CENTER FOR TRADE POLICY STUDIES

June 17, 2008 No. 37

While Doha Sleeps

Securing Economic Growth through Trade Facilitation

by Daniel Ikenson

Executive Summary

Improving the international trading system does not require new, comprehensive multilateral agreement. Countries can derive large gains from the trading system by engaging in reforms often referred to as trade facilitation.

In broad terms, trade facilitation includes reforms aimed at improving the chain of administrative and physical procedures involved in the transport of goods and services across international borders. Countries with inadequate trade infrastructure, burdensome administrative processes, or limited competition in trade logistics services are less capable of benefiting from the opportunities of expanding global trade. Companies interested in investing, buying, or selling in local markets are less likely to bother if there are too many frictions related to document processing or cargo inspection at customs, antiquated port facilities, logistics bottlenecks, or limited reliability of freight or trade-financing services.

According to recent studies from the World Bank and other international economic institutions, trade facilitation reforms could do more to increase global trade flows than further reductions in tariff rates. For many developing countries—particularly those that receive preferential tariff treatment from rich countries—reducing transportation and logistics-related costs through trade facilitation reforms would be much more beneficial than further tariff cuts.

But trade facilitation does not only offer promise to developing countries. All countries can benefit by removing sources of friction in their supply chains. The post-9/11 focus on minimizing the risk of terrorists exploiting porous international supply chains to sneak weapons of mass destruction into U.S. cities—obviously a vital objective—could hamper the capacity of American-based companies to attract investment and compete for markets. Likewise, U.S. prohibitions against foreign competition in transportation services and the political antipathy toward foreign investment in U.S. port operations raise the costs of doing business and increase the scope for trade facilitation in the United States.

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Introduction

Reductions in formal trade barriers have spurred dramatic increases in trade and investment during the past six decades. Most economists agree that a Doha Round accord that achieves further cuts in agricultural and industrial barriers would inspire even greater trade and growth, particularly among developing countries. But for a variety of reasons beyond the scope of this paper, Doha lies in a cryogenic state. And it could be a while before the negotiations thaw.

Fortunately, comprehensive multilateral agreement is not the only way to improve the trading system. There are plenty of measures countries can undertake on their own accord and in pursuit of their own interests to promote further trade, investment, and growth. We can endure the effects of a "trade timeout" and still derive more value from the trading system by implementing measures broadly referred to as "trade facilitation."

Though definitions vary, trade facilitation generally refers to reforms aimed at improving the chain of administrative and physical procedures involved in the transport of goods and services across international borders. Some definitions of trade facilitation go further into the domestic economy to touch institutions, industries, and regulations that affect the trade supply chain, but are not necessarily involved directly or exclusively in the trade process.

Countries with inadequate trade infrastructure are less capable of benefiting from the opportunities of expanding global trade. Many forego chances to participate meaningfully in the evolving, intricate web of transnational supply chains, depriving their economies of foreign investment, their producers of larger markets, and their consumers of greater variety and affordability. The weakness in the system for these countries is not that foreign tariffs are necessarily too restrictive—many have duty-free access to rich country markets through a variety of preference programs, and general tariffs are relatively low and declining. Instead, the real difficulty is that the persistence of administrative, bureaucratic, and physical bottlenecks along their export and import supply chains makes it difficult for such countries to capitalize on those favorable conditions.

Like tariff cuts, improvements in trade facilitation procedures can help reduce the cost of trade and increase its flow. A 2004 United Nations study revealed burdensome processes in developing countries, where the average customs transaction involves 20 to 30 parties and requires 40 separate documents to complete.[1] A 2004 World Bank study of 75 countries found that if "below average" performers on a compilation of four broad trade facilitation indices were able to raise their scores "halfway to the average" score for all 75 countries, world trade would increase by $377 billion, or about 9 percent per year.[2]

But trade facilitation reforms are not only for developing countries; they are also crucial to the United States and other rich countries, where there is ample scope to improve performance in many different facets of logistics, the provision of trade-related services, and administrative procedures. At present, on a variety of trade facilitation indices, U.S. performance lags behind the performance of other countries with which the United States competes for markets and investment. One recent study suggests that a one-day improvement in the average time it takes to move U.S. cargo from a warehouse to the port of export and inbound cargo from the port to a domestic warehouse could increase U.S. trade by almost $29 billion per year.[3]

Getting final and intermediate goods in, across, around, and out of the United States with minimal friction is vital to maintaining and increasing direct investment, restraining producers' costs, and passing on benefits to consumers, particularly given the accelerating trend toward decentralized, transnational manufacturing processes. Closing the trade facilitation performance gap will be crucial to U.S. competitiveness going forward.

Economic research supports the intuitive conclusion that lower costs, faster movement through logistical processes, and better reliability of supply chains are associated with greater trade flows. Some studies suggest that key determinants of lower costs, faster movement, and better reliability are, among other things, greater procedural transparency, less bureaucracy, more competition in trade-related services, and greater intensity in the use of technology in customs processes.

Negotiations on trade facilitation are part of the Doha agenda, where the mandate is to "clarify and improve relevant aspects of [the germane GATT articles] with a view to further expediting the movement, release and clearance of goods, including goods in transit."[4] The mandate also states that because some of the reforms envisaged in the trade facilitation negotiations might require large expenditures on the parts of resource-challenged countries, "negotiations shall also aim at enhancing technical assistance and support for capacity-building in this area."[5] Thus, for the first time ever in a GATT negotiating round, commitments to undertake reforms by some countries are to be conditioned upon other countries providing the resources presumed to be necessary to fulfill those commitments.

The inclusion of "negotiations" on trade facilitation and capacity-building in the Doha Round, while positive in the sense that it draws attention to these important issues, simultaneously introduces complications that could retard or halt a reform process that is already underway voluntarily. Trade facilitation—like tariff liberalization—is primarily and substantially in the interest of the country implementing the reform. By treating reforms as reciprocal and binding, countries may become skeptical of the benefits of reforms and reluctant to implement them. And the "aid-for-trade" component that the negotiating language stipulates may give developing countries incentive to inflate their needs assessments and to withhold reform commitments for the purpose of bidding up financial commitments.

Trade facilitation measures are particularly relevant today, as economists routinely identify logistics-oriented costs as greater deterrents to trade than tariffs and other formal barriers. Though the scope for reform differs between rich and poor countries, every country can benefit from trade facilitation without the need for new trade agreements.

Trade Facilitation Is for Poor and Rich Countries Alike

More than a century and a half ago, the French classical liberal economist Frederic Bastiat observed the following:

> Between Paris and Brussels obstacles of many kinds exist. First of all, there is distance, which entails loss of time, and we must either submit to this ourselves, or pay another to submit to it. Then come rivers, marshes, accidents, bad roads, which are so many difficulties to be surmounted. We succeed in building bridges, in forming roads, and making them smoother by pavements, iron rails, etc. But all this is costly, and the commodity must be made to bear the cost. Then there are robbers who infest the roads, and a body of police must be kept up, etc.
>
> Now, among these obstacles there is one which we have ourselves set up, and at no little cost, too, between Brussels and Paris. There are men who lie in ambuscade along the frontier, armed to the teeth, and whose business it is to throw difficulties in the way of transporting merchandise from the one country to the other. They are called Customhouse officers, and they act in precisely the same way as ruts and bad roads.[6]

In Bastiat's time, rapid technological progress in transportation led to a dramatic decline in freight costs, sparking the first great wave of globalization. Although tariffs were liberalized somewhat in Britain and Europe by the middle of the 19th century, they still were considerable for many products. Bastiat's equating of the consequences of natural barriers (distance, marshes, rivers, ruts and bad roads) to the consequences of man-made barriers (customhouse officers) is just as apt today.

