company must be aware of them. A common problem when trading, especially with developing countries, is the difficulty in acquiring the right information regarding laws and procedures. This fact not only prevents import and export, but also means that foreign companies will be reluctant to invest in these countries. National exporters will face a similar prohibitive information situation. Companies in developing countries will be hit even harder due to the fact that the search of right information, will strain their already strained situation. It is additionally often common practice in most developing countries to have very high penalties on small errors in trade documentation making it even more costly if/when a mistake is made.

The lack of transparency and access to information in many countries from the Customs and other authorities creates a major stumbling block on the road to improved Customs and trade procedures. Examples of possible measures are:

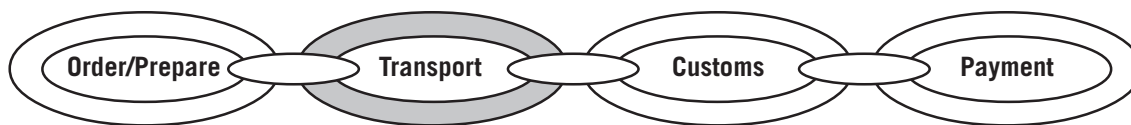
- Publication of laws, regulations, administrative rulings, general Customs requirements and other information regarding procedures and data requirements in an easily available manner to all parties concerned. Changes should also be notified prior to their implementation;

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<sup>18</sup> Such as the EU single administrative document, the IATA airway bill, FIATA standard freight forwarders documents or ICC standard documentary credit forms.

- Application of laws, regulations etc. only *after* their publication;
- Establishment of Trade Points where all trade related information will be available;
- Creation of an electronic forum for the publishing of regulations and requirements as a compliment to printed material.

## 3.2 Transport



Once the order is placed and the first step of the administrative and documental requirements of the export and import countries have been fulfilled, various transport intermediaries are involved and later also port management.

The transport-link consists, or should consist, of mainly private sector entrepreneurs, but there are nevertheless a clear need for governmental involvement and trade facilitation. Areas that are controlled by governments such as technical requirements for vehicles, regulations regarding transport crew and drivers acceptance, fiscal charges, etc. are some aspects that can be improved.

Trade facilitation in the transport sector encompasses not only the movement of goods but also includes the means of transportation and personnel. Yet most of the issues highlighted in the “Order link” are also very common in and as important to stress in the “transport link”.

The role of governments is not to control the private actors, but instead create a level playing field that induces a sound competition, without jeopardising legitimate needs for security and governmental control. Examples of possible measures are:

### 3.2.1 Port Management

- Reformation of reporting requirements for the movement of vessels in and out of port and disproportional information requirements for the movement of goods;
- Liberalisation of port management companies to attract private enterprises and harmonise the work between various actors within the harbour sector.

### 3.2.2 Harmonisation

A key area for governments when facilitating transport regulations is to harmonise the national technical requirements, to the furthest possible degree with international standards in order for a smooth transport flow to develop. Examples of possible measures are:

- Harmonisation of technical requirement for vehicles based on work in this area;<sup>19</sup>
- Removal of disproportional visa requirements and handling procedures for drivers;
- Application of uniform international rules and harmonisation of fiscal charges, restrictions and traffic bans in the area of road transport;

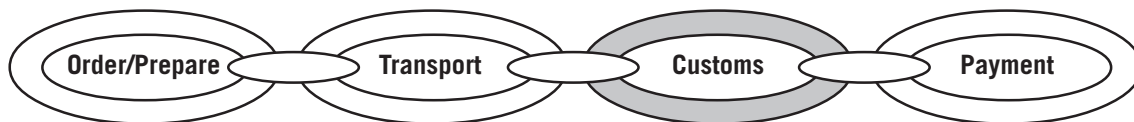
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<sup>19</sup> Primarily the work of UN/ECE World Forum for Harmonisation of Vehicle Regulation.

- Harmonisation of legislation concerning the movement of crew and passengers in sea transport;
- Adoption of existing international rules for the carriage of hazardous goods;<sup>20</sup>
- Recognition of professional associations as partners in international trade.

Facilitation in the areas of transport and transit might particularly benefit the land-locked and island developing economies. These countries, of which many are among the poorest in the world, are highly dependent on efficient transport and transit rules. The exports of many landlocked countries are being undermined by the exceptionally high transport costs, which inflates consumer prices of imported goods and seriously worsen the possibility for these countries to effectively get involved in international trade.

### 3.3 Customs



At the centre of trade facilitation lays the role of Customs and other controlling governmental bodies. It is within this link that the vast majority of administrative demands and procedural requirements stem. Thus it is within this sphere that the facilitation of trade procedures offers the highest gains and where all countries, developed and developing alike, should start their trade facilitation process.<sup>21</sup> It is at the same time the only aspect that is almost totally controllable by governments.

The work of facilitating Customs procedures must be done with the understanding of the apparently contradictory objectives of *enforcing government regulations while at the same time imposing the minimum obstacle to legitimate trade*, that Customs and other authorities are faced with.

