



## Trade Facilitation beyond the Doha Round of Negotiations

By

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## *Introduction*

The 147 member governments of WTO agreed on 1 August 2004 to commence negotiations on trade facilitation. This decision followed a heated and protracted debate on trade facilitation among WTO member countries that started after the Singapore Ministerial Meeting in 1996 and contributed, together with three other so-called “Singapore issues”, to the failure of the WTO Ministerial Meeting in Cancun in 2003.

The 1 August 2004 decision of the WTO General Council, often referred to as the “July Package”, was seen as a significant breakthrough by many as well as a sign of the multilateral trading system’s recognition of the importance of trade facilitation issues and its increased readiness to tackle non-tariff barriers. While some developing countries had initially objected to negotiations on trade facilitation, the Negotiating Group on Trade Facilitation was ultimately found to be one of the most productive WTO negotiating groups, resulting in a significant number of joint proposals by developed countries and developing countries, and thus clearly making progress toward a consensus.

That being said, the current WTO trade facilitation negotiations<sup>1</sup> have limited the negotiation agenda to mainly clarifying and improving relevant aspects of Article V (freedom of transit), Article VIII (fees and formalities) and Article X (publication and administration of trade regulations) of GATT 1994.<sup>2</sup> While it seems reasonable that negotiations at the multilateral level on this “new” and complex issue be kept limited and focused to increase the probability of a timely consensus, at least at first, it is important that trade policy makers keep a broader perspective on trade facilitation, as a significant number of the priority issues raised by those actually involved in trade transactions (i.e., the traders) are not covered by the current multilateral trade negotiations.

After defining trade facilitation and highlighting the linkages between trade facilitation and WTO beyond the three GATT Articles under negotiation, this paper succinctly explores three emerging (in the case of customs valuation, re-emerging) issues, drawing from recent ARTNeT working papers as well as other relevant literature: (a) trade facilitation and regional trade agreements and initiatives; (b) trade facilitation and customs valuation; and (c) trade facilitation and services. This paper then briefly discusses trade facilitation in the broader contexts of business facilitation and trade costs, before concluding with some thoughts on the linkages between trade facilitation, infrastructure and poverty reduction.

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<sup>1</sup> The negotiating agenda also included enhancing technical assistance and support for capacity-building as well as effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues. See Annex D of the WTO General Council’s decision at: [http://www.wto.org/english/tratop\\_e/dda\\_e/ddadraft\\_31jul04\\_e.pdf](http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf).

<sup>2</sup> It is currently unclear as to when (or whether) the negotiations on this restricted agenda will come to fruition since they are part of the “single undertaking” of the Doha Round of negotiations, in which agreements on agriculture and a number of other issues remain elusive.

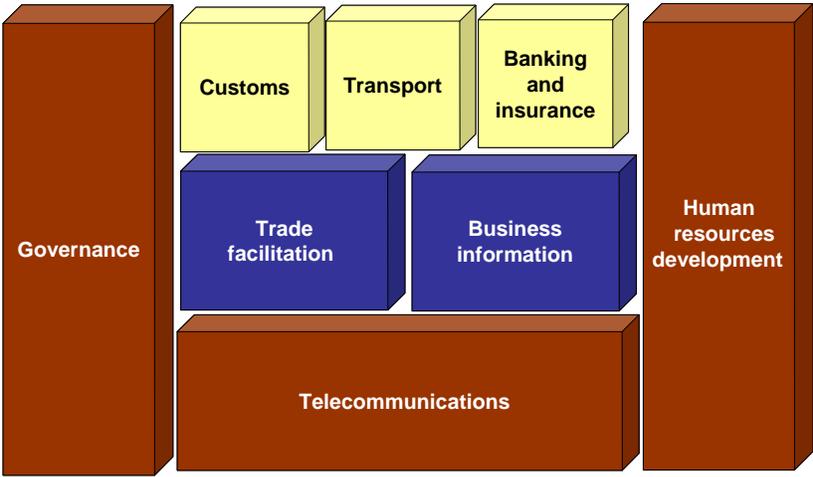
# A. Trade facilitation: Increasing the efficiency of trading processes

There is no agreed definition of trade facilitation. In fact, trade facilitation has been referred to as “the plumbing of international trade” as it focuses on the efficient implementation of trade rules and regulations. Indeed, what appears to differentiate trade facilitation from other trade issues is its focus on efficient processes, e.g., how to efficiently implement policies or regulations, or how to efficiently exchange goods and services across national borders, and related documentation. As such, tariff barriers are not covered by trade facilitation, but customs valuation generally is covered.<sup>3</sup>

The International Chamber of Commerce also emphasizes process efficiency in its definition of trade facilitation: “To improve the efficiency of the processes associated with trading in goods across national borders”.<sup>4</sup> This definition is also reminiscent of the concept of trade efficiency as outlined in the Columbus Ministerial Declaration of 1994.<sup>5</sup>

The trade efficiency model presented in figure I suggests that telecommunications infrastructure forms the basis of trade efficiency, as the development of this infrastructure is necessary for efficient business information dissemination and trade facilitation. In turn, the model suggests that trade facilitation involves making customs, transport, and banking and insurance (services and infrastructure) more efficient. In that context, trade facilitation cannot be limited simply to either at-the-border or customs control processes, since these two sets of processes are only two of a number of other processes (e.g., payment and logistics) that affect the efficiency of a trade transaction.

**Figure I. An extended trade efficiency model**



The trade efficiency model proposed in figure I extends the 1994 trade efficiency model by adding two new elements – governance and human resource development. Indeed, like telecommunications – and, arguably, even more so than telecommunications – these are necessary conditions to trade facilitation. Good governance is central to trade facilitation, as it is unlikely that even the adoption of “best practice” rules and regulations and major investment in automated customs systems will yield expected trade facilitation benefits unless issues involving corruption in both the public and private sectors are taken into account and addressed more directly. In that context, increasing

<sup>3</sup> As mentioned above, the operational WTO definition of trade facilitation is very restrictive, since it includes only three GATT Articles, indeed leaving out customs valuation processes (GATT Article VII).

<sup>4</sup> See the ICC Policy Statement at [http://www.wto.org/english/forums\\_e/ngo\\_e/icc\\_tradefacilitation\\_e.pdf](http://www.wto.org/english/forums_e/ngo_e/icc_tradefacilitation_e.pdf).

<sup>5</sup> See UNCTAD, 1994, United Nations International Symposium on Trade Efficiency (available at <http://www.un.org/Conferences/trade94/columbus.html>).

transparency<sup>6</sup> and reducing incentives/increasing penalties for non-compliance by any party with rules and regulations seem essential.

Human resource development, on the other hand, is crucial to enabling implementation of trade facilitation measures. The lack of trained human resources is a recurrent issue in implementing a customs reform programme and related trade facilitation measures – as noted in the country studies of India and Nepal that are included in this publication. Its importance has long been recognized – with the UNCTAD Commission on Enterprise, Business Facilitation and Development having added it to the six initial components of the trade efficiency model in 1997 – together with transit and legal issues (Sengupta, 2007).

## *B. Trade facilitation and the WTO*

The limited scope of trade facilitation in the ongoing multilateral trade negotiations was noted earlier. However, increasing the efficiency of trade-related processes has long been on the agenda of the multilateral trading system, as shown by the already long list of WTO provisions and agreements that are related to trade facilitation (table 1).