As formal tariffs have fallen considerably in recent decades because of international agree-

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ments and unilateral reforms, the ill effects of inefficient customs procedures and other man-made, transport-related barriers have become more apparent. To reap greater economic benefits from stroke-of-the-pen tariff liberalization, countries should focus on improving their competitiveness by linking into what *The Economist* has dubbed the "physical internet."[7]

At a general level, trade facilitation concerns the chain of administrative and physical procedures involved in the transport of goods and services across borders. Some definitions go further into the domestic economy to include institutions, industries, and regulations that affect the trade supply chain, but are not involved directly or exclusively in the trade process. Numerous activities relate to or affect in some way the flow of goods and services, including document processing, cargo inspection, port logistics, freight services, financing, and much more. Trade facilitation measures aim to improve performance throughout this logistical process.

A few anecdotes help convey the wide scope for reform around the world. Robert Guest, who formerly covered Africa for *The Economist*, has described his firsthand experience with the supply chain for beer in Cameroon:

> I once hitched a ride on a beer truck in Cameroon to investigate what it was like delivering beer to people in the hot Cameroonian rainforest. It was not a very long journey. . . [and] was supposed to have taken us three-quarters of a day. In the event, it took us four days. Part of the reason was that the roads were so appalling. . . . But the main problem was that we were stopped 47 times at police roadblocks.
>
> West African roadblocks typically consist of a pile of oil drums in the middle of the road and maybe a piece of wood with nails sticking upwards, which a 10-year-old boy pulls aside once travelers are allowed to proceed. There is also typically a crowd of policemen relaxing under the shade of a tree. The policemen get up and very leisurely inspect the axles and taillights. They also go through the driver's papers looking for every little problem. They then start the delicate process of negotiation about what you are going to do to make it up to them that you are breaking the law. We were delayed for between five minutes and four hours by each of those 47 roadblocks.
>
> While on the road, I was trying to understand what was going on. The policeman at roadblock number 31 gave me what I thought was the most pithy explanation. He had not been able to find anything wrong and so he made up a rule about carrying passengers in beer trucks that, he insisted, we had broken. I said to him, "Look, this rule you are citing does not exist, does it?" He patted his holster and said, "Do you have a gun?" I said that I did not, to which he responded, "Well, I have a gun so I know the rules."[8]

Guest's experience is not necessarily representative of the situations in all poor African countries. Some developing countries—including in Africa—perform reasonably well on trade facilitation metrics designed by World Bank researchers. But more often than not, the worst performers tend to be developing countries.

A story in the World Bank's annual *Doing Business* survey provides a perfect illustration of the prospective benefits of trade facilitation in another developing country:

> Tarik, a fish exporter from Yemen, knows the benefits of reform: "If I export fresh tuna to Germany, I get $5.20 a kilo. If I export frozen tuna to Pakistan, I get $1.10 a kilo. I would like everything to go to Germany. But it takes so long to comply with all the exporting procedures that the fresh tuna frequently goes bad. So only 15% of the fish is sent to Germany. My factory exports 2,000 tons of tuna a year. You make the calculation."[9]

If Tarik sold all of his 2,000 tons of fresh tuna to

Numerous activities affect the flow of goods and services, including document processing, cargo inspection, port logistics, freight services, financing, and much more.

Germany, his revenues would be about $10.4 million. Instead, because it takes on average 33 days to export from Yemen, he sells only 300 fresh tons to Germany for about $1.6 million and 1,700 frozen tons to Pakistan for $1.8 million—an opportunity cost of $7 million per year.

Delays in processing and moving cargo not only raise the costs of trade and destroy business opportunities, they are sometimes a matter of life and death. A March 2008 story in the *Washington Post* reported that containers full of imported food were rotting in Haitian ports on account of bureaucratic incompetence. "While millions of Haitians go hungry, containers full of food are stacking up in the nation's ports because of government red tape—leaving tons of beans, rice and other staples to rot under a sweltering sun or be devoured by vermin."[10] Haitian authorities attributed the delays to stepped-up efforts to stop drug smuggling, which accentuates the point that trade facilitation reforms must strike the proper balance between commerce and enforcement.

Trade facilitation reforms are not only necessary in developing countries. There is plenty of scope for reform in rich countries, as well. More typically, though, trade facilitation problems in rich countries are less severe by orders of magnitude. Consider the following example from France.

Relatively low productivity at publically owned cargo-handling terminals in France led to a recent decision by the French government to privatize stevedoring at seven of its nine public ports.[11] That decision was based on an analysis that found low productivity had caused a 50 percent decline in French container traffic, which was lost to European rivals.

Certainly, that decision constitutes trade facilitation—a reform that will likely lead to increased business and revenues at French ports with positive spillover effects for the regions served by those ports. But the French reform is probably much less daunting than the kinds of measures that would be required in Cameroon or Yemen. Given the beer truck travails in the country's interior, privatizing the ports in Cameroon would be a bit like rearranging the *Titanic's* deck furniture. Under better circumstances, it would certainly matter. But given the logistics troubles throughout the supply chain in Cameroon, privatizing the ports would not necessarily be a priority.

Yet, just as the proper improvements in Cameroon's and Yemen's supply chains likely would lead to more commerce, more investment, and economic growth, France's relatively straightforward process of privatizing its ports is being undertaken with the objective of boosting annual container traffic from 3.6 million TEUs (20-foot equivalent units) to 10 million TEUs by 2015 and creating 30,000 jobs on the waterfront.[12]

Another example of the costs of logistics shortcomings can be found in the lack of competition in freight rail service in many parts of the United States. In 1980 Congress deregulated most railroad activities but did not remove the various antitrust exemptions that had been granted to the railroad industry during the last century, when it was more highly regulated. Since 1980 the number of "Class I"[13] freight providers has decreased from 40 to 7 through consolidation, and four control 90 percent of the nation's rail traffic.[14]

Not only does the limited competition result in higher costs and competitive disadvantages for U.S. manufacturers and farmers who need to get their product to both domestic and export markets, it also discourages foreign investment. According to a recent communication from several state attorneys general to the U.S. Congress:

> Multi-national companies that can site their plants in any number of countries are extremely reluctant to invest in a U.S. site that is served by a single railroad. One global forest products company is currently considering a major investment at the site of its current paper manufacturing facility in a Midwestern state. The site is served by a single railroad. The transportation cost of moving finished product from this Midwestern state to its market in the southeastern U.S., a distance of about 1,400 miles, is the same as the transportation cost of moving the fin-

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> ished product from Europe to the same southeastern U.S. market, a distance of almost 5,000 miles. This domestic transportation cost disadvantage presents a significant obstacle to increased foreign investment in our nation.[15]

In some countries trade facilitation shortcomings are monumental, endemic, and require huge commitments of resources to overcome. In other countries there are smaller inefficiencies that need to be optimized. But countries can benefit from some degree of trade facilitation—without need of international trade agreements. As global trade continues to expand, countries will be compelled to engage in autonomous logistics reforms as domestic inefficiencies and the costs of foregone opportunities are magnified.

World Bank researchers estimated that for each day a product is delayed prior to shipment (exports or imports), trade is reduced by 1 percent.

Greater Benefits than Further Tariff Cuts

With tariffs and other formal trade barriers having been lowered considerably over the course of the past 60 years, international trade now constitutes a significant portion of global economic activity. To benefit from the global division of labor, supply chains often traverse multiple countries, so the capacity to move goods quickly, reliably, and inexpensively through the chain is a crucial determinant of business success. Accordingly, importers and exporters are concerned about reducing the costs associated with Customs and other border agency procedures, excessive paperwork, bureaucratic ineptitude, and poor physical infrastructure. Countries that can create and maintain relatively frictionless logistics environments are more likely to participate meaningfully and prosperously in the global economy.