**Trade facilitation is not about impeding or diminishing individual government's power and sovereign right to protect their borders, but is a way of making the necessary work of Customs and other authorities cheaper and more efficient.**

The authoritative demands with regard to trade procedures differ on the surface, while the main problems of heavy bureaucracy, slow and inconsistent processing, lack of transparency and poor coordination within the governmental bodies persist in different shapes in different environments. Often a lot needs to be reformed on a basic level before there can be any rewards in bringing in high-tech solutions, which many believe to be the magic (but costly) answer to all trade procedural problems.

The reform needs in most developing countries are not analogous to those of developed countries, a fact that is also highlighted by the description in chapter 1.1 and 2. It is of course beneficial and in the interest of developing countries to enhance its facilitation programmes with computerisation and automatisisation but *only* when the capabilities and funding are in place.

<sup>20</sup> For more information see the work of UN/ECE on transport of dangerous goods. <http://www.unece.org/trans/danger/danger.htm>, 2003-01-26.

<sup>21</sup> Most of the administrative requirements presented in chapter 3.1 are controlled by same actors presented in this chapter. The simplification, harmonisation and standardisation measures suggested previously are included in this statement.

### 3.3.1 Systematisation

A main problem with Customs procedures in developing countries is the lack of clear systematisation. The Customs authorities in developing countries have often grown ad-hoc with old procedures intertwined with new environments and a continued adding-on of new documents, laws and regulations. The work and regulation of Customs must reflect the changing environment. The level of trade is continuously increasing at an escalating rate, a fact that means that regulatory bodies such as Customs must adopt to the new circumstances or risk becoming a major barrier to trade, but also weakening the security of the country by not being able to cope with the new times. This fact implies that there is a great need to improve the Customs procedures, both to make it simpler and more systematic, without losing any of its enforcing responsibilities. Examples of possible measures are:

- Implementation of audit based control and risk management together with increased use of communication systems in risk assessment and Customs intervention;
- Harmonisation of documents and data requirements;
- Adoption of special procedures for speedy clearance of low value shipments or goods and/or of those imported by importers who have a long history of compliance with Customs rules;
- Introduction of measures that facilitate pre-arrival processing of documents and expedited clearance on arrival;<sup>22</sup>
- Presentation of supporting documentation should not be required;
- Separation of the process of presentation of documentation from border crossing and greater reliance on post-clearance audits, possibly in conjunction with an implementation of official procedures at traders' premises instead of at the point of entry;
- Introduction of flexible means of duty payment, including advance settlement and refund measures, and acceptance of payment guarantees, such as bonds, instead of cash deposits;
- Limitations on penalisation for apparent unintentional mistakes.

### 3.3.2 Compliance

There are several international agreements that have the potential of creating a sound foundation for a more similar and predictable work of Customs and other authorities between countries. The transparency both for internal national control and for companies interested in trade will be increased by a ratification and fulfilment of these international agreements. Examples of possible measures are:

- Accession and implementation of the revised Kyoto convention on Customs procedures;
- Compliance with WTO rules on reduction of sampling requirements for product registration, especially in the case of high-value, low-volume consignments and on import, transport and transit requirements, especially for dangerous goods and phytosanitary or veterinary requirements.

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<sup>22</sup> An example of this is found in Vietnam, see chapter 7.

### 3.3.3 Uniformity

The lack of transparency and uniformity in Customs procedures constitutes according to the business community a lot of costs. The discrepancy sometimes experienced in developing countries between in the legal interpretations of different Customs administrations and officials means that companies can never predict what interpretation of a rule will apply at any particular time. It further encourages discretionary and at times corrupt behaviour by Customs officials. *Predictability* is essential for companies trading in a global environment and a lack of transparency and predictability is likely to deter companies from conducting business in such an environment. Examples of possible measures are:

- Application and distribution of uniform and consistent Customs laws, regulations, guidelines and procedures between different border-points;
- Restrictions of the discretionary powers of individual officials by making legislation, procedures and documentation requirements as transparent and public as possible;
- Creation of enquiry points, where traders can get the necessary information both regarding trade procedures and how to appeal decisions;
- Creation of systems which randomly chooses which Customs official to process a certain consignment;
- Adjustment of the opening hours of border crossings to commercial needs and outside usual business hours;
- The level of professionalism at administrations should be raised by proper training of staff involved;
- Ratification of and compliance with the Arusha Declaration on Customs Integrity.<sup>23</sup>

### 3.3.4 Communication

It is important to improve the communication in two directions. Firstly, internally between authorities and different governmental bodies, and secondly between government authorities and the business community.

