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Trade facilitation: the missing component of infrastructure in global commerce

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Mention the term "infrastructure" and one immediately thinks of the backbone of an economy—roads, bridges, ports, transportation systems, electrical grids, water supplies, communication technologies and the like. The availability, accessibility and quality of a nation's infrastructure are essential to its economy, health and social well-being of its citizenry. This is even more the case for trade-dependent economies. Unfortunately, however, policymaking on infrastructure rarely addresses international trade while policymaking on international trade hardly mentions infrastructure.

The nexus between infrastructure and international trade is embodied in *trade facilitation*, a missing component of infrastructure when discussing global commerce. Essentially, trade facilitation refers to the simplification, standardization and harmonization of procedures and associated information flows that connect buyers and sellers and allow for payment.**[1]** At the heart of trade facilitation is streamlining customs procedures (cutting the red tape) and reducing costs. Facilitating cross-border commerce boosts economic growth, enhances a nation's competitiveness and allows for deeper integration of regional economies. As such, trade facilitation is indispensable.

Just what are the specific measures required to facilitate trade? They include the effective use of automation, risk analysis when determining which shipments need to be inspected, elimination of paper-based processes, more efficient methods for payment of duties and taxes, border agency alignment, providing benefits to compliant and secure traders and other efforts.

Ten years ago, the World Trade Organization's forged a Trade Facilitation Agreement to increase global trade by reducing transaction costs and minimizing or eliminating unnecessary delays. The agreement focuses on implementation of internationally recognized customs best practices, reduction of bureaucracy and improved efficiency in import, export and other trade-related processes. The OECD's Trade Facilitation Indicators help track the specific areas where progress is being made.

Since 2019, most progress has occurred in improving the availability of trade-related information, simplifying documentary requirements, and automating and streamlining procedures.[2] This has been especially helpful to small and medium-size firms. COVID-19 actually accelerated the implementation of digital tools and the integration of domestic border agency cooperation mechanisms into regional and international processes.

Achievements in 2022 were notable, especially with respect to the Americas region. To list but a few:

- Brazil introduced a new, consolidated licensing system that will lead to 37,000 fewer requests per year, a 90% fall in approval times and a savings of over $1.4 million.[3]
- Ecuador has simplified agricultural trade by digitizing phytosanitary documentation, slashing processing time from two days to four hours. The country's 2020 protocol on U.S.-Ecuador trade rules and transparency created a single window for import, export and transit.[4]
- Last May Mexico changed its customs trade rules to aid Mexican importers, easing regulations for courier and parcel companies, including an increase in the threshold exemption from $1,000 to $2,500.[5]
- In Guatemala, effective use of automated systems has reduced clearance times for shipment arriving by sea, land and air, including air express/courier operations.

Clearly, worldwide, electronic data interchange (EDI) between clearing systems and business supporting systems can improve process efficiency by 50% to 60%.[6] UNCTAD's Reform Tracker that accelerates trade facilitation reforms in developing nations and the Global Alliance for Trade Facilitation, a public-private partnership, provide invaluable support to global traders.

Five specific recommendations that would go far in strengthening the infrastructure of trade facilitation are: (1) increased efforts by countries to comply with all WTO Trade Facilitation commitments; (2) thorough implementation of automated systems for all border clearance procedures; (3) improved processes for clearance of low value shipments; (4) more effective and efficient systems for payment of duties and taxes; and (5) better opportunities for public-private collaboration and cooperation.

Physical infrastructure is the "scaffolding" for commerce, both domestic and international. Emerging markets, especially, are in dire need of improving their infrastructure—ports, roads, waterways, bridges and tunnels, energy and ICT (information communication technologies). But these "prerequisites" cannot achieve their intended economic goals without a dynamic, well-functioning system that allows commercial transactions to take place.

As for the U.S., the $1 trillion bipartisan infrastructure law passed by Congress will provide a sorely needed injection of resources to bolster the economy and the nation's competitiveness. And while neither the government nor the public is keen on undertaking new free trade agreements, enlargement of existing ones may be feasible. To wit,Sen. Bill Cassidy, R-Louisiana, and Rep. Maria Elvira Salazar, R-Florida, have drafted an "Americas Act," a bill that calls for paving the way for willing Latin American democracies to join the Mexico-Canada-U.S. free-trade agreement.

While global trade hit a record $32 trillion in 2022, the situation is expected to worsen in 2023 due to the geopolitical situation (especially the war in Ukraine) and tight financial conditions.[7] Despite this gloomy outlook, advancements in infrastructure development and trade facilitation will continue.

Whatever transpires, producers, traders, and the consuming public can continue to benefit significantly from the dynamo that drives trade and enhances infrastructure—namely, *trade facilitation.*

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[1] https://www.cepal.org/en/subtopics/trade-facilitation/about-trade-facilitation#:~:text=Trade%20facilitation%20refers%20to%20the,buyer%20and%20to%20make%20payment.

[2] https://www.oecd.org/publications/trade-facilitation-reforms-worldwide-ce7af2ce-en.htm

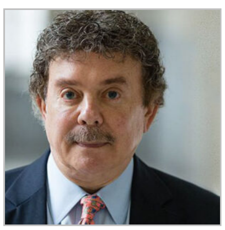
[3] https://www.tradefacilitation.org/article/brazils-new-imports-licensing-system-to-reduce-delays-enhance-consumer-safety/#:~:text=Brazil’s%20New%20Imports%20Licensing%20System%20to%20Reduce%20Delays%2C%20Enhance%20Consumer%20Safety,-Xerem%2C%20Brazil&text=Brazil%20has%20officially%20launched%20a,while%20also%20enhancing%20consumer%20safety.

[4] https://www.tradefacilitation.org/article/ecuador-reaches-important-milestone-in-simplifying-agricultural-trade/#:~:text=Ecuador%20Reaches%20Important%20Milestone%20In%20Simplifying%20Agricultural%20Trade,-Quito%2C%20Ecuador&text=Andean%20Community%20traders%20can%20anticipate,of%20the%20quality%20controls%20process.

[5] https://www.trade.gov/market-intelligence/mexicos-new-customs-trade-facilitation-imports

[6] https://www.wipro.com/travel-and-transportation/customs-clearance-in-the-digital-age/

[7] https://unctad.org/news/global-trade-set-hit-record-32-trillion-2022-outlook-increasingly-gloomy-2023



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