
STUDY OF COSTS AND BENEFITS OF TRADE FACILITATION

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ABSTRACT

Tariff liberalisation has made considerable progress since the end of World War II. Once the results of the Uruguay Round are fully implemented, the tariffs of developed countries on industrial goods will have fallen to a trade-weighted average of 3.9%, while those of developing countries will be at 12.3%. While serious efforts are warranted to reduce tariffs further – particularly in high-tariff sectors such as agriculture and textiles – attention is increasingly focusing on the need for liberalisation of non-tariff measures.

KEYWORDS: Infrastructure, facilitation

INTRODUCTION

Trade facilitation has been on the WTO's agenda since the First WTO Ministerial Conference in Singapore in 1996. The **WTO Website** explains it as "the simplification and harmonisation of international trade procedures.... for collecting, presenting, communicating and processing data required for the movement of goods in international trade." **Doha Declaration** refers to "expediting the movement, release and clearance of goods, including goods in transit". In any case, there is a tendency to use the term in a much broader context, including TBT issues, competition policy, government procurement and transparency in general.

TRADE TRANSACTION COSTS**DIRECT COSTS:**

- *Compliance costs* related to supplying information and documents required for the movement of goods or related means of payment.
- *Charges for trade-related services* (e.g. trade, insurance, port management) ; these may be affected by government policies.

INDIRECT COSTS:

- *Procedural delays* e.g. time for customs clearance and cargo handling. These costs are related to the market life of products.
- *Lack of predictability* in the nature, application or interpretation of regulations, formalities and contracts. This derives from factors such as the lack of transparency of arbitrary interpretations.
- *Lost business opportunities:* These may be significant since delays in one country may have negative effects along the whole global production chain.

FOR THE ECONOMY

More efficient procedure and lower transaction cost provide significant benefits to the economy:

- increasing trade in goods and services;
- promoting competition, thus enhancing efficiency in the use of resources, encouraging technology transfer and the realisation of productivity gains ;
- increasing international investment, contributing to economic growth and higher living standards.

FOR THE PUBLIC SECTOR

Trade facilitation can nevertheless bring benefits to the public sector through more efficient implementation of customs and related regulations. This could involve a reduction in paperwork or in the numbers of custom officials in ports of entry. Greater efficiency may also reduce possibilities for traders to avoid fees. It could also reduce the cost of new procedures that may be felt necessary, e.g., to respond

to security concerns.

QUANTITATIVE ANALYSIS OF COSTS AND BENEFITS

So far the analysis of costs and benefits has been descriptive and based on the logic of classic theory concerning markets and trade. To try to support this by actual measurable experience, we should consider, first, what methodologies are available for empirical measurement ?

METHODOLOGIES

A systematic picture of administrative and procedural barriers can be provided by detailed firm-level surveys. In this case, it is possible to take account of pertinent factors, such as particular cost elements, special characteristics of each country, product life, size of international trade business and the extent of intra-firm trade.

Surveys need to have extensive coverage. They must provide accurate information collected systematically across companies and countries. It is usually necessary to combine written questionnaires with interviews. This makes the approach time-consuming and costly, which limits the possibilities for adopting it.

STRATEGIES FOR IMPLEMENTING AND DEVELOPING TRADE FACILITATION :

UNECE sees the following as key strategic issues for implementing and developing trade facilitation over the coming years:

- (a) **Political will** – developing the political will to implement new and existing trade facilitation measures ;
 - (b) **Promotion** of trade facilitation concepts to build awareness at senior levels of government and business ;
 - (c) **Implementation and development** of existing and new trade facilitation instruments ;
 - (d) **Technical assistance** to support the implementation ;
 - (e) **Coordination** of trade facilitation efforts among various agencies ;
 - (f) **ICT** - development and implementation of ICT technologies and standards to support trade facilitation ;
 - (g) **Research** into trade facilitation policy issues, performance measurement and benefits.
- Each of these is discussed below.

(a) Political will

Political will, at the national, regional and international levels to make and implement the key decisions related to trade facilitation, is a pre-requisite for continued progress. Further, there is a need to ensure that the new possibilities for international trade offered by development such as e-business and global supply chains are incorporated into the trade facilitation agenda.