In all cross-governmental work where different bodies are part of a process, poor communication and weak inter-linkages will always lead to friction resulting in problems and costs. With a lack of intra-communication the risk of different ministries working uncoordinated and/or contra-productive greatly increases. Means to remedy such a situation involves delegation of power and creating channels of communication between concerned parties. It is also very important to include the business community and create forums for a clear dialogue. This enables the real problems to more easily come to the attention of the authorities, helps designing better reform measures and also increases chance for successful implementation of reforms. Examples of possible measures are:

- Concentration of all official governmental controls in the hands of one agency (e.g. the Customs);
- Streamlining of procedures to avoid unnecessary checks and double-checks;
- Establishing regular meetings with representatives of the business community;

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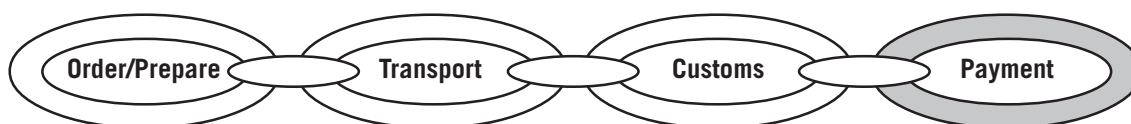
<sup>23</sup> The Arusha declaration of 1993 is a WCO initiative, which aims at delineating some of the adverse economic and social consequences of Customs malpractice and seeks to rally concerned Members behind a call for progressive reform.

- Increased communication and active cooperation between different Customs administrations (and between the Customs and trade);
- Re-location of agencies that need to work closely together under one roof both at port of entries and elsewhere. A unification of cooperating agencies under one roof would additionally reduce the cost for governments.

Many of the suggested trade facilitatory Customs measures need to be combined with some form of re-training of Customs officials. Even if implementation of Customs procedure reforms must be a top-down process, the positive effects will be hampered if the trade facilitation process is not anchored at lower levels of the administration.

Trade facilitation aims at making the Customs the smallest possible trade obstacle for legitimate trade, by making it efficient and able to focus its financial and human resources on its core functions instead of on repetitive and cumbersome administrative work.

### 3.4 Payment



The payment cycle is to a large degree dependent on the involvement and behaviour of financial intermediaries. Much work needs to be done together with banks and financial institutions to improve their internal payment procedures. There are in addition to these problems in most developing countries also severe governmental restrictions on capital and financial services. Since most companies and especially SMEs, with limited financial resources, are dependent on an efficient cash flow, cumbersome payment procedures and regulations will hit them extra hard.

It is not only the payment interaction between business to business (or more fundamentally business to bank to business) that often is in need of facilitation, but also the financial interaction between business and state. Easier means for payment of duties should for example reduce the burden on the Customs authorities, banks and traders, while again diminishing the scope for corrupt practices.

It is essential that a development of more efficient and transparent payment be done together with financial institutions. A problem is that there is a lack of internationally agreed standards that are easily implemented in a development environment. Dysfunctioning payment systems additionally constitute serious impediments both for exporter and importer, as well as for foreign direct investments.

#### 3.4.1 Simplification

- Removal of restrictive governmental policies such as the prescription of specific payment methods that do not permit the use of internationally recognized messaging protocols;
- Liberalisation of exchange control and other formalities related to payments, insurance and other financial requirements would also assist in facilitating trade;
- Acceptance of collateral and monetary security to separate the payment process from the movement/importation of goods.

## 4 Adjustment Costs in the Facilitation Process

The way forward is far from straight and one must not forget that there are many obstacles on the path of trade facilitation that need to be cleared. Even if the gains from trade facilitation are evident, there will always be initial costs of trade reforms. The first measures and steps must thus from a development perspective be very cost-efficient with a short “payback” time. The positive effects (income) of a trade facilitation measure must come as close as possible in time to the point of implementation (expenditure). Furthermore the reforms must not claim vast resources and the decision on which specific measures to implement should be based on the country’s needs and ability to successfully implement them.

There is always, as with all trade reforms, a risk of negative micro implications, due to the fact that it is impossible to predict the exact outcome of a change. Hence probable adjustment costs need to be addressed in order not to be naïve about the implications of trade reforms. Even if it is extremely hard to draw the line between cause and effect, especially when making general arguments of cause and effects, three main aspects have to be taken into consideration.

- Institutional and Infrastructural Framework;
- Employment;
- Competition.

### 4.1 Institutional and Infrastructural Framework

Trade facilitation means changes and even if these are made with the best intentions it is de facto a change in the status quo. How large and how far-reaching a change in the institutional and infrastructural framework will be depends of course on condition in each country, trade facilitation programme and goal of the reforms. It might, due to several limitations, be rather insignificant or it might, if the will and capacity is present, be very substantial. It all boils down to each individual situation.

Sooner or later, trade facilitation will lead to necessary changes in the existing framework. To facilitate a new way of thinking and a more efficient use of human capacity and institutional resources to develop, changes will occur. Perhaps new channels of communication between authorities need to be developed or a wider delegation of power needs to be put in place. These types of changes will not ruin a system but instead reshuffle personnel and construct new linkages in order to take advantage of the full potential of the existing human capital.

For a system to fully work it will require human capital capacity in form of a literate work force. In the long run also with basic computer understanding and technicians to service and repair equipment and software. Some of these developments and preconditions are neither completed overnight, nor closely connected to trade facilitation. Aspects as a literate workforce, increases in human capital etc, are long-term goals and are results of a country’s overall development. Such positive developments will emerge as a country’s its level of development increases.