**Table 1. List of WTO provisions related to trade facilitation**

<b>Article/Agreement</b>	<b>Subject</b>
GATT 1994, Article V	Freedom of transit
GATT 1994, Article VII	Valuation for customs purposes
GATT 1994, Article VIII	Fees and formalities connected with imports and exports
GATT 1994, Article IX	Marks of origin
GATT 1994, Article X	Publications and administration of trade regulations
Agreement on Implementation of Article VII of the GATT 1994	Customs valuation
Agreement on Rules of Origin	Rules of origin
Agreement on Import Licensing Procedures	Import licensing
Agreement on Pre-shipment Inspection	Pre-shipment inspection procedures
Agreement on Technical Barriers to Trade	Rules related to technical standards
Agreement on the Application of Sanitary and Phytosanitary Measures	Rules related to application of SPS measures
General Agreement on Trade in Services	Rules related to facilitation trade in services

*Source:* Compiled based on World Trade Organization, G/L/244, 1998.

Negotiating trade facilitation issues at the multilateral level appears most appropriate when the issues are of concern to a large number of participants, and when they involve the development of common standards and procedures. While there are a number of other international organizations involved in trade facilitation, in particular the World Customs Organization (WCO), WTO is the only organization providing a credible framework for binding commitments in trade facilitation. In addition to the technical assistance/capacity-building implications, one important benefit from negotiating trade

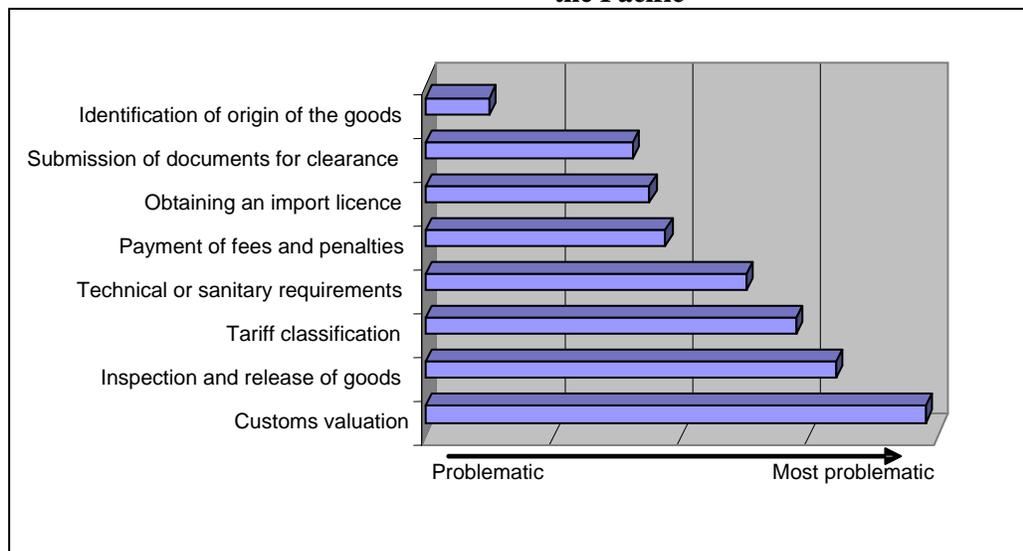
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<sup>6</sup> Transparency was also the first of seven trade facilitation principles adopted by the Asia-Pacific Economic Cooperation Ministers of Trade in 2001 (ESCAP, 2002). Helble and others (2007) provide an interesting discussion of the concept of transparency in relation to trade facilitation.

facilitation at WTO for developing country national governments may also be that it provides them with the external mandate necessary to advance often very sensitive trade facilitation reforms at home.

Prasad (2006) builds on ESCAP (2006) in order to present a comparative analysis of the trade facilitation needs of the private sector in Fiji and a number of other developing countries in Asia. The private sector survey conducted as part of the study puts technical barriers to trade (TBT), SPS measures, and customs valuation at the top of the concerns of the Fijian private sector. This is consistent with the findings in the other five countries covered (see figure II). As such, it may be hoped that trade facilitation negotiations at WTO will expand to these areas in future rounds, and allow for revisiting or expansion of the related WTO agreements.

**Figure II. Most problematic areas in conducting trade in selected developing countries in Asia and the Pacific\***



\*Based on exploratory private sector surveys in Bangladesh, China, Fiji, India, Indonesia and Nepal conducted in 2005.

Sources: ESCAP, *Studies in Trade and Investment*, No. 57, 2006; and Prasad, 2007.

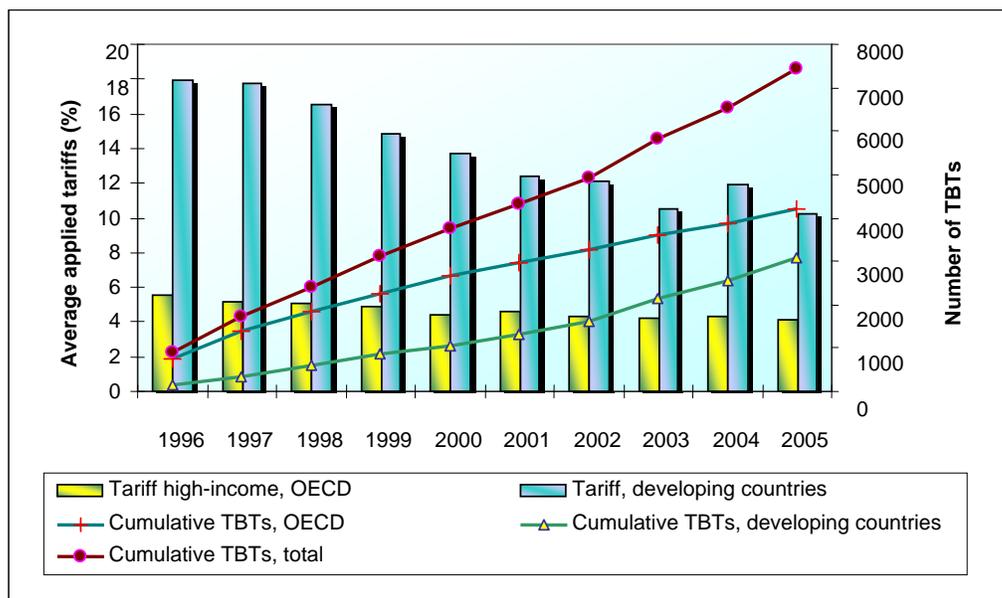
In addition to the customs-related issues of valuation, classification and inspection, and release, a number of non-tariff barriers under the purview of WTO continue to have a significant effect on the efficiency of trade processes.<sup>7</sup> As figure III shows, the proliferation of TBT (i.e., technical regulations, product standards and related testing and certification procedures) that make trading a more complex and difficult process may deserve particular attention in future rounds.

From a trade facilitation perspective, this renewed attention may focus on making the implementation of these standards and regulations as simple and efficient as possible. The WTO agreements on TBT and SPS measures are direct contributions to trade facilitation in the sense that they provide standard processes for countries to issue and inform each other of new regulations and standards. However, the fact that importers and exporters in developing countries identify TBT and SPS measures among the most problematic trade issues they face suggests that more efforts are needed at the global and other levels to harmonize, mutually recognize and standardize measures as well as to ensure they are not unnecessarily restrictive. A very practical approach to the measures would help immensely in this respect, e.g., not setting the authorized level of a particular chemical beyond the capacity of standard testing equipment available at the time the measure is published.<sup>8</sup>

<sup>7</sup> Non-tariff quantitative restrictions, i.e., quotas, are not generally associated with trade facilitation.