Much research has been devoted to studying the impact of transportation costs as well as indirect transport-related costs, like time and distance, on trade flows. In a trailblazing 2001 paper, Purdue University economist David Hummels estimated that each additional day spent in transport reduces the probability that the United States will source from that locality by 1 to 1.5 percent.[16] He also estimated that each day saved in shipping time equates to a 0.8 percent reduction in the cost of manufactured goods.[17]

A 2001 paper published by the Asia-Pacific Economic Cooperation found that a 3 percent reduction in the "landed cost" of merchandise trade between APEC countries, which could be accomplished by implementing electronic documentation for cargo entries, could reduce overall trade costs within the region by $60 billion.[18] A more recent paper from the United Nations Committee on Trade and Development found that a 1 percent reduction in the cost of maritime and air transport services in developing countries could increase global GDP by $7 billion (in 1997 dollars). Another $7 billion could be gained from a 1 percent improvement in the productivity of the wholesale and retail trade services sector.[19]

A 2006 World Bank paper based on data collected for the "Trading Across Borders" section of the World Bank's annual *Doing Business* report offered some profound and far-reaching insights into the relationship between time delays and trade flows. The "Trading Across Borders" data were gathered from a survey of freight forwarders, port operators, and customs officials located in more than 150 countries. Data collected included the number of days outbound cargo waits at the exporter's border, the number of days inbound cargo waits at the importer's border, the number of documents needed to export, the number of documents needed to import, the number of signatures necessary for export documentation, and the number of signatures necessary for import documentation.[20]

Analyzing data from *Doing Business* (2005), World Bank researchers estimated that for each day a product is delayed prior to shipment (exports or imports), trade is reduced by 1 percent. For perishable products and other time-sensitive goods (remember Tarik, the Yemeni fish exporter), the reduction in trade is much greater.[21] Those results suggest that improvements in trade facilitation would do more to stimulate trade than would further tariff liberalization. As noted by trade and customs lawyer Steven Creskoff, the pending U.S.-South Korea

Free Trade Agreement is projected to add $20 billion in bilateral annual trade, but a one-day reduction in U.S. transit time for both imports and exports—based on the World Bank study results—would increase total trade by $28.9 billion annually.[22]

Tariff elimination in rich countries—where tariffs are already low or nonexistent through preference programs—could increase developing country exports by 2 to 10 percent[23] (although for some countries, the impact of tariff elimination could be adverse, as the preferential tariff treatment they had been receiving is negated by a reduction in the general, most-favored-nation rate—a process referred to as "preference erosion"). Alternatively, according to the findings of a 2007 paper from the Organization for Economic Cooperation and Development based on the same *Doing Business* data, a 10 percent increase in exports from non-OECD countries to OECD countries can be achieved by reducing export time by a range of 2.32 days (for East Asia and Pacific countries, where the average in 2006 was 25.8 days) to 4.5 days (for Sub-Saharan African countries, where the 2006 average was 48.1 days).[24]

The conclusions from the aforementioned OECD and World Bank papers that trade facilitation reforms might be more rewarding than tariff cuts corroborates conclusions from an earlier journal article, which found that "transport cost incidence" (measured as shipping cost as a percentage of the trade value) exceeded "tariff incidence" (measured as the trade-weighted ad valorem duty actually paid) for 168 out of 216 U.S. trading partners.[25] Trade-related transaction costs, including freight charges and other logistics expenses, are a crucial determinant of a country's ability to participate in the global economy. Access to foreign markets, which is an important determinant of per capita GDP, is very much a function of transportation costs. Thus, transportation cost is a determinant of GDP per capita. According to World Bank estimates, when shipping costs double, annual growth rates are curbed by one-half percentage point on average.[26]

In a multitude of studies, transit time has been found to be an important determinant of cost, which in turn is an important determinant of trade. Other studies, including those based on the recently completed Logistics Performance Index,[27] find that measures taken to hedge against the risks of uncertainty are even more significant than the costs associated with transit time in determining trade: "While costs and timeliness are of paramount importance, traders are primarily concerned with the overall reliability of the supply chain. Costs related to hedging against uncertainty have become a significant part of logistics costs in many countries."[28]

Interpretation of the LPI data reveals that a firm's competitiveness is influenced most by the predictability and the performance of its supply chain. Firms directly incur the costs of transport (including freight, port, handling, procedural fees, agent fees, and side payments), but they also realize the induced costs associated with hedging against the lack of predictability and reliability. Those induced costs may include the commitment of working capital to maintaining higher inventories of inputs and finished products or greater frequency of use of more expensive modes of transportation to meet production schedules. Typically, induced costs are higher when the supply chain is less predictable and less reliable. As reported in *Connecting to Compete: Trade Logistics in the Global Economy*, "suppliers to the same automobile manufacturer will carry 7 days of inventory in Italy but 35 days in Morocco. Some retailers in African countries maintain three months of inventories or more. Bangladesh has to ship, on average, 10 percent of its garment production by air to be certain to meet the schedules of European buyers."[29]

Economists and researchers agree that measures that reduce transportation costs and transit times and increase predictability and confidence in the operation of the supply chain can increase the volume and value of trade. The cost of unpredictability is a major constraint for companies trying to diversify into higher-value production. The challenge is to maintain efficient supply chains, not just for exports, but for imported materials and components as well.

But cost, time, and predictability are merely symptoms; they reflect other factors, such as

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the quality and quantity of physical infrastructure, the level of adaptation of high technology in logistics, the business and regulatory environment, governance, geography, the size of the public sector, and the quality and stability of the political system.

Understanding the contribution of those factors is essential to determining which reforms might work best. Those factors differ in relevance from country to country, as problems differ in intensity. That suggests that appropriate reforms and the optimal sequence of reforms are likely to differ from country to country. There is no one-size-fits-all approach to implementing the reforms that will give the biggest bang for the buck.

What Needs Reforming?

The body of research concerning the most effective kinds of measures to reduce costs and transit times and to increase supply chain predictability is small but growing. Yet a lot of the research is generating intuitive conclusions. Common problems that add to transportation-related costs and are proper subjects of reform include the frequent reloading of goods, port congestion, complicated customs-clearance procedures, complex and nontransparent administrative requirements, limited use of automation, and uncertainty about the enforceability of legal documents such as bills of lading and letters of credit.[30]

A comprehensive 2003 World Bank paper homed in on four broad areas for trade facilitation reform—port efficiency, customs environment, regulatory environment, and electronic business usage—to determine which reforms would be most effective within the APEC region. The researchers designed the "port efficiency" criterion to measure the quality of the infrastructure at sea and air ports; they designed "customs environment" to measure the direct customs costs and the administrative transparency of customs and border crossings, "regulatory environment" to measure the economy's "approach to regulations," and "E-business usage" to measure the extent to which an economy has the necessary domestic infrastructure—telecommunications, financial intermediaries, logistics firms—and is using networked information to improve efficiency and enhance economic activity.[31]