A similar situation is found with regard to infrastructural changes/developments. As stated, trade facilitation will greatly benefit from computerisation, functioning telecommunication system, use of IT-solutions, harmonised payment systems and

standardised transport facilities. Yet in most developing countries such fundamental infrastructural changes would in the short run be very difficult. Many developing countries, and above all the least developed countries, as a result of their overall development situation, lag behind in especially these fields. Nevertheless, governmental policies and external assistance may alleviate that situation by targeting specific education and awareness creation within the business community. Policies may also be changed or developed to encourage investment in an infrastructure favourable to the use of electronic instruments rather than discouraging it, i.e. by removing bureaucratic obstacles and high taxes on computers and telecommunication equipment.

Trade facilitation must not, as shown and previously said, mean substantial investments in computerisation. A lot can and should be done before such measures are taken. This does not mean that a well functioning physical and electronic infrastructure is unnecessary with regard to trade procedures. On the contrary, trade facilitation will be even more beneficial when/if computerisation is possible, but there are many cheaper measures before these types of investments will become necessary or very rewarding for a developing country to implement.

The creation of an adequate infrastructure is however a natural development step for all countries. This investment must be done sooner or later. As economic development is a continuous process, so is trade facilitation.

## **4.2 Employment**

Trade facilitation might require challenging modifications in present procedures and practices. Facilitated procedures may lead to staff reductions or redeployments and hence to opposition from officials previously employed to service cumbersome administrative procedures. Heavy bureaucracy may often shelter illegal activity, for example in the form of bribes, which can provide low-paid Customs officials with extra personal revenue.

Even if facilitated procedures require fewer staff for the administrative tasks, there may be a need for personnel within other functions of the public trade sector. If countries develop more automated systems, a need for more equipment will normally be required especially in the form of modern information technology. Equipment that also requires a certain investment for set-up and maintenance. This would accordingly mean that staff with higher education and new skills would be in a higher demand creating a pressure for investments in the education of the governmental officials, a cost that may be high.

Additional physical and human resources may both be needed in the initial phase of trade facilitation. As developed country companies are likely to be among the beneficiaries from developing country's trade facilitation, there may be scope for cost sharing between the domestic and foreign private sectors as well as technical assistance from developed countries and international organizations.

The goal of trade facilitation is not to make bank employees, Customs officials or port worker unemployed or slimming the organisations, the goal is to make them more efficient by making it possible for them to focus on core activities. Developing countries stand to gain from improving trade procedures since the resources that are freed can be used for more important causes.

### 4.3 Competition

Improvements in a country's trade procedures will lower the level of the often unwanted non-tariff barriers and thus improve access for companies, national as well as international, to new markets. Trade facilitation will thus naturally lead to increased competition. It will increase the level of competition nationally, which will benefit some sectors and detriment others, with the main consumer standing to gain the most. Trade facilitation will however increase countries' competitiveness in the international environment. A country is as a unit constantly subject to competition from other countries and trade facilitation is part of the comparative advantage of a country and thus increases its international competitiveness.

If the keeping of a system of cumbersome trade procedures is thought to be a way of protecting the national industries and thus increasing the welfare of the country, it is a strategy that inevitably will backfire. Closing the trade window will result in companies and investments choosing another product or country where trade is more profitable, easy and predictable. It further hinders national companies from taking advantage of business opportunities on the international market. Even if one must not overemphasise the role of trade procedures, the fact remains that anachronistic, cumbersome and inefficient trade procedures are impeding the economic development of a country.

Trade facilitation will, as have been said, increase the level of competition that the national companies will face. Even if competition forces companies to develop and becoming more efficient there will, on a micro-level, be winners and losers. Still, trade facilitation is **not** about removing control or limiting governments' possibility to protect certain sectors if it wishes to do so. Trade facilitation is about efficiency. Regardless of how a country chooses to protect itself, the administration of this protection or administration of how business is conducted must not be an obstacle to trade itself.

## 5 Ways Forward

The first step is to be aware of the costs of cumbersome trade procedures and the effects of facilitation. In addition with this lies the awareness of how trade facilitation can be carried out. A national trade facilitation programme should and can be tailor-made to meet the specific needs and capabilities of a country and does not automatically mean costly computerisation schemes, etc. There are, as have been shown, several reforms - such as publishing rules and regulations in a transparent and easily available manner, application of new and changed laws only after their publication, reduction or removal of demands for duplicate information, adoption of many existing international standards and rules etc - that both are comparatively cheap and easy to implement and which are necessary for creating the groundwork which needs to be in place before any more technically advanced trade facilitation programmes will be beneficial. It is however very important to stress that, whatever facilitatory reform a country chooses to perform, it must be developed in concurrence with international accepted standards and norms. With this said, some basic measures must however be present for trade facilitation to be beneficial and, as stated before, an independent simplification without anchorage in international standards will be counter-productive to the facilitation of international trade and in particular to the specific country in question.