<sup>8</sup> Setting the authorized level of a chemical to zero rather than to a scientifically determined and measurable value will lead to situations where shipments initially accepted may suddenly be rejected as testing facilities or equipment are being upgraded.

**Figure III. Average applied tariffs and number of technical barriers to trade, 1996-2005**



Source: Duval, 2007, based on Ng, 2006, and Dhar and Kallumal, 2007.

### *C. Trade facilitation, and regional/bilateral trade initiatives and agreements*

The number of bilateral and regional trade agreements and related initiatives has exploded in recent years (figure IV).<sup>9</sup> Of the 133 trade agreements recorded in the Asia-Pacific Trade and Investment Agreement Database (APTIAD), only 35 (26 per cent) cover trade facilitation.<sup>10</sup> However, seven (70 per cent) of the 10 trade agreements that have come into force since 2004 in the ESCAP region include trade facilitation. A closer look at how trade facilitation issues may be addressed through preferential trade agreements and other bilateral and regional initiatives is therefore warranted.

Wille and Redden (2006) compare the treatment of trade facilitation in four selected regional trade initiatives – the ASEAN free trade area (AFTA), Asia-Pacific Economic Cooperation (APEC), South Asian Free Trade Area (SAFTA) and the Pacific Agreement on Closer Economic Relations (PACER) – as well as in one bilateral free trade agreement, the Australia-Singapore Free Trade Agreement (ASFTA). On the basis of these trade initiatives and ASFTA, they develop model trade facilitation principles and measures that may be instructive for developing country negotiators and policy makers.

Given the varying degrees of progress in trade facilitation reform in the agreements, the comparative analysis provided in Wille and Redden (2006) reinforces the importance of clearly formulated, specific trade facilitation principles and measures if trade facilitation reform is to be successful. The effectiveness of specific measures implemented by parties to APEC, ASFTA and, to a lesser extent, AFTA suggest clearly designed trade facilitation principles and measures that, if not

<sup>9</sup> See also Mikic, 2007, and Bonapace and Mikic, 2007.

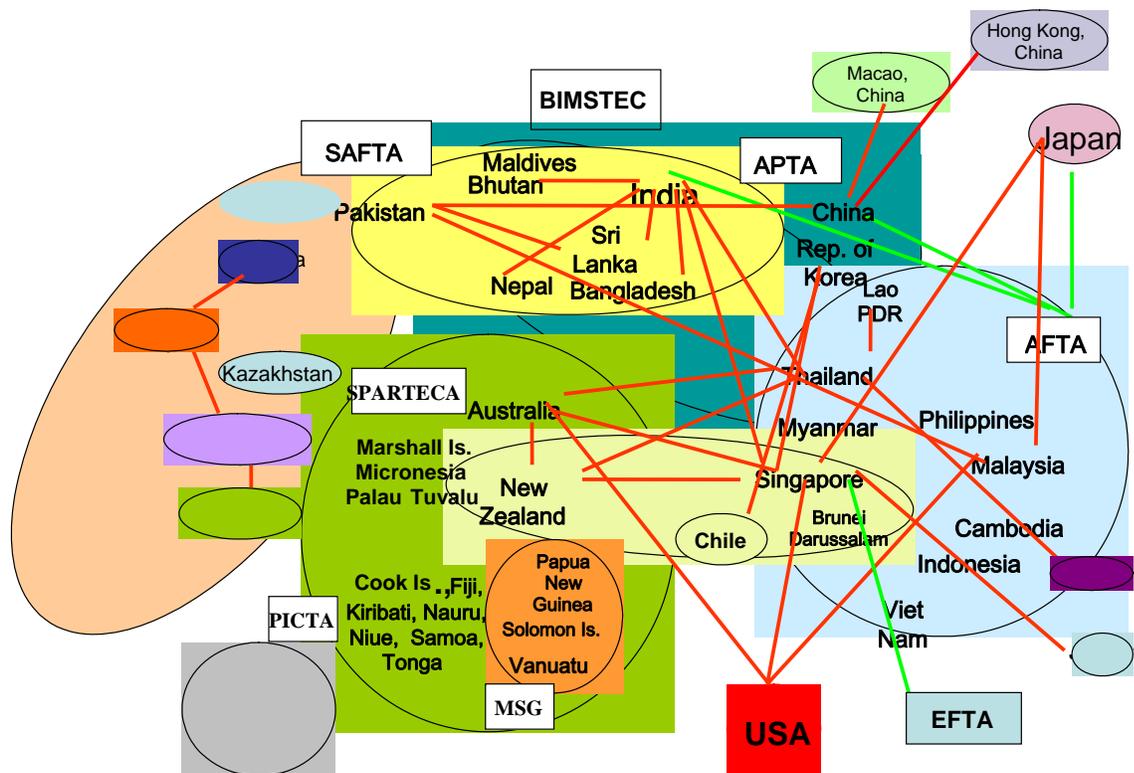
<sup>10</sup> The list of trade agreements that cover trade facilitation is provided in the annex to this chapter.

binding, at least require a commitment to quantitative outcomes are more likely to succeed than purely aspirational approaches.

Wille and Redden find that each initiative or agreement appears to have played a positive role in accelerating the reform process and, to some extent, in driving reform at the multilateral level. However, they note that while some of the costs associated with trade can be reduced by bilateral initiatives, many current trade facilitation initiatives at the bilateral or plurilateral level address essentially multilateral issues. Pressure from a major trading partner, promises of reciprocity or of commitments to trade-related capacity-building, as in PACER, may contribute to the attractiveness of implementing trade facilitation measures. However, as APEC members and others have recognized, it is crucial to coordinate trade facilitation with multilateral trade facilitation negotiations or at least with the major regional trading partners.

While some trade facilitation priorities will undoubtedly be based on cost and ease of implementation, the study stresses the need for each country to assess its particular needs, to harmonize and sequence reforms in cooperation with key trading partners, and to link capacity-building, technical assistance, and special and differential needs with a specific and detailed trade facilitation reform programme.

**Figure IV. Asia-Pacific “noodle bowl” of preferential trade agreements**



Source: ESCAP APTIAD, February 2007.

Chaturvedi (2007) finds in his analysis of trade facilitation provisions in South Asian free trade areas that coverage of trade facilitation issues is minimal in all but one of the five trade agreements (two regional and three bilateral) reviewed against the list of trade facilitation measures relevant to GATT Articles V, VIII and X, and which are under negotiation at WTO. On the basis of a review of intraregional trade flows and unilateral trade facilitation initiatives by South Asian countries, Chaturvedi finds that transit facilitation measures, including the development of infrastructure at land customs stations (LCS) as well as border agency coordination, are of particular importance to the region and the

development of intraregional trade. These issues could be tackled in part through the inclusion of relevant provisions in regional and bilateral trade agreements.

## 1. The issue of rules of origin

Although an increasing number of preferential trade agreements contain rather general and customs-focused trade facilitation provisions, these agreements may not ultimately contribute to the efficiency of trading processes, mainly due to the rules of origins they contain. Rules of origin are necessary for determining which products will enjoy reduced bilateral tariffs and which will not, and to prevent trans-shipment of goods through the customs territory in a bloc with the lowest tariff.

James (2006) explains that while many of the emerging FTAs appear to be consistent with Article XXIV of GATT and Article V of GATS in principle, the complex and idiosyncratic rules of origin in these agreements threaten to complicate international commerce and divert trade rather than create it. Preferential trade agreements among developing countries (e.g., AFTA) have vague rules and high administrative costs that (together with small margins of preference) deter business from seeking to take advantage of preferences, thus limiting the amount of trade these agreements create.