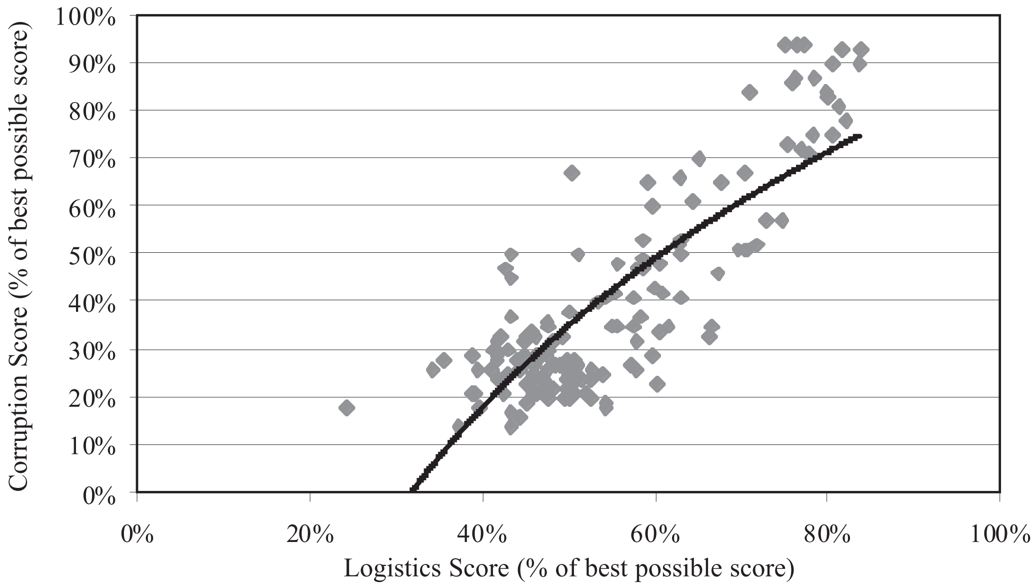
Using mostly survey data and a gravity model, the authors found a large and positive correlation between port efficiency and trade, a large and negative correlation between the extent of regulations and trade, and positive (but not as strong) relationships between the customs environment and trade and between e-business usage and trade. The authors then estimated that if each of the APEC members that scored below average in the three positively correlated trade facilitation measure groups improved their scores "halfway to the average," intra-APEC trade would increase by an estimated $254 billion per year—an increase of about 21 percent. About half of the gain would come from improved port efficiency.[32]

In 2004 the same authors changed methodology slightly and broadened the scope to include all manufacturing trade of 75 countries in 2000–2001. The total gain in annual manufacturing trade flow, if below-average countries improved their four scores halfway to the average, was found to be $377 billion.[33] The authors summarized their finding thusly: "Most regions gain more in terms of exports than imports in large part through increasing exports to the OECD market. *The most important ingredient in getting these gains, particularly to the OECD market, is the country's own trade facilitation efforts.*"[34]

The authors also attributed 28 percent of the $377 billion increase in trade to improvements in port efficiency, 9 percent to improvements in the customs environment, 22 percent to improvements in the regulatory environment, and 41 percent to improvements in service sector infrastructure (approximated by the use of E-trade).[35]

A 2007 paper produced jointly by APEC and the World Bank Research Group found that improving trade transparency among APEC countries would have a substantial impact on trade flows relative to other reform options. The authors identified two "touchstones" of transparency—predictability and simplicity—and then identified and benchmarked policies that

Figure 1
Relationship between Logistics Performance and Corruption as Perceived by Respondents to Two Separate Surveys



Source: World Bank and Turku School of Economics (Finland), Logistics Performance Index, http://info.worldbank.org/etools/tradesurvey/mode1b.asp, and Transparency International, Corruption Perceptions Index, http://www.transparency.org/.
Note: Each point is a country's set of scores for both indices.

would be likely to affect those two measures favorably. They estimated predictability using factors such as: the percentage of tariff lines that are bound; the "flatness" of the applied tariff schedule (the "flatter" the schedule, the closer each tariff rate is to the average and therefore the less room there is for unpredictability of duty assessments attributable to differences in merchandise classifications, which is often a matter of customs discretion), the absence of hidden trade barriers, and others. The simplicity benchmark included some of the same policies (for different reasons), but also factors such as more streamlined documentary requirements, fewer border agencies, and limited unofficial payments (i.e., bribes).[36] The authors then constructed indices from these factors and found that improvement in transparency that raises all below-average countries to the average is associated with a 7.5 percent, or $148 billion, increase in intra-APEC trade.[37]

The quality of governance and the related issue of corruption are also important determinants of transaction costs, time, and the level of predictability. In many countries, unofficial payments or "facilitation payments" to customs and other border officials remain commonplace. Where such payments are common practice and in countries where customs revenues account for a large share of the government's budget, hostility to trade facilitation reforms constitutes a major hurdle.

As Figure 1 shows, there appears to be a fairly strong relationship between levels of corruption (as measured in Transparency International's Corruption Perceptions Index) and logistics performance (as measured in the LPI). Countries where the perception of corruption is lower are more likely to perform better on logistics perceptions; and countries where corruption is more pronounced appear to have greater frictions in their logistics environments.

As articulated in one study, "Poor logistics environments are often characterized by rent-seeking, which creates powerful vested interests working to maintain the status quo."[38] Put differently in another study, "The main cost component associated with implementing some of the TF [trade facilitation] measures may often

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not be related to regulatory, training, or equipment costs, but to political costs."[39] And political costs are likely to be higher in low-income countries. As noted in a third study, "High tariff barriers in low-income countries are reflected in the large share of import duties in their fiscal revenues: the low-income average is 26 percent while the high-income OECD average is only 1.3 percent."[40] When tariffs account for a large share of government revenue, there may be a systemic aversion to trade facilitation reforms.

The authors of *Connecting to Compete* found that the most important factors influencing logistics performance were the quality of infrastructure, the competence of logistics services providers, procedures of customs and other border agencies, the level of corruption and transparency, and the reliability of the trading system and supply chains.[41]

The quality of a country's logistics infrastructure—specifically its telecommunications and information technology infrastructure—is an essential consideration when it comes to a company's decision about whether to locate there, whether to engage the countries suppliers, or whether to enter the market. For countries that perform average or below average on the LPI, the quality of transport infrastructure was identified as a concern among the logistics operators surveyed.[42]

The *Connecting to Compete* authors also found that the competence of service providers, such as customs brokers, transportation companies, and warehouse operators, was a crucial determinant of overall logistics performance. Privatization of those services was found to be an important step in the right direction: "Logistics performance is more and more determined by the availability of quality, competitive private services—such as trucking, customs brokering, and warehousing."[43]

The 2004 *Global Economic Prospects* report warned of the rising costs and anticompetitive effect of international transport regulations. "Private entry and competitive market structures have proved viable for almost all transport modes and generally have brought greater efficiency and lower prices for consumers. However, public and private barriers remain pervasive in air and maritime transport—restricting competition and increasing costs. *In general, they should be replaced with systems that rely on private provision of services.*"[44]

Those conclusions apply every bit as much to developed countries as they do to developing ones. Trade facilitation is not only for developing countries. Most rich countries have a lot to gain from trade facilitation, as well.

Low-Hanging Fruit Ripe for Reforms in the United States

The United States ranked 15th in the most recent *Doing Business,* "Trading Across Borders" survey. As Table 1 shows, with respect to each of the measurements on the "Trading Across Borders" survey, the U.S. situation was better than the world average. For example, the United States requires four documents for export, whereas the world average is seven. It takes 6 days to export from the United States, but 26.1 days from all countries, on average. The cost to export a container from the United States is $960, whereas the global average is $1,230. Similar differences are evident on the import side as well.

Those scores are pretty good relative to all of the other countries measured, but the producers and workers in the 13 and 14 countries ranked higher on the respective surveys compete with American-based producers and workers for markets and investment.

Singapore earned the number one ranking in "Trading Across Borders." As can be determined from the data in Table 1, exporting from Singapore requires 16 percent less time at 43 percent of the cost of exporting from the United States. On the import side, the relative efficiencies in Singapore are even more pronounced (40 percent less time at 32 percent of the cost). Even though U.S. trade logistics performance is above average, that result does not justify complacency. Singapore's performance demonstrates that there is ample room for U.S. improvement.