There is a need for a basic global commitment on trade facilitation. This agreement must be formulated in such a way that the trade facilitation commitments included are cheap, do not require a certain capacity level, have low or no innovation cost, are easy to implement, preferably with a rapid “pay-back period.”

### 5.1 National Environment

For a developing country to successfully implement and develop the facilitation of national trade procedures, experience shows that there are usually some preconditions that are important to strive for. In the same way as developing and developed countries alike have improved their awareness of what trade facilitation is and its positive effects, so must the awareness of the need for cooperation within the public sector and between the public and private sector be raised. There is in many countries often distrust between private sector and governmental authorities, a situation that neither party benefits from. Apart from the necessary internal top-down reforms of the government, the active involvement of the trade community will greatly improve and ease the work of governments. An active dialogue with the business community is an important factor for success.

A successful trade facilitation programme starts with a thorough analysis of the trade patterns within the country. A work that, if possible, should be conducted together with the business community and, if necessary, also with the participation of international experts. The purpose of such an analysis is to find the main bottlenecks and then, either from the internal results or by existing measures or other international examples, identify which the possible measures for improvements are. Such an exercise also improves the ability of coordinating different measures and minimises the risk of counterworking or parallel measures.

Best practise and benchmarking of trade facilitation experiences from in particular other developing countries is fundamental in designing national reforms. By using the experiences and tools developed elsewhere - be it in intergovernmental organisations, developed or other developing countries - and

adjusting the systems to the particular environment in question, the development cost will be minimised. This is very important because of the scarce resources of developing countries and the often competing developing needs of the countries.

In order to make a trade facilitation reform effective, there has to be a **clear political will at highest level with a long-term commitment**, assuring legal stability during and after a trade facilitation commitment.

## **5.2 Incentives**

The macro incentives for trade facilitation are clear and usually more than enough for governmental policy makers to be interested in its development. There are also with regard to trade facilitation similar clear advantages for the business community, which often already internally tries to minimise its costs of logistics, administration and awkward procedures.

What is important in a reform process is to highlight the incentives for the actors at the micro-level, i.e. government officials, administrators, Customs officers etc. The direct performers of governmentally controlled procedures must have the incentive to follow new methods and tasks and understand why the country needs to facilitate its trade procedures and how this will affect the micro-level. Changes in status quo may trigger negative effects in an organisation if the consequences of the change is difficult to grasp or if it individuals within the organisation believes that they will become worse of because of the change. A trade facilitation reform cannot only focus on material and physical infrastructural factors but also encompass human resource factors. Part of trade facilitation is to improve the efficiency and human capital of the organisation. Thus re-employment and education of Customs officials and other governmental employees involved in the process must be included in any trade facilitatory reform at an early stage.

## **5.3 Technical Assistance and Capacity Building**

Trade facilitation is a good example where the transfer of knowledge will be rewarding both for the recipient and the contributor. Technical assistance can be included in a trade facilitation programme either after an analysis of the country's trade patterns and assist in finding and co-finance potential reform measures or it can be included at an very early stage and take part in the actual preliminary analysis. Essential is however that any technical assistance or capacity building programme is well defined by the receiving/implementing country and is based on its own circumstances, needs and development level.

The link between contributor and recipient country could either be through a medium such as a designated international organisation (World Bank, WTO, United Nations etc.) or bilaterally between countries. The exact organisation of such cooperation is of course dependent on each occasion. It has proven to be rewarding to establish direct links between Customs officials and agencies in donor and recipient countries and to create a system of ongoing dialogue to cope with the organic process of trade facilitation. Thus, there must exist a long-term commitment from both countries for a successful trade facilitation programme.

Technical assistance and capacity building is, against the background of scarce resources of developing countries and the benefits of knowledge transfer and best practice of more developed systems, very important and should to the furthest possible degree be part of trade facilitation reforms in developing countries. A developing country will however still, without or with limited technical assistance, benefit from trade facilitation.

## **6 Final Remarks**

Even if trade facilitation in some fora are becoming almost a buzz word, it is essential that the content and significance of trade facilitation issue is not lost.

Trade facilitation is not about limiting countries' ability and right for protection and sovereign decision-making, but about lowering the cost of complying with rules and procedures both for governments and business. It is about creating opportunities for especially SMEs to be able to grow and trade efficiently and prosperously and at the same time increasing both the security and revenue for governments and international trade. The development dimension of trade facilitation is central, since developing countries normally have the most cumbersome trade procedures, are most dependent on a healthy environment for their SMEs and are most dependent on business compliance and often on an efficient collection of Customs revenue. In the effort of tackling these issues trade facilitation emerges as a fundamental tool.

Marcus Hellqvist

Senior Research Officer

## 7 The Socialist Republic of Vietnam – an Illustrative Example of Trade Facilitation Work in a Developing Country

Vietnam has since the introduction of the Doi Moi (eng. *renovation*) process in 1986 rapidly developed from a rather isolated economy and trade regime, into a dynamic economy with a focus on trade. The country's strong involvement in regional co-operation, APEC, ASEAN, AFTA and most recently its purposeful efforts for a quick WTO accession are proof of Vietnam's will and efforts to improve the economic development and welfare of its people.