His review of newly emerging FTAs involving key Asian hubs (China, Japan, the Republic of Korea, Singapore and Thailand) reveals that rules of origin not only differ between hubs but also within them, suggesting that rules of origin have been framed with the interests of industrial lobbies in mind rather than with trade facilitation as the goal. As a result, countries that enter into agreements with hubs may find that their exporters will shift purchases of intermediate goods away from the lowest cost suppliers in order to comply with rules of origin in gaining preferential access to the hub. As a result, their products may become less competitive in third country markets, and efficient existing production networks may be displaced by less efficient ones that thrive on tariff discrimination rather than on low production costs. This encourages closed as opposed to open regional blocs, and is of particular concern since less developed and small countries are less able than developed countries to partake of preferential treatment. James concludes that harmonization of preferential rules of origin may be unrealistic, however, and a less ambitious solution may instead be feasible, such as gradually lowering value-added content rules for less developed countries, or allowing averaging over time.

### *D. Trade facilitation and customs valuation*

Customs valuation refers to the process and method(s) used by customs authorities to determine the value of a particular good. Since tariffs are usually calculated as a percentage of the value of the goods (i.e., ad valorem), the particular method used to determine value will directly affect the amount of tariff duties collected on a particular shipment.<sup>11</sup> This is therefore of great concern to traders, as non-transparent valuation mechanisms – typically combined with inefficient or even absent advance ruling mechanisms – lead to uncertainties regarding the profitability of each trade transaction.

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<sup>11</sup> This amount is also affected by the tariff rate applicable to the good, which will depend on how a particular good is classified. Tariff classification is one of the measures being negotiated at WTO, although most countries already rely on the WCO HS system for classification purposes. While mis-classification is identified as a problematic issue, the customs valuation procedure appears to be of relatively greater concern to traders (see figure II).

The importance of efficient and transparent customs valuation processes has long been recognized and has led WTO members to sign a separate agreement on the implementation of GATT Article VII, commonly referred to as the WTO Customs Valuation Agreement (CVA). The CVA is based primarily on the transaction value method (TVM), i.e., value is assessed based on the value indicated in the invoice provided by the trader.<sup>12</sup> As such, the CVA is clearly aimed at facilitating trade, considering information provided by the trader as the basis for valuation. However, the CVA allows for five other methods to be considered in a hierarchical order, should Customs have doubt about the invoice value provided. It is therefore interesting to see that, at a time when most WTO members are supposed to have fully implemented the CVA, private sector surveys in developing countries (see, for example, ESCAP, 2006) still identify customs valuation as a key issue.

To shed some light on the issue, customs valuation was examined in India, Nepal, and Fiji in Chaturvedi (2006), Rajkarnikar (2006), and Prasad (2006), respectively. Chaturvedi (2006) reviews efforts made by India in making customs valuation more efficient and in implementing the CVA. Some of the major issues identified by traders in India regarding customs valuation are frequent rejections of transaction value, the lack of transparency, the slow processing of valuation cases by the special valuation branch and the lack of expertise among field officers. The Indian case study reveals that customs revenue declined continuously between 1999 and 2002, but has consistently increased since then. Several measures were introduced to minimize revenue loss and to tackle under-evaluation, resulting in a remarkable increase in additional revenue from the enhancement of declared transaction values. Many private sector companies indicated, however, that the additional measures imposed by the Customs Department are the results of misdeeds of a few traders – accounting for less than 18 per cent of the transactions – and that those traders should therefore be specifically targeted.

Rajkarnikar (2006) examines the case of Nepal, a country that had yet to fully implement the CVA at the time of the study (June 2006), but that had already adopted TVM as the primary valuation method. He finds that legislative and other improvements being made as part of the implementation of the CVA will have no significant impact on the volume of trade and import prices; changes in valuation practices are expected to slightly increase (2.1 per cent) the cost of imported goods and exert a negative effect on the demand for imports (-1.9 per cent). On the other hand, the improved valuation system may be expected to help reduce under-invoicing and informal trade, thus exerting a positive impact on customs revenue. Importantly, the case study highlights the need for implementing TVM (and, by extension, the CVA) in conjunction with other trade facilitation measures – notably post-clearance audit – to avoid revenue linkage.

All three studies point to the limits of the CVA, which can be abused by both traders and customs officers for their own benefit, depending on the way and the environment in which it is implemented. Together with advance rulings, risk management, post-clearance audit and independent appeal mechanisms, measures to develop trust and cooperation between customs officers and the private sector are the key to resolving potential undervaluation issues while not unnecessarily impeding trade.

Meaningful commitments by WTO members on trade facilitation in the ongoing round would likely make the CVA more effective, since many of the measures being discussed under Articles VIII and X are linked to the CVA. At the same time, one may question the rationale for recognizing, on the one hand, the need to fully take into account the individual capacity of countries to implement measures under these two articles and, on the other hand, for making CVA implementation mandatory – even after a delay of four years, a period that has expired for most members.<sup>13</sup>

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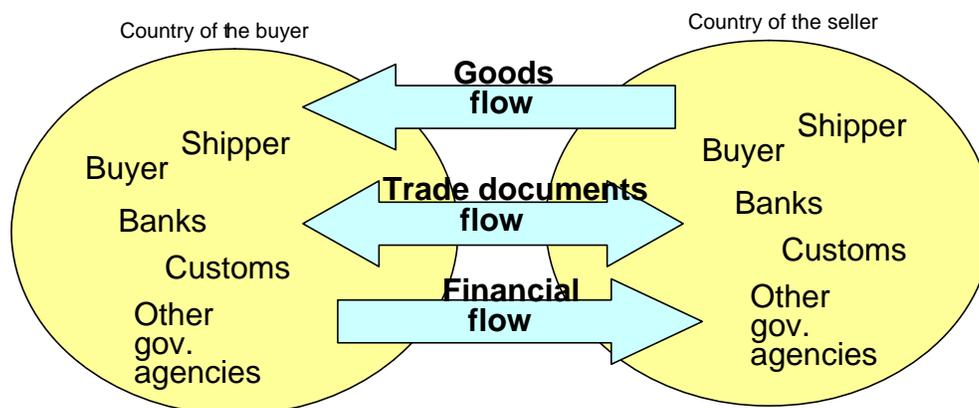
<sup>12</sup> A number of adjustments are, however, authorized as per CVA Article VIII.

<sup>13</sup> The issue of implementation cost arises here. J. M. Finger (2000) pointed to the unwillingness of WTO to fully take into account the costs involved in the reforms linked to implementation of the WTO agreement. In particular, he noted that a customs reform project alone at that time could easily cost US\$ 20 million for buildings, equipment and staff training.

## E. Trade facilitation and services

The trade efficiency model presented above highlights the linkages between trade facilitation and key service sectors, i.e., telecommunication, transport and logistics, and the banking and insurance sectors. As shown in figure V, trade transactions involve flows of goods, documents and information as well as financial flows, the efficiency of which depends at least as much on (private sector) service providers as it does on government agencies. Comprehensive trade facilitation frameworks and strategies therefore would need to address the issue of how to develop these key sectors, including through services trade liberalization.

**Figure V. The three flows of international trade**



Source: Duval, ITC Regional Business Forum on e-Finance, August 2006.