Among the 150 countries measured by the Logistics Performance Index, the United States ranked 14th, with a score of 3.84 out of a possi-

Table 1
Various Trade Facilitation Metrics by Region or Country

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
East Asia & Pacific	6.9	24.5	$885	7.5	25.8	$1,015
Eastern Europe & Central Asia	7.0	29.3	$1,393	8.3	30.8	$1,551
Latin America & Caribbean	6.7	22.6	$1,096	7.7	24.0	$1,208
Middle East & North Africa	7.1	24.8	$992	8.0	28.7	$1,129
OECD	4.5	9.8	$905	5.0	10.4	$986
South Asia	8.6	32.5	$1,180	9.1	32.1	$1,418
Sub-Saharan Africa	8.1	35.6	$1,660	9.0	43.7	$1,986
All Countries	7.0	26.1	$1,230	7.8	29.7	$1,412
United States	4.0	6.0	$960	5.0	5.0	$1,160
Singapore (Best)	4.0	5.0	$416	4.0	3.0	$367
Kazakhstan (Worst)	12.0	89.0	$2,730	14.0	76.0	$2,780

Source: *Doing Business* 2008, "Trading Across Borders," http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/.

ble 5. The LPI is the simple average of each country's scores (on a scale of 1 to 5) on seven key measures of trade facilitation: (1) efficiency and effectiveness of the clearance process by customs and other border control agencies, (2) the quality of transport and IT infrastructure for logistics, (3) the ease and affordability of arranging shipments, (4) the competence of local logistics service providers, (5) the ability to track and trace international shipments, (6) domestic logistics costs, and (7) the timeliness of shipments in reaching the destination.[45]

Singapore earned the highest ranking on this survey as well, scoring 4.19 out of 5 overall or about 9 percent higher than the United States. A closer look at the U.S. scores for the various components of the LPI reveals areas for improvement, and one particular trouble spot. Out of 150 countries, the United States ranked 7th on "Infrastructure," 10th on "Tracking and Tracing," 13th on "Logistics Competence," 19th on "Customs," 19th on "Timeliness," 20th on "International Shipments," and a dismal 144th on "Domestic Logistics Costs." Higher logistics costs tend to be associated with limitations on competition, as discussed earlier with respect to U.S. freight-rail service.[46]

In addition to the lack of U.S. freight-rail competition, other U.S. laws and regulations work to drive up the costs of domestic logistics. The most enduring scheme to this effect is section 27 of the Merchant Marine Act of 1920 (also known as the Jones Act), which "protects U.S.-flag vessels and shipbuilders from import competition in the U.S. domestic oceanborne trade."[47] Under the Jones Act, the transport of cargo between U.S. ports must be performed on vessels that are built and registered in the United States, and are owned and crewed by U.S. citizens.

Beyond the Jones Act, several other U.S. laws exist that restrict cabotage (the transport of merchandise between domestic ports) participation to U.S. vessels. For example, pursuant to the Cargo Preference Act of 1954, U.S.-flagged vessels are required to transport at least 50 percent

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Increasing volumes of trade, tightened U.S. border security, and inadequate investment in U.S. border-crossing infrastructure have combined to significantly increase waiting times and costs.

of government-owned cargo and all U.S. military cargo.[48] Under the Food Security Act of 1985, U.S.-flagged vessels must transport at least 75 percent of agricultural cargo that is part of foreign assistance programs administered by the U.S. Department of Agriculture and the U.S. Agency for International Development.[49] Moreover, U.S. law requires that freight in connection with Export-Import Bank loans be shipped by U.S.-flagged vessels (unless the U.S. Maritime Administration grants a waiver permitting the recipient country to use its own flagged vessels).[50]

Cabotage restrictions artificially raise the costs of domestic transport by limiting the supply and suppressing the quality of service. A comparison of the daily operating expenses for U.S.-flagged and foreign-flagged vessels provides a rough approximation of a portion of the direct economic costs of U.S. shipping restrictions. Operating expenses include wages paid to crews, direct fuel charges, insurance, maintenance and repair, and other administrative expenses.

According to data published by the U.S. International Trade Commission, the total daily operating expenses for a U.S.-flagged tanker ship in 2005 were $27,900 versus $16,600 for a foreign-flagged tanker, and $34,260 for a U.S.-flagged container ship versus $22,190 for a foreign-flagged container ship.[51] Of course, the lack of competition allows domestic carriers to increase rates, which represents a cost to traders not captured by the difference in operating costs above.

Restrictions on cross-border trucking also contribute to higher U.S. logistics costs. Under the North American Free Trade Agreement, Mexican truckers were to be granted full access to the U.S. market for cross-border shipments. Fourteen years later, only a select few Mexican trucking companies pursuant to a temporary pilot program can serve U.S. locations beyond a narrow commercial zone (extending about 20 miles north of U.S. border towns). As a consequence, the operation of U.S. trucks in Mexico is severely restricted as well.

Road safety and environmental concerns have been the fig leaves behind which the Teamsters and other anti-NAFTA groups have tried to conceal their true motives. According to a recent survey by the *Arizona Republic*, since 2003 only 1.2 percent of Mexican truck drivers operating on U.S. roads have been found to be out of compliance with safety or environmental regulations, compared with 7 percent of American truck drivers. And since 80 percent of U.S. trade with Mexico travels by truck, the logistical steps required to comply with the trucking ban—such as stopping and transferring containers from foreign to domestic trucks—are enormously costly, adding delays and $200 million to $400 million in transportation costs.[52]

The truck ban is not the only factor contributing to increased delays and costs of cross-border transport. Another factor is simply the dramatic increase in cross-border trade since the North American Free Trade Agreement took effect. Increasing volumes of trade, tightened U.S. border security, and inadequate investment in U.S. border-crossing infrastructure have combined to significantly increase waiting times and costs. In recognition of this growing problem, Sen. Kay Bailey Hutchison (R-TX) and Rep. Ciro Rodriguez (D-TX) introduced companion bills in their respective chambers that would require the Departments of Transportation and Commerce to study border wait times and to measure their adverse economic impact.[53]

CBP (like the U.S. Customs Service before it) has always had to walk a fine line, balancing its enforcement mandate with the imperative to facilitate—or at least not impede—trade. The post-9/11 U.S. focus on security may be tipping the balance toward the enforcement mandate and away from the business facilitation imperative. Although initiatives like the Customs-Trade Partnership against Terrorism (C-TPAT),[54] the Container Security Initiative (CSI),[55] and the Security and Accountability for Every Port (SAFE) Act[56] are intended to improve security without unnecessarily interfering with the flow of commerce, those objectives are not always met. Key security concerns remain unremedied, and for many entities the costs of these programs outweigh the benefits.

A report by the Conference Board of Canada, a public policy research organization, found that for firms engaged in cross-border trade, tighter security requirements increased the direct compliance costs and indirect costs related to longer border delays.[57] Still, a 2005 report from the U.S. Government Accountability Office reviewed the CSI and C-TPAT programs and found shortcomings in their effectiveness: uniform standards for assessing supply chain security are not in place; screening equipment at some ports may be incapable of detecting weapons of mass destruction, and ship cargo manifest data may be inaccurate, and therefore ineffective in identifying dangerous goods.[58] Accordingly, a recent University of Virginia survey of companies participating in the C-TPAT program found that only about one-third of respondents reported that the benefits of the program outweighed its costs.[59]

Although security is an obviously vital objective, 100 percent *guaranteed* security of international supply chains would require nothing short of a complete shutdown of international commerce. And still there would be no guarantees. That's not a viable option. Risk management—and not risk elimination—is the practicable approach to balancing security with economic vitality. Thus, it is important that laws passed and regulations implemented continue to allow for "risk-based" approaches to securing the supply chain, which employ statistically valid sampling methods to identify higher-risk cargo for further examination. The requirement that a plan be in place by 2012 to scan every U.S.-bound container for radioactivity defies the principles of risk management and will likely result in higher costs and longer delays for imports—and for exports as trade partners implement similar measures—without necessarily keeping us safer than we would be if a less intrusive, less expensive, statistically valid approach to managing risk were implemented instead.