The awareness of trade facilitation and its benefits has in this forward-looking context rapidly increased. As a result of this involvement, SWEPRO secretariat and the National Board of Trade in Sweden were invited to Vietnam to study and discuss the development of Vietnam in the light of trade facilitation from a developing country perspective. Since Vietnam is a fairly new player in the international trade arena and has recently reformed its trade regime, it has been interesting to see how large the focus on trade facilitation has been.

In October 2002 a team of experts visited the Socialist Republic of Vietnam in order to study the developments and form a picture of the Vietnamese involvement and state of affairs in trade facilitation. During the limited period of time available discussions and interviews were held with all major players from the government, business organisations as well as state owned and private owned companies.<sup>24</sup>

The experiences and commitment of the country of Vietnam and the views and ideas from both its private and public sector contributed a lot to the ideas and line of thinking in this report.

Vietnam's dedication to improve its trade procedures should be loudly applauded. Even if the country only has started to walk the road of trade facilitation towards a better managed trade system, apparent progress has already been made.

### Current Situation

Although Vietnam's increasing involvement in international and regional trade and clear focus on improving any trade restrictive practices, its trade procedures remain rather complicated. This creates, together with the high levels of protection over a wide range of products, a trade environment that compared to other countries in the region is quite restrictive.<sup>25</sup>

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<sup>24</sup> The Ministry of Trade (Import-Export Department, Multilateral Trade Policy Department, Department of Planning and Statistics and European-American Department); the Ministry of Finance; Vietnam Chamber of Commerce (VCCI); Nordic Chamber of Commerce (Nordcham); Vietnam Committee for Trade Facilitation and e-business (VnPRO); the National Committee for International Cooperation; the Central Institute for Economic Management (CIEM); the Prime Minister's Research Commission; Vietnam Institute for Trade; the General Department of Customs (Head office); Customs Department of Haiphong City, Checkpoint at Haiphong harbour; Haiphong Port and more than 15 companies of different sizes, markets and country of origin were interviewed.

<sup>25</sup> Vietnam was in 1998 rated 9 on a scale of 10 (with 10 being the worst restrictive) according to IMF's index of trade restrictiveness.

Vietnam has in spite of this had a remarkable growth rate during the 1990s with a GDP growth rate ranging between 8.1 percent to 9.5 percent during 1992-1997.<sup>26</sup> Yet, this development was from a low starting point and Vietnams per capita trade volume was in 1998 only a fraction of its neighbours. Since the Doi Moi, the trade openness of Vietnam has greatly improved, a development that has been especially apparent during the last decade. The increasing awareness and involvement of the government in promoting trade as an engine of growth for the country includes ambitious efforts in the field of trade facilitation.

This is especially important for a country like Vietnam, where the foundation and majority of the business environment is constituted by SMEs. New private businesses are being established at a rate of 1600 percent a month.<sup>27</sup> Since SMEs stand to loose the most from unsimplified trade procedures, they will thus also prove to be the main beneficiaries from Vietnams commitment to facilitate its trade procedures. SMEs are an engine of growth. They create jobs, income and assets, and absorb workers laid off from declining or privatised state-owned companies, further they are innovative, flexible and opportunity seeking by nature. Limiting SMEs from the opportunity of international trade would be potentially disastrous for a country.<sup>28</sup>

By encouraging trade, one creates the best possible foundation for overall economic growth. Regardless of the level of tariffs or chosen legal protection, the way the administration is functioning should not be an obstacle to trade itself. Trade dependent countries such as Vietnam, where trade constitutes or will potentially constitute a large share of GDP, will stand the most to gain from improved trade procedures, both because simple trade procedures will increase trade in itself and because governmental resources will be freed and used for more important causes.

The countries of Southeast Asia had up until the mid 1990s a remarkably high level of growth, much because of the intra-regional trade. As nearly 40 percent of developing country exports are to other developing countries, a figure that may rise to 50% in 2005<sup>29</sup>, the necessity to conform with the trade procedures of a country's neighbouring countries grows.

Vietnam has realized this and is now an active member of ASEAN, APEC, AFTA and several more topic specific bilateral agreements with neighbouring countries. This development is likely to grow in importance both from an economic growth perspective and from the perspective of an increased international political participation by the Vietnamese government.

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<sup>26</sup> McCarty, Adam, (2000). "Standards and Regulatory Reform in APEC: Case Studies of Vietnam and Thailand" <http://www.worldbank.org/research/trade/conference/APEC/papers/SRRDA.pdf>, 2003-02-11.

<sup>27</sup> Report from the World Bank and Asian Development Bank consultative meeting group, December 10-11 2002.

<sup>28</sup> This has also been noted by the Vietnam Chamber of Commerce (VCCI), who expresses concern over the low level of involvement by SMEs in international trade.

<sup>29</sup> Padilla, Christopher, A (2002) "Why Zero is a good number". Presentation by National Foreign Trade council (US) April 2002. <http://nftc.infovine.com/upload/NFTC%20Zero%20Tariff%20Proposal.pdf>, 2003-03-12.