Public and private organisations may need to co-operate more openly and to focus on a common economic and social development objective as opposed to their separate goals and objectives. Political will is also required at the national level, to address the issues of corruption, transparency and integrity at various stages throughout the trade transaction chain. Political will is also required to increase the provision of technical assistance to developing and transition economies for implementing trade facilitation measures.

Political will is required to further coordinate the efforts of the various national, regional and international organisations involved in developing and implementing trade facilitation instruments. Each country and region needs to establish a strategic agenda for trade facilitation development that has broad support from both government and business community is based on international trade facilitation agenda and standard.

(b) Promotion and Awareness

Trade facilitation must be recognised as much more a political and economic issue as opposed to a

technical issue only. Awareness of the economic development and competitiveness aspects of trade facilitation must penetrate the political agenda at the highest level. Politicians and senior government officials must be convinced of the benefits of trade facilitation and must have a clear understanding of its principles if they are to take the issue on board as a priority item.

Promotional material should be prepared by various organisations involved in trade facilitation. Publications of a guide to trade facilitation, outlining how the specific recommendations interrelate and indicating how they could be implemented.

(c) Implementation and Development

Work in the trade facilitation area has been ongoing at UNECE and various other UN and international agencies for over 40 years. There have been tremendous improvements in both developed and developing countries regarding the operation of trade transaction chain. However, much work remains to be done.

Main focus of the work must now shift to the harmonisation and implementation of existing standards, and the development of the next generation of rules and standards to facilitate the emerging new economy, characterised by e-commerce and global supply chains.

(d) Technical Assistance

An extensive technical assistance programme will be required to expand trade facilitation capacity in developing and transition economies. Technical assistance programmes for developing countries and regions must be based on a careful analysis of the needs of each country/region and on the general objective of the global trade facilitation programme. Technical assistance project should be long term, well funded, results oriented and fully integrated. Project Cycle Management (PCM) approach used by the World Bank and the European Commission (EC) could be useful in developing such programmes.

The existing WTO technical assistance programme will be useful as a means to support the future negotiations and help clarify the issues for delegations. Total cost for technical assistance requirements is likely to be high. This reality needs to be taken into account in the international debate on trade facilitation and planned for from the outset.

(e) Co-ordination

Numerous international and regional organisations carry out trade facilitation work, including WTO, WCO, UN/CEFACT, UNCTAD, ICC, WB and the regional commissions of the United Nations. Despite the good relations and exchange of information among these bodies, planning of their work programmes and projects needs to be better integrated and coordinated. Establishment of a joint management approach should be considered, operating within a Memorandum of Understanding (MoU) outlining the roles and responsibilities of various agencies.

Co-ordination must be output oriented, as opposed to process oriented. Decisions should be taken regarding specific activities that particular organisations are going to undertake. An initial joint planning session should be held between both senior and technical officials of the co-operating organisations.

(f) Information and Communication Technologies

Electronic business tools will continue to play a major role in modernising the whole supply chain and trade transaction process. For information and communication technology to be effective in an international trade facilitation environment, adoption of agreed international standards is essential.

Standardisation and harmonisation of data elements used in customs administration has been identified as a pressing issue for trade facilitation for both the developed and developing economies. Development of information systems generally presents a unique opportunity for a review of the entire customs or transactions process and it is in this process itself that most of the benefits can be achieved. This is especially important when considering appropriate strategies to facilitate global supply chain and e-

commerce business operations.

(g) Research

Although the potential benefits of trade facilitation are fairly well understood, there are very few recent empirical estimates available as to the economic benefits that could accrue due to the implementation of trade facilitation instruments. Given the fact that some developing countries have questioned the potential for trade facilitation, essential that trade facilitation research should address such basic questions as a matter of priority.

Countries also need assistance in determining their current level of trade facilitation and the development of appropriate benchmarks should be developed for this purpose. A well-defined research programme should define and utilise such measures as would be most appropriate.

CONCLUSION

Government and business leaders should adopt trade facilitation as a key trade and economic development tool. This is because of its potential to enhance trade, increase competitiveness and investment, and enhance participation in the significantly changed global trade environment. To achieve this objective, political and business leaders will have to be sensitised to the strategic importance, nature, impact and benefits of trade facilitation. Organisations involved in trade facilitation development should, therefore, consider strengthening their promotion and awareness campaign, specifically targeted at this audience. While this is especially important in the countries where trade facilitation is poorly developed, it is also necessary in developed economies where much work remains to be done.

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