The relationship between liberalization in the logistics sector and trade facilitation is explored in some depth by De Sousa and Findlay (2006). Using exports of tuna from South Australia to Japan as an illustrative example, their study demonstrates that the improvement of the performance of logistics services through domestic liberalization may generate a virtuous cycle, whereby international trade is increased, and that this, in turn, may increase the demand for logistics services. Their study further supports the view that benefits of improved performance of logistics services could be enhanced through governmental measures that assist the flow of trade across national borders. The extent and pace of measures taken by governments to liberalize the supply of logistics services as well as facilitate trade will determine whether or not a virtuous cycle will be generated and the extent of the benefits that will accrue from that cycle.

A supply-chain approach to trade facilitation, whereby bottlenecks would be identified along the chain, and relevant private and public entities would take concerted action to remove them, would be most effective. Indeed, improving the customs clearance time for shipments of fresh food products by an additional 20 minutes may ultimately not facilitate trade as much as the issuance of policies or regulations that would facilitate the construction of cold storage and logistics facilities at airports.

Relatively little research has been conducted so far on how governments in developing countries can support the development of supply-chain efficiency-enhancing services. The sequencing of policy reforms as well as the level at which underlying measures need to be negotiated (global, regional, bilateral and domestic) appear to be particularly relevant.

## *F. Trade facilitation in a broader context*

Globalization has blurred the frontiers between domestic and international issues. Coherence and coordination between policies has become the key to offering domestic firms a national environment in which they can strive – and develop the capacity to compete and benefit from globalization – while at the same time ensuring the sustainable development of the country as a whole. As such, it is important to remember that trade facilitation is one element of a complex set of interrelated issues. Given the often limited resources available in developing countries, it may be desirable to see trade facilitation (and the specific measures commonly associated with it) as a component of broader frameworks aimed at facilitating business development and reducing transaction costs.

### 1. Trade facilitation and business facilitation

Trade facilitation can be addressed as one important element of a private sector and business development strategy. For example, the World Bank identifies “trading across borders” as one of 10 regulatory areas that influence the ability of the private sector to develop. Table 2 shows the relative ranking of East Asian, South Asian and Pacific Island Countries in their respective subregions in each of the 10 areas identified.

**Table 2. Subregional rankings of selected Asia-Pacific countries in terms of ease of trading and other ease of doing business indicators (fiscal year 2007)**

	Ease of doing business ranking	Trading across borders	Starting a business	Dealing with licences	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Enforcing contracts
<b>East and South-East Asian economies</b>										
Singapore	1 [1]	1 [1]	1	1	1	1	3	1	1	2
Hong Kong, China	2 [4]	2 [3]	2	5	2	7	1	2	2	1
Republic of Korea	5 [30]	3 [13]	9	3	11	9	5	7	9	3
Malaysia	4 [24]	4 [21]	5(+)	10	3	8	2	3	4(+)	8
Taiwan Province of China	6 [50]	5 [29]	8	12	13	4	6	8	8	9
Indonesia	10 [123]	6 [41]	14(-)	8(+)	14	12	9(+)	6(+)	10	13
China	8 [83]	7 [42]	10	14(+)	9	5	10(+)	10	14	4
Thailand	3 [15]	8(+) [50]	3	2	4	3	4	5	6	5
Philippines	11 [133]	9 [57]	12	7	10	10	11	12	12	11
Viet Nam	9 [91]	10 [63]	7	6	7	6	7(+)	13(+)	13	7
Timor-Leste	14 [168]	11 [78]	11(+)	9	6	14	13	11	5	14
Cambodia	12 [145]	12(+) [139]	13	13	12	11	14	9(+)	3 (+)	12
Lao PDR	13 [164]	13(+) [158]	6(+)	11	8	13	12	14	11	10
Mongolia	7 [52]	14 [168]	4	4	5	2	8	4	7(+)	6
<b>South Asian economies</b>										
Sri Lanka	3 [101]	1(+) [60]	2(+)	8	5	5	4(-)	4	7	4
India	7 [120]	2(+) [79]	8	6	4	4	1(+)	3	8	8
Pakistan	2 [76]	3 [94]	5	2	7(+)	3	3(+)	2	6	5
Maldives	1[60]	4 [110]	3	1	1	8	6	4	1	2
Bangladesh	4 [107]	5 [112]	7(-)	3	6	7	2	1	4(-)	7
Bhutan	6 [119]	6 [149]	4(+)	4	2(+)	2(+)	7	7	3	1
Nepal	5 [111]	7 [151]	6	5	8	1	4	4	5	3
Afghanistan	8 [159]	8 [174]	1	7	3	6(+)	8	8	2	6

**Table 2. (Continued)**

	Ease of doing business ranking	Trading across borders	Starting a business	Dealing with licences	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Enforcing contracts	
<b>Pacific Island economies</b>											
Tonga	2 [47]	1 [44]	2	5	2	6	8	7	3	1(+)	
Marshall Islands.	9 [89]	2 [46]	1	1	1	9	10(+)	8	9	2	
Solomon Islands.	6 [79]	3 [74]	8	6	9	8	6	5	4	7	
Papua New Guinea	8 [84]	4 [82]	7	10	8	4	3	3	10	10	
Micronesia	10 [112]	5 [85]	3	2	4	10	2	9	7	8	
Kiribati	5 [73]	6 [97]	9	9	7	3	7	4	1	5	
Samoa	3 [61]	7 [108]	10	7	5	2	4	1	6	6	
Fiji	1[36]	8 [111]	5	4	6	5	1	2	5	3(+)	
Palau	7 [82]	9 [121]	4	8	3	1	9	10	8	9	
Vanuatu	4 [62]	10 [142]	6	3	10	7(-)	5	6	2	4	

Source: Calculated based on Ease of Doing Business database, at [www.doingbusiness.org](http://www.doingbusiness.org).

Note: (+) and (-) denotes positive or negative reforms in 2006/07; ranks in [ ] are global rankings out of 178 economies.

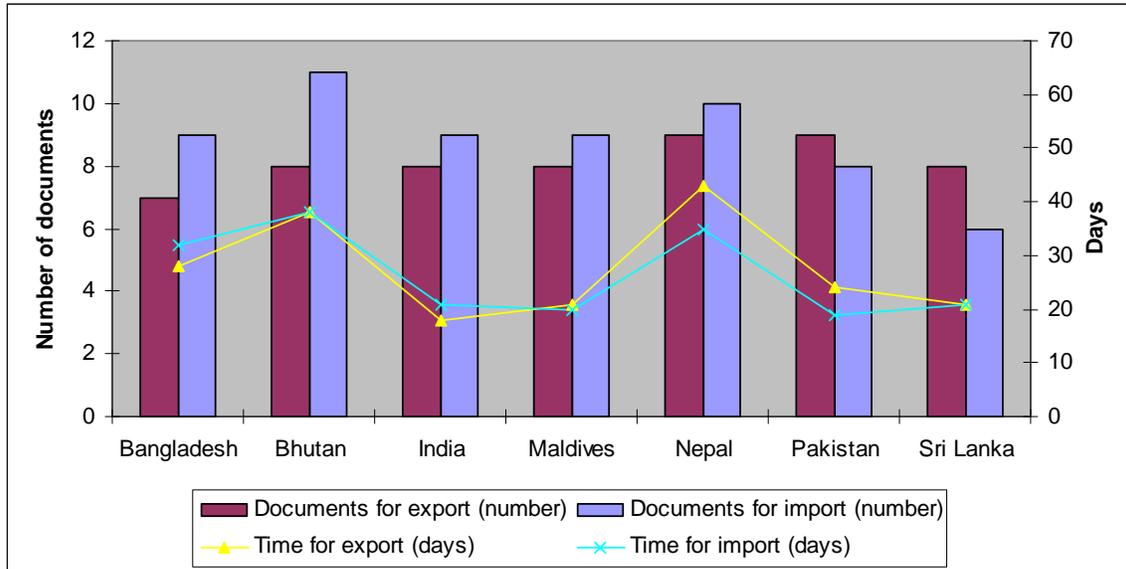
In table 2, the (+) and (-) signs next to the rankings indicate countries that have implemented positive or negative reforms, respectively, in each of the areas in 2006/07. Of the group of countries considered, “trading across borders” was the area in which most countries reportedly had made positive reforms, with “getting credit” coming second. This suggests that countries recognize the importance of trade facilitation and that they are willing to take unilateral initiatives in this area.