For that matter, all agencies with jurisdiction over issues that affect the quality and efficiency of the supply chain should adopt risk-based approaches to safety. The public outcry and congressional response to last year's spate of consumer product and food safety issues might very well yield overly intrusive inspection regimes that add layers of unnecessary costs to the supply chain.

Legitimate concerns about terrorism and safety are often conflated with unfounded fears about imports and Mexican trucks and foreign investment. Fear is a great motivator, but it often provokes overreaction, as was the case with the political response to Dubai Port World's purchase of U.S. port facilities in 2006.[60] If the United States wants to improve its trade logistics and ascend the *Doing Business* and LPI rankings, one logical reform is to be open to foreign investment in its ports. If any company knows how to bring best practices and efficient operations to port facilities, as one of the world's largest port operators, Dubai Port World probably does.

Are New Rules and Agreements Really Necessary?

The topic of trade facilitation resides at the intersection of trade policy, development economics, and the world of customs, logistics, and supply chain management. Accordingly, many different organizations—from the World Bank and the United Nations Committee on Trade and Development to the World Customs Organization and the International Freight Forwarders Association to the OECD, APEC, and the World Trade Organization—have something to say about trade facilitation. Each is interested in the subject for different reasons, each has its own operational definitions, and each has ideas about the best way to foster meaningful trade facilitation.

Rules concerning aspects of trade facilitation, including provisions aimed at enhancing transparency and setting minimum procedural standards, have been a part of the multilateral trading system for many years. Articles V, VIII, and X of the General Agreement on Tariffs and Trade concern issues of freedom of transit, fees and formalities connected with importation and exportation, and publication and administration of trade regulations. At the Singapore Ministerial Conference in 1996, trade ministers agreed to add trade facilitation to the WTO agenda as a separate topic and directed the Goods Council to "undertake exploratory and

One hundred percent *guaranteed* security of international supply chains would require nothing short of a complete shutdown of international commerce.

analytical work . . . on the simplification of trade procedures in order to assess the scope for WTO rules in this area."[61]

Negotiations on trade facilitation became a formal part of the Doha Round agenda in 2004, when the Goods Council decided by consensus to begin negotiations on the basis of the Modalities for Negotiations on Trade Facilitation (Annex D of the so-called "July Package"). The first and third sentence of the first paragraph (below) of a 10-paragraph annex set the parameters for the substance of the negotiations:

> Negotiations shall aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit. Negotiations shall also aim at enhancing technical assistance and support for capacity building in this area. The negotiations shall further aim at provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues.[62]

The second sentence of the first paragraph (above) and seven other full paragraphs concern issues of capacity building and "special and differential" treatment for developing countries.

There is no doubt that some trade facilitation reforms are costly undertakings, but many—including those envisaged by the language of Annex D—are quite modest. In keeping with the WTO's trade (and not development) focus, the language is aimed at improving activities at the border and does not accommodate grandiose plans for major infrastructure projects.

A review of the first 50 proposals submitted to the WTO Negotiating Group on Trade Facilitation found that "most trade facilitation measures would entail some start-up costs for government agencies in the short term. However, once the measures are established, it is unlikely that significant financial burdens would be involved to maintain these measures. In fact, most proposals recognize that the introduction and implementation of TF would eventually reduce government expenditures through enhanced transaction efficiency and transparency, elimination of duplicative or bureaucratic functions, more economical allocation and more reasonable and efficient use of administrative resources."[63]

A report based on a 2006 APEC survey of the literature assessing the costs and benefits of trade facilitation measures under negotiation in the Doha Round found that "no, or very few, countries would lose from global trade facilitation and that developing countries have the most to gain from implementation of TFMs, *although important variations can be expected across countries, sectors, and types of traders*."[64] The fact that variations can be expected suggests that one-size-fits-all agreement to undertake particular reforms with the promise of funding from developed countries will encourage countries to adopt measures that will prove unnecessary or unsuccessful. Furthermore, according to the report: "Long-term savings greatly exceed the perceived implementation costs for all measures considered. However TFMs under consideration by the NGTF [Negotiating Group on Trade Facilitation] for possible inclusion in revised GATT articles V, VIII, and X should be *selected carefully* as overall cost implications for Governments differ significantly across measures, as does time needed for implementation in LDCs [least developed countries]."[65] Likewise, the need to select reforms carefully because of cost implications suggests the need for customization, and not commoditization, of reforms. It makes more sense for countries to adopt reforms suited to their particular situations than to impose top-down, mandated, homogenous reforms.

By having negotiations on trade facilitation on the Doha agenda, countries are less likely to treat reform as something that is primarily in their own interests.

By having negotiations on trade facilitation on the Doha agenda, countries are less likely to treat reform as something that is primarily in their own interests. Instead, it will be subject to the same "mercantilization" that has halted progress in the other Doha negotiations. The tie-in of "capacity building" or "aid-for-trade" in the Doha negotiations, which requires rich countries to effectively pay developing countries to implement their reforms, reinforces the perception that the process is a quid-pro-quo and therefore endangers prospects for reform.

As longtime World Bank economist J. Michael Finger puts it: "To superimpose a process that presents the issue as a mercantilist bargain of assistance in exchange for trade reform 'concessions' would be to introduce conflict into a relationship that is already productively propelled by a perception of mutual benefit."[66]

Instead of going forward with trade facilitation reforms that will benefit their economies, developing countries have an incentive to postpone reforms and wait for the financial assistance that the negotiations promise. And developing countries have incentive to inflate the estimated cost of their trade facilitation proposals. According to Finger, "self-assessment—as a process of bringing forward requests for assistance—may increase the size of each country's request and increase the attractiveness of such requests as an alternative to using their own resources."[67] Furthermore, when others are paying for reforms—particularly institutions that have a poor track record of accounting for the costs and benefits of their assistance—there is less incentive to implement the best procedures or to prioritize projects optimally. Since negotiations on trade facilitation were added to the Doha agenda, many reform proposals have been submitted to the Negotiating Group on Trade Facilitation by WTO members, but very few have been supplemented by the reality check of implementation audits.

Moral hazard aside, the need for binding multilateral rules to compel reform is not evident. As the World Bank's annual *Global Economic Prospects* report put it in 2004:

> Implementing institutional changes requires country ownership and voluntary actions . . . It is not clear that any new rules could be enforced through conventional dispute-settlement proceedings and penalties, since violations of those rules often stem from the limited capacity of governments to meet their obligations. Rules alone are not likely to produce the desired reforms or modernizations. Those depend on capacity building, and capacity building depends on resources—financial and other.[68]

Negotiations on trade facilitation—and the related aid-for-trade tie-in—are impracticable, distortive, and counterproductive. It should be self-evident to all countries at all stages of development that facilitating the movement, clearance, and distribution of traded goods is incontrovertibly good for their economies, and that any "agreement"—beyond providing the benefit of greater certainty of commitment to reform—would be superfluous.