Even if Vietnam benefits a lot from focusing on its regional commitment, the country's aim of becoming a member of the WTO is a very important goal. For any successful undertaking for joining the WTO, a reduction of tariffs needs to be done, a process that technically is a rather straightforward process. However, there is further a growing WTO demand to remedy non-tariff barriers. The continuation of Vietnam's work and commitment to trade facilitation will undoubtedly be beneficial for the country's efforts for a WTO accession.

This fact may in the context of this report be seen as a side effect compared to the direct benefits to the private and public sector of trade facilitation. This "side effect" will however be very much in the centre of many other international trade perspectives, perspective that lies outside the direct scope of this study.

During the many discussions held between the SWEPRO secretariat and representatives of both business and government, the awareness of these effects for the country of Vietnam were often a central theme. By combining the experiences and beliefs shared by our Vietnamese counterparts, a clear picture emerges of Vietnam's positive attitude, understanding of, as well as the country's benefits from facilitating its trade procedures.

### **Recent Progress on Trade Facilitation**

The foremost focus of Vietnam's trade facilitatory work has been on the Customs procedures. To confront complaints of poor transparency and accusations of "unofficial" Customs procedures for individual traders, the General Department of Customs is currently constructing a *website where all necessary trade related information will be available* and where changes to the judicial texts will be published. In addition to this, *a manual providing guidance on Customs procedures is being drafted* for quick publication. To further simplify the situation for foreign traders and other interested parties, the Customs law is currently being drafted in five languages.<sup>30</sup>

Regulations have also been passed to improve the situation for *round the clock trade*. Entrepreneurs who wishes (or needs) to have access to Customs services after official office hours, now only need to register or directly inform the Customs office within a relevant period of time in order to receive the wanted service.

Vietnam is further, at the higher judicial level, regularly increasing *the harmonisation of its national laws and regulations on Customs procedures* to international practices and standards as provided by the revised Kyoto Convention on Simplification and harmonisation of Customs Procedures.<sup>31</sup>

Work on trade facilitation is also being carried out at a non-authoritative level, in particular by VnPRO - The Viet Nam Council for Trade Facilitation and Electronic Business.<sup>32</sup>

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<sup>30</sup> Vietnamese, English, French, Chinese and Russian.

<sup>31</sup> For full details of the revised Kyoto convention see, [http://www.wcoomd.org/ie/En/Topics\\_Issues/FacilitationCustomsProcedures/kyoto/kyreport.html](http://www.wcoomd.org/ie/En/Topics_Issues/FacilitationCustomsProcedures/kyoto/kyreport.html), 2003-03-12.

<sup>32</sup> <http://www.vnpro.org.vn/ta-index.htm#>, 2003-03-12.

Work is being done on trying to *remove any practices of double inspections, discriminatory treatment of foreign products* through stricter standards and qualification requirements compared to national products. Vietnam has reviewed its regulations in order to avoid the above-described situation and is claiming that there now is no discriminatory treatment between foreign and domestic goods/traders. Part of this work had meant adopting international standards in different. Even if Vietnamese standards to a large extent are based on corresponding international standards, the country have so far adopted 1200 international standards as national ones. As from 2002, *foreign ships are required to go through formalities only at the first port of entry*, instead of having to go through analogous procedures at all consecutive ports.

There are however still an evident disharmony between different regions/cities, especially in terms of “forward-lookingness” and efficiency between different parts of Vietnam. This discrepancy seems to be largest between the more positive trade situation in Ho Chi Minh City and, as for this study, Hanoi and Haiphong harbour. While Ho Chi Minh/Saigon harbour and the Customs authorities apparently have implemented several forms of more advanced systems of facilitating trade, such as electronic pre-arrival processing of trade documentation, (partly) computerized harbour management, basic structure of Single Window usage between governmental bodies etc, the harbour of Haiphong lacks the competitive environment and will of innovation that seems to be apparent in Ho Chi Minh Harbour.

The latest development is the pilot project on a Single window in Saigon-harbour. With the new scheme, traders/ships need, instead of filling out 6 different forms at different locations geographically far apart, only to submit one dossier to the port authorities, which then transmits the information and dossier to five other concerned agencies.

### **Future Progress**

The strong focus on trade and the facilitation of Vietnam’s trade procedures promises a lot for the future. There are already several projects running and more waiting in the pipelines. The legal framework for e-commerce and enlarged acceptance of electronic technique in trade, is currently under development and is expected to be issued under 2003.<sup>34</sup> The deepened cooperation with Singapore on trade facilitation and with the European Union further shows the commitment of the Vietnamese government for trade facilitation, a commitment that is likely to be of vital importance in the economic development of Vietnam.

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<sup>34</sup> A fourth draft with the main points covering e-signatures, e-contracts etc was finished in January and the final draft is expected to be delivered to the Standing Committee of the National Assembly by the end of 2003.