Research on the most appropriate method to aggregate the various indicators into an overall “doing business” indicator suggest that giving the same weight to all 10 areas is appropriate (Djankov, 2005). At the same time, however, working on improving the efficiency of trading across borders may have little impact on trade growth if other regulatory areas (e.g., starting or closing a business) are ignored. As can be seen from table 2, while some countries still rank relatively low in their subregion in terms of trading across borders, the overall ease of doing business in those countries is high (e.g., Thailand). Similarly, countries that rank high in terms of trading across borders remain a relatively difficult environment in which to do business overall (e.g., Indonesia), pointing to the need for increased coordination and coherence across agencies involved in trade and business facilitation.

Figures VI and VII show, for a selection of South and East Asian countries, the number of documents required for imports and exports as well as the time it takes for a 20-foot container of an identical good to be transported from a factory in the largest business city to a ship in the most accessible port (or vice versa). These are four of the six indicators used in determining the ease of trading across borders rankings. The other two indicators are costs associated with import or export procedures, respectively, which are calculated as the sum of all fees associated with completing the procedures for exporting or importing the goods (including costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport).<sup>14</sup>

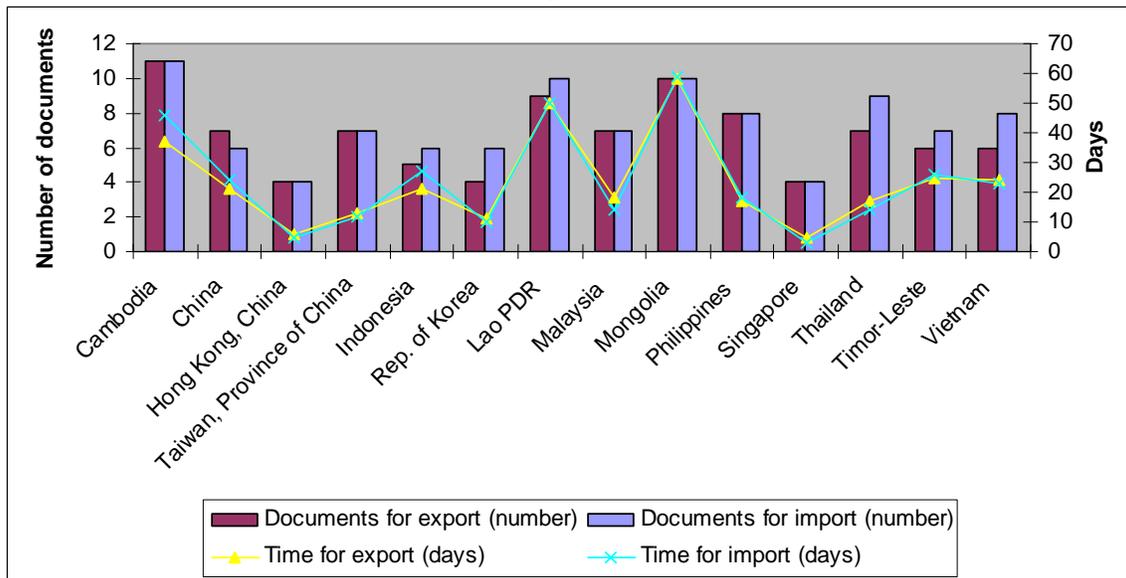
<sup>14</sup> For methodological details, please see <http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx>.

**Figure VI. Time and documentary requirements for imports and exports in South Asian countries (fiscal year 2007)**



Source: Doing Business Database.

**Figure VII. Time and documentary requirements for imports and exports in East Asian countries (fiscal year 2007)**



Source: Doing Business Database.

Figures VI and VII reveal that the number of documents for imports – generally higher than those required for exports – range widely across countries in the region, from two in Hong Kong, China to 16 in two least developed countries (LDCs), the Lao People’s Democratic Republic and Bangladesh. A casual observation of the data reveals that time required for imports and exports is highly correlated with

the number of documents required as well as with the costs of import and exports. This is explained by the fact that 75 per cent of the time/delays are attributable to administrative hurdles such as customs and tax procedures, clearances and cargo inspections, and only 25 per cent to poor road and port infrastructure (Djankov and others, 2007).

Looking at the four above-mentioned indicators is particularly useful as they highlight the fact that trade facilitation really begins at home; the indicators, or at least their variations across countries, are based on domestic regulations and policies, except for landlocked countries. Importers and exporters in many developing countries often point to domestic – as opposed to foreign – regulations and processes as the main sources of trade inefficiencies (e.g., Bhattacharya and Hossain, 2006). In that context, global and regional trade facilitation initiatives are important but will only be useful in support of wider ranging domestic initiatives. This support role may include:

- (a) Strengthening the mandate for trade facilitation reforms at home to facilitate implementation of measures that will negatively affect the welfare of a small but politically significant group of individuals (e.g., officials in charge of customs and enforcement of related regulations);
- (b) The development of harmonized documents, processes and standards to be adopted and implemented in each country, further facilitating cross-border trade (this function has been performed by WCO and UN/CEFACT as well as WTO, among others);
- (c) Facilitating the provision of technical assistance and capacity-building for trade facilitation – this function may be served by a future WTO trade facilitation agreement – as well as the sharing of knowledge and experience (including through voluntary peer review mechanisms).

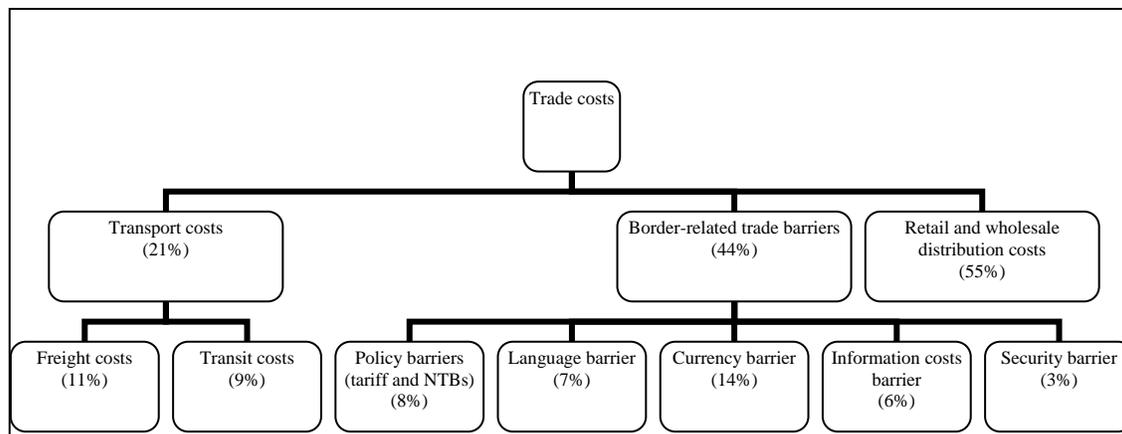
Governments in Asia are aware that enhancing trade-related domestic processes is one way to help their producers and traders gain, or at least maintain, competitiveness in the global market. Unlike trade liberalization, trade facilitation also has little downside for governments, as it does not result in the loss of customs revenue, even if trade remains the same. Implementation costs of even the more complex trade facilitation measures are also typically dwarfed by long-term savings (Duval, 2006). As a result, significant and continuous unilateral trade facilitation efforts have been made in the region by countries at various stages of development, based on the availability of resources at their disposal. Some of the progress made by South Asian countries in relation to GATT Articles V, VIII and X was reviewed by James (2006).