In Spite of Doha

Over the last decade, nearly every country reduced its tariff barriers, and only 3 out of 136 countries experienced an increase in overall "trade restrictiveness."[69] During the period, all regions of the world experienced real growth in trade, and since the year 2000 developing countries' trade growth rates have exceeded those of high-income countries.[70]

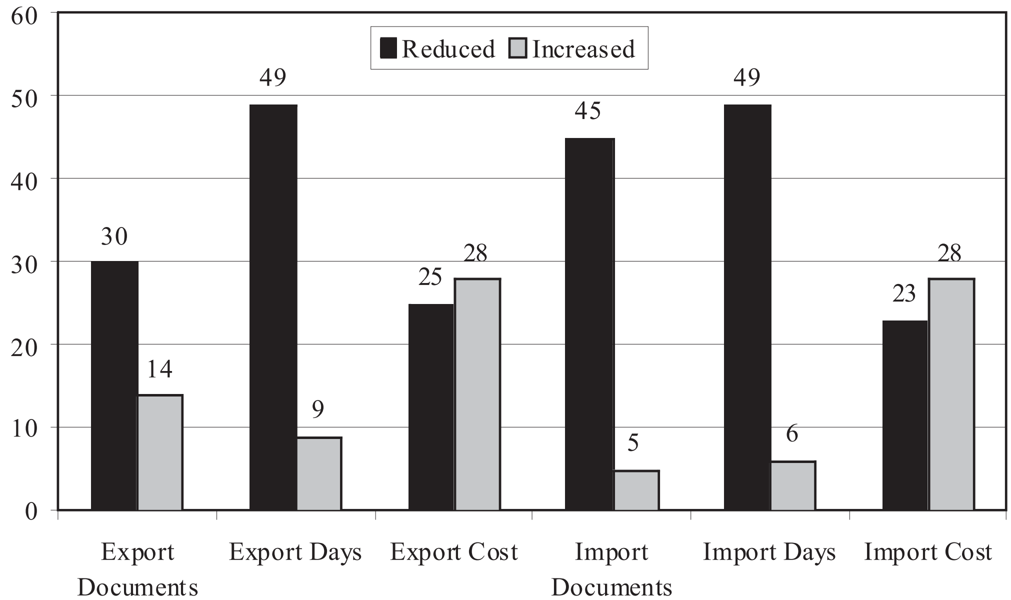
In light of the findings that trade facilitation reforms are probably more consequential than further tariff liberalization for many countries and that there is vast room for improvement in trade facilitation (as evidenced by the performance spread found in the "Trading Across Borders" and LPI surveys, for example), all countries should be moving forward—at least with relatively inexpensive reforms—without waiting for some multilateral agreement. Many countries are already doing so.

Without a Doha agreement, countries are already modernizing their customs procedures, investing in trade infrastructure, and adopting international best practices. According to Finger:

> Many developing countries have in place active programmes to improve trade facilitation—often financed from their own resources, and with contributions from their own businesses. [A recent OECD study] reports that a number of developing countries, including least developed countries, have "become champions of reform by introducing far-reaching reforms" such as single window

Moral hazard aside, the need for binding multilateral rules to compel reform is not evident.

Figure 2
Changes in Trade Facilitation Metrics, 2005 to 2007: Number of Countries Reporting Decreases and Increases by Metric



Source: *Doing Business* database at www.worldbank.org.

> [one location for submitting administrative paperwork and addressing all compliance issues], risk management and post-clearance audit. Senegal, Ghana, Mauritius and Mozambique are examples of countries that have today highly performing Customs and other border controls. Because improved facilities mean better business for local companies, reforms in developing countries are often driven and financed by local private/public partnerships.[71]

APEC members, which comprise both rich and developing countries, successfully met the 1994 goal of reducing trade transaction costs by 5 percent by 2006—and have decided to shoot for another 5 percent reduction by 2010—without any formal agreement. Trade is advancing without any near-term prospects for Doha. Trade facilitation measures are being implemented.

Trade is advancing without any near-term prospects for Doha.

Figure 2 provides a broad-stroke perspective on the breadth and depth of trade facilitation reforms implemented or progress recognized between 2005 and 2007. Although more countries reported increases in the costs of both container imports and exports, the number of countries reporting reductions in the number of documents and wait times over the two-year period far exceeds the handful of reporting increases. The fact that the costs of containers rose for most countries is probably attributable to factors beyond those countries' control. An absolute increase in cost does not necessarily constitute a relative disadvantage if other countries' costs rose too. But the improvements in factors most immediately within the control of each country—waiting time and red tape—reflect widespread reform efforts, according to the "Trading Across Borders" data.

The LPI also suggests that trade facilitation reforms have been widespread and successful. Large percentages of respondents acknowledged "positive trends in developments" across countries on a wide variety of metrics. As Table 2 indicates, a majority of respondents reported that the availability of private sector services had improved in every region of the world, and a

Table 2
Percent of Respondents Acknowledging Positive Trends in Developments for the Following Areas, During the Last Three Years

	High income OECD & non-OECD	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & North Africa	South Asia	Sub-Saharan Africa
Overall Business Environment	57	44	66	61	68	64	38
Availability of private sector services	58	54	82	70	81	78	51
Quality of telecommunications infrastructure	85	47	89	65	98	71	62
Quality of transport infrastructure	56	41	57	38	67	40	33
Other border crossing-related government agencies clearance procedures	43	26	62	28	38	30	42
Customs clearance procedures	65	38	69	58	70	60	48

Source: Logistics Performance Index.

Not only is trade facilitation in the interests of all countries, it is an economic imperative for countries competing with China.

majority of respondents reported improvements in all six metrics for non-OECD Europe and Central Asia.

In this highly competitive, increasingly interconnected global economy, companies are competing not only for markets but for investment and the opportunity to be part of the supply chain. Companies are less inclined to do business in jurisdictions where governments maintain policies that add roadblocks or unnecessary frictions to the flow of trade. And that deprives those countries of investment, jobs, and affordable consumer choices.

There is no compelling reason to believe that the trend of more trade and growth will reverse or even slow in the absence of a successful Doha Round agreement. Demand is likely to continue to grow in recently emergent economies and as the world's producers continue the transition to decentralized, transnational production processes to meet that growing demand. A recent World Bank study forecasts a threefold increase in global goods and services trade to $27 trillion by 2030.[72] To capitalize on that growth and to be a part of the hub-and-spoke global supply chain, countries will have to be nimble with respect to trade regulations and infrastructure.

Not only is trade facilitation in the interests of all countries, it is an economic imperative for countries competing with China. In more ways than one, the emergence of China has played an important role in trade facilitation reforms in developing countries. There's nothing like the existential threat of relentless competition to focus minds.

When the longstanding quota regime governing trade in textiles and apparel was finally terminated at the end of 2004, there was widespread concern among analysts that Chinese exports would expand and take away market share for the many developing countries that rely heavily on these industries. Chinese exports did surge, but many other countries that were presumed highly vulnerable adapted to new realities and have survived.

According to the *World Bank Global Monitoring Report 2007*: "The countries best able to expand clothing exports will be those that have a supportive business environment, low trade costs (efficient customs, ports, and other transport infrastructure), and competitive firms flexible enough to meet the changing demands of the global buyers that now dominate the industry. With these conditions in place, the clothing sector can still be a driver of industrial diversification in many poor countries, even in the face of unfettered competition from China."[73] In a recent journal article, Steve Creskoff explains the benefits of trade facilitation to poor countries competing with China this way:

> Cambodia's principal exports are garments, which are generally subject to high tariffs imposed by the United States and other developed countries. Cambodia's main competitor regarding garment exports is China, which has a substantial advantage over Cambodia in trade facilitation. Reduction of tariffs on garment imports on a multilateral basis does nothing to help Cambodia vis-à-vis China, whereas improvement in trade facilitation in Cambodia to China's level would make Cambodian exports much more competitive with China.[74]

The Revised Kyoto Convention is considered a modern trade facilitation "best practices" and serves as a blueprint for reform in developing countries.