## Summary in Swedish

### Förenklingar av handelsprocedurer från ett u-landsperspektiv - sammanfattning

I dagens globaliserade värld är förenklingar av ett lands handelsprocedurer en central faktor för en god ekonomisk tillväxt och av extra stor betydelse i en utvecklingsmiljö.

Det är i utvecklingsländer som handelsprocedurerna i regel är krångligast och mest byråkratiserade och därmed även mest kostsamma. Därtill är dessa länder mer beroende av gynnsamma förutsättningar för små och medelstora företag och i mycket större utsträckning beroende av utländska investeringar och tullintäkter.

Förenklade handelsprocedurer leder till ökad säkerhet samtidigt som kostnaderna för att efterleva nödvändiga lagar och regleringar för både stat och företag sänks. Därutöver underlättas utjämningen av snedvridningar i internationell handel till förmån för små och medelstora företag, något som ökar deras tillväxt och lönsamhet. För den offentliga sektorn leder en effektivisering av ett lands handelsprocedurer till förhöjd säkerhet och ökade intäkter genom både minskning av administrationskostnader och genom ökade tullintäkter.

Behovet av handelsprocedurförenklingar i utvecklingsländer påskyndas som en följd av:

- Den kraftiga ökningen i handelsvolymerna och betydelsen av handel för ländernas BNP;
- Den ökade hastigheten i och behovet av effektiva handelsflöden;
- Den ökade handeln mellan u-länder som innebär att man ömsesidigt skadar varandra genom sina kostsamma handelsprocedurer.

Det är viktigt att betona att handelsprocedurförenklingar är mer än bara elektroniska lösningar. De behöver inte innebära kraftiga ekonomiska insatser eller kraftiga infrastrukturella förändringar. Som rapporten både belyser och ger många exempel på, så finns det i utvecklingsländer en mängd åtgärder som är mer nödvändiga och innebär större och framför allt snabbare vinster för länderna.

Utvecklingsländerna är dock en mycket heterogen grupp länder och där förutsättningar, möjligheter och behov skiljer sig mycket mellan länderna. Detta faktum innebär att det per definition inte heller finns någon universallösning för handelsprocedurförenklingar. Det är dock av avgörande betydelse att handelsprocedurförenklingar baseras på globalt accepterade standarder, regler och system för att alla länders handelssystem skall vara förenliga.

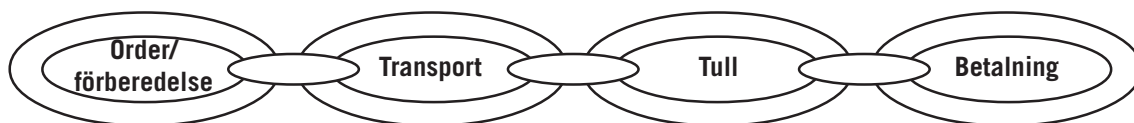
Erfarenheter har pekat på vikten av att vissa grundförutsättningar finns på plats för att en förenklingsprocess skall vara framgångsrik:

- Ett starkt politiskt engagemang;
- Ett tydligt och välplanerat tillvägagångssätt;
- Ett nära samarbete mellan myndigheter och näringslivet;

och för utvecklingsländer:

- Långsiktigt och välfinansierat tekniskt bistånd baserat på en samverkan mellan givare- och mottagarland.

För att förstå handelsprocedurer är det viktigt att inse att det innebär mer än bara tullprocedurer. Det är dock inom tullområdet som behovet av förenklingar *initialt* oftast är störst, men då vinsterna från handelsprocedurförenklingar är kopplade till hela handelskedjan är det avgörande att hela perspektivet omfattas.



Det är ointressant för en företagare var kostnaden till följd av betungande procedurer uppstår. En kedja är aldrig starkare än dess svagaste länk.

Trots de uppenbara positiva effekterna av handelsprocedurförenklingar, så kan inte eventuella anpassningskostnader avfärdas som irrelevanta. Det är ur ett utvecklingsperspektiv huvudsakligen tre områden som kan komma att påverkas:

- Institutionell och infrastrukturell organisation;
- Arbetsituation;
- Konkurrensdimension.

Eventuella kostnader och negativa effekter inom dessa områden är starkt avhängiga av förhållandena i varje enskilt land, men framför allt av utformningen av handelsprocedurförenklingarna. Genom att skraddarsy reformer kan risken för negativa effekter minimeras.

Även om förenklingar av handelsprocedurer måste ha ett globalt fokus, så är det viktigt för ett utvecklingsland att sträva efter reformer som har låg eller ingen utvecklingskostnad, är enkla att implementera och har en kort "pay-back"-tid. Initialt bör de även vara kopplade till tekniskt bistånd och kapacitetsuppbyggnad.

Förenklingar av handelsprocedurer är inte en dyr i-landsfråga utan en fråga med en kraftig utvecklingsdimension med reella och nåbara vinster. Med relativt låga insatser kan handelsprocedurförenklingar resultera i betydande vinster för utvecklingsländer.

Rapporten har gjorts av Kommerskollegium och SWEPRO-kansliet.