## 2. Trade facilitation and trade costs

The concept of “trade costs” is relatively recent but has taken on increasing importance, particularly in the academic literature; yet, in contrast, trade facilitation remains mostly absent from the literature.

Trade costs may be defined as “all costs incurred in getting a product to a final user, other than the production costs of the good itself”, broken down by Anderson and Wincoop (2004) as transportation (freight and time) costs, (tariff and non-tariff) policy barriers, information costs, contract enforcement costs, legal and regulatory costs, and local (wholesale and retail) distribution costs. In other words, trade costs do include all transaction costs involved in marketing a product, from identifying and negotiating a contract with a buyer to the buying of the product by a consumer in the foreign retail store. A breakdown of these costs for industrialized countries is provided in figure VIII, in percentage of the value of the product traded. Border-related trade barriers, which include barriers generally related to trade facilitation (presumably mainly under “policy barriers”) as well as many other barriers not always associated with trade facilitation (e.g., language and currency barriers), amount to 44 per cent of the value of goods traded.

**Figure VIII. Estimated trade costs in industrialized countries**



Source: P. De, 2007, drawn from J. E. Anderson and E. van Wincoop, 2004.

Policy barriers, including both tariff and non-tariff barriers, therefore make up less than one fifth of the overall border-related trade barriers estimated in this study. The authors recognize that their breakdown, based on a combination of direct observation and inferred costs, is only approximate. Nonetheless, it provides an interesting perspective on trade facilitation and transaction costs, and suggests, in particular, that a large number of alternative measures may assist in the facilitation of trade in its broadest sense, i.e., the reduction of trade transaction costs.

De (2007) elaborates on trade costs in Asian countries, focusing particularly on direct transport costs. His analysis shows, *inter alia*, that a reduction in tariffs and transport costs by 10 per cent each would increase bilateral trade by about 2 per cent and 6 per cent, respectively. Therefore, the propensity to increase the trade is likely to be higher with a reduction of transport costs, rather than tariff reduction in the present context. The paper also discusses freight costs in some detail, indicating that freight costs for imports by developing countries continue to be significantly higher than those of developed countries, with freight costs in developing Asia being on average 116 per cent higher than in developed countries. At the same time, while ocean freight prices have fallen over time for the movement of vessels among some selected Asian countries, auxiliary shipping charges have gone up, thereby offsetting some of the gains arising from technological advancement in shipping and navigation, and trade liberalization.

Although some of the auxiliary shipping charges (e.g., documentation fees, congestion surcharges and electronic data interchange fees) can be linked to core trade facilitation measures and issues, De (2007) and most of the literature on trade costs go well beyond trade facilitation as defined in this publication. At the same time, however, the broad perspective on trade transaction costs that the trade cost concept provides is important for trade policy makers when investing their limited resources in trade cost components that will provide the highest return.

### 3. Trade facilitation and trade infrastructure

The importance and direct linkage between trade facilitation and telecommunications infrastructure has long been acknowledged (see figure I above). While some have argued that trade facilitation does not cover physical infrastructure, it has become increasingly evident that many trade-related processes involve availability of specialized infrastructure in addition to the basic infrastructure that is often not available in many LDCs.

A number of trade facilitation measures, particularly those related to transparency and publication of trade regulations, do not require significant infrastructure investment. However, increasing port efficiency and e-business usage/service sector infrastructure – two of four indicators used by World Bank economists to measure the potential benefits from trade facilitation and found to be most important in realizing trade facilitation benefits (e.g., Wilson and others, 2003 and 2005)<sup>15</sup> – do involve potentially significant investment in infrastructure.

The link between trade facilitation and infrastructure is a sensitive issue, particularly as trade facilitation is now on the negotiating agenda of many trade agreements and is sometimes linked (as in the case of the Doha Development Agenda negotiations) to commitment in terms of technical assistance and capacity-building. Given its implications with regard to the cost of implementing trade facilitation measures as well as the extent, nature and overall effectiveness of aid to be provided to developing member countries under an eventual multilateral agreement on trade facilitation, full acknowledgement of the role of trade infrastructure in trade facilitation is important (Albuero, 2007).

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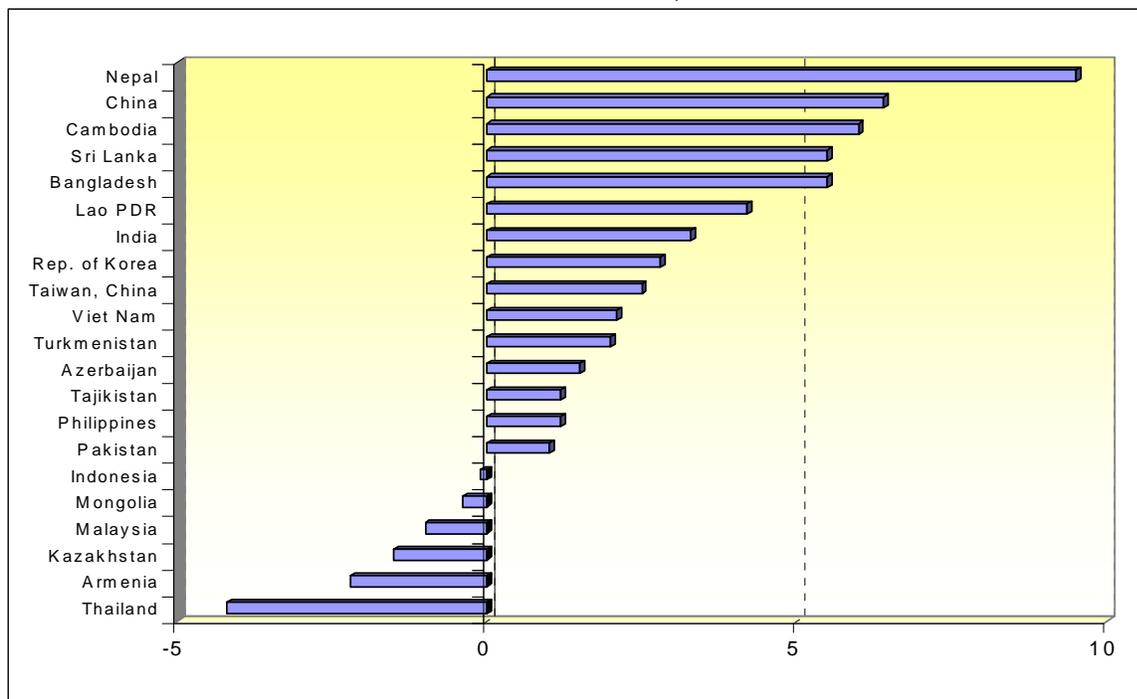
<sup>15</sup> Interestingly, the most recent World Bank trade facilitation research appears to have focused on transparency issues and does not emphasize trade or transport infrastructure factors (see Helble and others, 2007). This de-emphasizing of infrastructure issues related to trade facilitation is consistent with the scope of the WTO trade facilitation negotiations, which have focused heavily on transparency issues with arguably limited infrastructure investment implications.