Given the diversity of issues, resources, capabilities, and preferences around the world, setting benchmarks for trade facilitation improvements without mandating specific reforms, as APEC has done with success, seems a useful and practicable alternative to cumbersome multilateral commitments backed up by the force of dispute settlement. As the World Bank's *Global Economic Prospects 2007* report put it: "Broad trade facilitation goals do not fit neatly into the disciplines of the World Trade Organization."

Instead, striving for continuous improvement by following intuitive principles might be a better alternative. Such principles are explicit in the World Customs Organization's *International Convention on the Simplification and Harmonization of Customs Procedures (as amended)*, better known as the Revised Kyoto Convention, which took effect in 2006. The Revised Kyoto Convention reflects the commitment of its contracting parties to eliminate customs procedures that can impede international trade and to simplify and harmonize customs procedures without compromising legitimate customs' objectives. The principles encourage modernization, predictability, consistency, and transparency of customs procedures and practices.[75]

The Revised Kyoto Convention is considered a modern trade facilitation "best practices" and serves as a blueprint for reform in developing countries. It should also serve as a beacon for ongoing trade facilitation reform. Out of 56 signatories to the Revised Kyoto Convention, there are already 24 that are developing or transitional economies, and 13 of them are African.[76]

Conclusion

With world trade continuing to grow faster than global output, it is imperative that governments embrace practices that position their citizens to compete effectively for markets and investment. Successful participation in the global economy will be increasingly determined by whether a country maintains high-quality, reliable trade infrastructure, whether competition is permitted to flourish in the logistics services industries, and whether the regulatory environment is conducive to the relatively frictionless movement of goods and services through the supply chain.

Trade facilitation is not only for developing countries. All countries can benefit from the reform and continuous improvements of their trade processes. The kinds of reforms that move countries in the necessary direction do not require formal commitments and obligations to other countries. Trade facilitation is primarily and substantially in the interest of the country implementing reform. And there is ample evidence that those reforms are being implemented around the world without any immediate prospects for a Doha Round agreement anyway.

In the United States, official policies stemming from the post-9/11 focus on securing international trade processes do not necessarily dovetail with the objectives of just-in-time supply chain systems. Although security is paramount, it is crucial to understand that there are costs to security-driven policies, which can hamper trade and curtail economic growth without necessarily improving security. U.S. procedures for expediting the clearance of goods through customs and other administrative agencies must keep up with the demands imposed by higher trade volumes and the imperative to secure supply chains.

Notwithstanding the elevated focus on security, though, goods flow in and out of the United States relatively smoothly. On both the *Doing Business* survey and the Logistics Performance Index, the United States fares in the top 10 percent of all countries. But there is ample room for improvement in the supply chain, particularly where domestic logistics services are concerned.

Regulations under the Jones Act, which forbid foreign-flagged ships from operating within the United States (between U.S. ports), constitute a serious departure from optimal trade facilitation. By limiting competition in the sector, the cost of transportation services within the United States is higher and the quality is lower than it should be. Prohibitions against foreign cabotage lead to higher demand for and greater costs of surface transportation services to get products through the supply chain. Demand for more trucking services also creates more congestion, which reduces the quality and further increases the cost of those services, as measured by transport times. Likewise, the limited competition in rail freight service also serves to add frictions to the U.S. supply chain, which can deter investment and hamper revenues of businesses that operate in the United States.

Trade facilitation is about overcoming natural and manmade obstacles to trade. Particularly in light of the absence of any real progress in the Doha Round, policymakers should focus their efforts on removing frictions from their supply chains.

Notes

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17. Ibid.

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27. The Logistics Performance Index is based on a worldwide survey of the global freight forwarders and express carriers who are the most active in international trade. The LPI and its underlying components constitute a unique dataset to measure country performance across several dimensions of logistics and to benchmark that logistics performance against 150 countries. The survey was designed and conducted by the World Bank and Finland's Turku School of Economics. See http://info.worldbank.org/etools/tradesurvey/mode1b.asp.

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39. Yann Duval, "Cost and Benefits of Implementing Trade Facilitation Measures under Negotiations at the WTO: An Exploratory Survey," Asia-Pacific Research and Training Network on Trade Working Paper Series no. 3, January 2006, p. 2.

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41. Arvis et al., p. 13.

42. Ibid.

43. Ibid, p.1.

44. World Bank, *Global Economic Prospects, 2004*, p.188 (emphasis added).

45. Arvis et al, p. 2.

46. Ibid., p. 26.

47. U.S. International Trade Commission, The Economic Effects of Significant U.S. Import Restraints: Seventh Update 2007, Chapter 5.

48. Ibid.

49. Ibid.

50. Ibid.

51. Ibid.

52. Daniel Griswold, "Attempt to Limit Mexican Trucking in U.S. Masks Union Agenda," *Los Angeles Daily Journal*, December 20, 2007.

53. See S.2425 and H.R. 4309.

54. C-TPAT offers expedited customs clearance and other benefits to importers, shippers, and foreign producers who qualify and comply with a host of Customs and Border Protection requirements.

55. Under CSI, U.S. Customs and Border Patrol officials are situated at foreign ports where they work with local customs officials to pre-screen U.S.-bound cargo.

56. This law requires, among other things, that a plan be in place by 2012 to ensure that 100 percent of incoming cargo from all countries is scanned to detect radiation.

57. Joann Peterson and Alan Treat, "The Post-9/11 Global Framework for Cargo Security," *Journal of International Commerce and Economics*, U.S. International Trade Commission, March 2008.

58. Ibid.

59. Abdoulaye Diop, David Hartman, and Deborah Rexrode, "C-TPAT Partners Cost/Benefit Survey: Report of Results 2007," Prepared by the University of Virginia for U.S. Customs and Border Protec-tion, August 2007.

60. See Daniel J. Ikenson, "Listing to Port," *American Spectator*, March 2, 2006, http://www.freetrade.org/node/269.

61. World Trade Organization, "Singapore Ministerial Declaration," December 13, 1996, http://www.wto.org/english/thewto_e/minist_e/min96_e/wtodec_e.htm.

62. World Trade Organization, "Decision Adopted by the General Council, 1 August 2004 ('The July Package'), Annex D, Modalities for Negotiations on Trade Facilitation," http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm#annexd.

63. Duval, p. 4.

64. Duval, p. 7 (emphasis added).

65. Duval, p. 2 (emphasis added).

66. J. Michael Finger, "Trade Facilitation: The Role of a WTO Agreement," European Centre for International Political Economy (ECIPE) Working Paper no. 01/2008, p. 23.

67. Ibid, p. 18.

68. World Bank, *Global Economic Prospects 2004*: "Realizing the Development Promise of the Doha Agenda," p. 196.

69. *World Trade Indicators 2007*, p. 3. "Trade restrictiveness" is a composite of several indicators, which were available for 136 countries during the two periods. The three non-reforming countries were Madagascar, Rwanda, and Uganda.

70. *World Trade Indicators 2007*, p.3. Between 2005 and 2006 real growth in trade was 9.1 percent for developing countries and 7.1 percent for high-income countries.

71. Finger, p. 5.

72. *World Trade Indicators 2007*, p. 5.

73. World Bank, *World Bank Global Monitoring Report, 2007*, p. 175.

74. Creskoff, p. 9.

75. "International Convention on the Simplification and Harmonization of Customs Procedures (as amended), Preamble," World Customs Organization website, http://www.wcoomd.org/kybod yicsh.htm.

76. World Customs Organization website, http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/20080108E56.pdf.

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