## F. Concluding Remarks

This paper provided a perspective on trade facilitation going well beyond that of the current WTO negotiations, in an attempt to offer policymakers in developing countries more options to facilitate trade. At this juncture, it may therefore be useful to recall how trade facilitation may contribute to sustainable and inclusive growth, arguably an overriding goal of the policy community.

While trade has been widely recognized as a key engine of growth, research on the linkages between trade (liberalization) and poverty has not been conclusive, generally showing a marginally positive effect of trade liberalization on poverty reduction. At the same time, while significant progress has been made in terms of poverty reduction in Asian countries that have liberalized trade, inequality within some of those countries also appears to have worsened (figure IX).

**Figure IX. Changes in inequality within selected Asian Countries, 1990s-2000s\***



Source: Asian Development Bank, 2007.

\*Measured as changes in percentage in the Gini Coefficient for expenditure or income distribution. Years over which changes are computed vary across countries depending on data availability.

Increasing inequality is of some concern because it can dampen the effect of growth on poverty reduction and hinder future growth prospects, i.e., sustainable development. The slow growth of agriculture relative to other sectors, and the interactions between market-oriented reforms, global integration and technology, have been identified among the key drivers of inequality (ADB, 2007).

In that context, how might trade facilitation contribute to resolving distributional issues? One of the key principles of trade facilitation is transparency. Making trade regulations and related processes more transparent involves simplifying and clarifying them, and making them accessible to the greatest

possible number of firms and individuals, thereby increasing their opportunity to trade and take advantage of global market opportunities. While inefficient and complex trade and business procedures can be overcome by large companies, who can more easily allocate time and human resources for that purpose through economies of scale, this is not the case with small and medium-sized enterprises. Trade facilitation can therefore be seen as a way to change the circumstances of trade within a country that give rise to inequalities in opportunities to trade.<sup>16</sup>

Relatively little research has been carried out into how trade facilitation measures that are commonly advocated<sup>17</sup> (for example, risk management systems) affect firms of various sizes, but particularly small and medium-sized firms. Keeping in mind the overriding aim of poverty reduction and inclusive growth, future research into trade facilitation may need to examine this issue more closely.

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<sup>16</sup> Trade facilitation may also benefit women, therefore contributing to gender equality. Indeed, countries with higher scores on the ease of doing business have large shares of women in the ranks of both entrepreneurs and workers. The reduction of bribery in connection with trade processes appears to be particularly important in that context, as studies have shown that women are seen as easy targets for this kind of practice (World Bank, 2007).

<sup>17</sup> See United Nations/CEFACT, 2001 for a list of measures.

Annex

**LIST OF BILATERAL AND REGIONAL TRADE AGREEMENTS COVERING TRADE  
FACILITATION**

Title of agreement	Type*	Status	Trade facilitation (others)
South Pacific Regional Trade and Economic Co-operation Agreement	PTA	In force since 1981	Yes
Australia-New Zealand Closer Economic Relations Trade Agreement	FTA	In force since 1983	Yes
ASEAN Free Trade Area	FTA	In force since 1993	Yes. separate agreements <a href="http://www.aseansec.org/19046.htm">http://www.aseansec.org/19046.htm</a>
Agreement on Free Trade between the Government of the Republic of Georgia and the Government of the Russian Federation	FTA	In force since 1994	Yes
Agreement between the Government of Republic of Armenia and the Government of Republic of Moldova on Free Trade	FTA	In force since 1995	Yes. Only to the extend of customs-related aspects of the rules of origin
Customs Union between Turkey and the European Community	CU	In force since 1996	Yes
Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation	FA	In force since 1997	Yes
The European Union and the Republic of Armenia Partnership and Cooperation Agreement	FA	In force since 1999	Yes. Protocol on mutual assistance between administrative authorities in customs matters
Agreement between New Zealand and Singapore on a Closer Economic Partnership	FTA	In force since 2001	Yes
Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership	FTA	In force since 2002	Yes
Singapore-Australia Free Trade Agreement	FTA	In force since 2003	Yes
ASEAN-Japan Comprehensive Economic Partnership	FA	In force since 2004	Yes
ASEAN-India Framework Agreement on Comprehensive Economic Cooperation	FA	In force since 2004	Yes
Mainland and Hong Kong Closer Economic Partnership Agreement	FTA	In force since 2004	Yes
Mainland and Macao Closer Economic Partnership Agreement	FTA	In force since 2004	Yes
India-Thailand Framework Agreement for Establishing a FTA	FA	In force since 2004	Yes
Free Trade Agreement between the Republic of Korea and Chile	FTA	In force since 2004	Yes
United States-Singapore Free Trade Agreement	FTA	In force since 2004	Yes
United States-Australia Free Trade Agreement	FTA	In force since 2004	Yes
Thailand-Australia Free Trade Agreement	FTA	In force since 2004	Yes
India-Singapore Comprehensive Economic Cooperation Agreement	FTA	In force since 2005	Yes
Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership	FTA	In force since 2005	Yes

New Zealand-Thailand Closer Economic Partnership Agreement	FTA	In force since 2005	Yes
The Association Agreement Establishing the Free Trade Area between the Republic of Turkey and the Republic of Tunisia	FTA	In force since 2005	Yes
Free Trade Agreement between the Government of the Republic of Korea and the Government of the Republic of Singapore	FTA	In force since 2006	Yes
Pacific Island Countries Trade Agreement	FTA	In force since 2006	Yes. Article 18 -parties will Endeavour to implement measures which facilitate trade within the FTA; trade facilitation coordinated with wider region
South Asian Free Trade Area	FTA	In force since 2006	Yes
Trans-Pacific Strategic Economic Partnership Agreement (Brunei Darussalam, Singapore, New Zealand and Chile)	FTA	In force since 2006	Yes
India-Mercosur Preferential Trade Agreement	FA	Pending ratification	Yes
Free Trade Agreement between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan	FTA	Pending ratification	Yes. Article 10 on border measures
Preferential Trade Agreement between the Republic of India and the Republic of Chile	PTA	Pending ratification	Yes. Article XIV on customs valuation, Article XV on Customs Cooperation
Agreement between Japan and the Republic of the Philippines on an economic partnership	FA	Pending ratification	Yes. Chapter 4 on Customs procedures, Chapter 5 on Paperless trading and Chapter 6 on Mutual recognition
Agreement between Japan and the Kingdom of Thailand on an Economic Partnership	FTA	Pending ratification	Yes. Customs procedures, chapter 4
Republic of Korea-United States Free Trade Agreement	FTA	Pending ratification	Yes. customs procedures
Protocol between the Republic of Peru and the Kingdom of Thailand to Accelerate the Liberalization of Trade in Goods and Trade Facilitation	FA	Pending ratification	Yes. Article 6 of the Protocol on Customs Procedures

Source: ESCAP APTIAD Database, <http://www.unescap.org/tid/aptiad/>, September 2007.

\*Preferential Trade Agreement (PTA); Free Trade Agreement (FTA); Framework Agreement (FA); Customs Union (CU)

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