Trade Facilitation and Customs Reform:
The Post Doha Development Agenda*

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1. Introduction and Overview

Development can be effectively promoted through trade liberalization that creates an open economy allowing optimal allocation of resources. Within this context, trade facilitation measures are an essential part of liberalization, as they accelerate trade flows and also serve to support a country’s domestic regulatory efficiency over time. Trade facilitation is most often defined as "the simplification and harmonization of international trade procedures” with trade procedures being the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.”

It has become an issue of significant importance in the non-tariff trade barriers agenda, as tariff rates of protection have fallen after the Uruguay Round, along with the availability of advanced information technology that can speed goods transfer across borders. The losses that business suffers through delays at border with complicated and unnecessary documentation requirements alone are estimated to exceed in many cases the costs of tariffs.

Trade facilitation measures can help accomplish a country’s development goals through different channels. These measures can reduce the cost on export transaction by 6 to 10% (http://europa.eu.int/comm/trade/miti/tradefac/tradefac1.htm). This allows increased profits for firms and opens up the door for new exports where traders have refrained from entering international markets due to complicated and costly border procedures. Not only importers and exporters, but also consumers, facing high prices due to red tape (administrative formalities at the border) benefit from trade facilitation initiatives. Trade facilitation reform, such as streamlined technical requirements on imports, can improve the investment environment in developing countries and boost foreign direct investment flows into these countries. Moreover, developing countries can...
benefit from less expensive, higher quality, and more modern imports through regulatory reform and customs regimes which follow open, transparent, and bribery free administrative protocols. Administrative procedures following international best practice helps to prevent the illegal movement of unauthorized goods, the dumping of unsafe products on developing country markets, the proper protection of intellectual property rights, and other public welfare goals.

At the center of most trade facilitation reform initiatives is a country’s customs infrastructure and policies. Customs regimes involve a complex array of often opaque requirements for importers and export firms, including documentation requirements and customs valuation forms. Efficient systems require cooperation between traders and official agencies and clear, consistent transfer of information on requirement, such as shelf-life and sanitary regulations that may differ from those in place in the exporting country of origin. Problems also include multiple submission of data to different agencies, such as the Ministry of Agriculture, customs authority, Ministry of Trade, and also Treasury and lack of harmonization of import and export data with respect to contents and format for documentation. This poses a serious threat in meeting trade commitments and development objectives. Simplified and internationally harmonized trade procedures would enable governments to better enforce customs regulations.

Finally, reform of trade facilitation procedures is complicated by the fact that custom revenue can constitute a major portion of national revenue in a country. Undoubtedly, custom reform through automation, harmonization of information requirements and risk-assessment methods would reduce levels of evasion, under declaration, and fraud. For example, Chile at a World Trade Organization (WTO) symposium in March, 1998 estimated savings of US$1 million each month through automation and greater use of risk assessment.

Customs procedures have been an integral part of trade facilitation measures. As Messerlin and Zarrouk (2000) point out that customs related disputed have been brought to the attention of WTO several times. However, they have been dealt with at the technical level without making it a big issue and losing parties have either complied with recommendations or at least issued an official statement to comply. Customs related disputes have included customs classification, duty collection, GSP coverage, quota management and import measures. In this context, the role of World Customs Organization and Kyoto Convention are important.

The Kyoto convention entered into force in 1974 with the objective to simplify and harmonize custom procedures. The World Customs Organization (WCO) has revised and updated the objectives of Kyoto Convention since then to ensure that it meets the current demands of international trade. The WCO has decided to carry out customs reform in line with the 1999 Kyoto convention which when implemented widely is expected to facilitate trade and commerce with utmost efficiency. The key elements of the revised Kyoto convention for Customs reform that will promote trade facilitation include the maximum use of automated systems, risk management techniques, the use of electronic funds transfer, coordination with other agencies, making information on
customs requirements, laws, rules and regulations easily available to everyone. (http://www.wcoomd.org/en/en/Past_Events/trade99/kyotoe.html). Even though WCO is the appropriate institution to oversee and enforce the Kyoto Convention, it lacks a “dispute settlement” mechanism required for enforcing procedures. This leads to calls for WTO intervention. The question of whether the Kyoto Convention principles should be included in formal WTO commitments remains.

2. The WTO Agenda Post Doha: Trade Facilitation

The WTO has addressed issues related to facilitation of trade since the Singapore Ministerial in 1995. The WTO announced exploratory and analytical work “on the simplification of trade procedures in order to assess the scope for WTO rules in this area.” The European Union has been one of the major proponents of launching negotiations on issues that include investment, competition, trade facilitation, and transparency in government procurement. The EU believes that WTO rules provide the most transparency required to turn trade facilitation into reality. How can WTO act as a catalyst for development and trade facilitation? The main purpose of the WTO system is that it is rule based. Only rules can guarantee that all members will adopt the same basic standard for global trade. The proposals for the WTO to serve as an engine for trade facilitation include a coordinated approach where the first step is to identify what activities are already being carried out in individual countries or regional groups and then to identify where action is required and then design specific trade facilitation measures best suited for the country in question.

(outline of Customs Valuation Agreement, Agreement on Preshipment Inspection, Agreement on Rules of Origin)

The fourth WTO Ministerial in Doha in November 2002 included discussion of trade facilitation. Delegations agreed that simplifying trade procedures would accelerate economic development by saving time, money and human resources. WTO members also agreed on the developing countries’ need for substantial and comprehensive technical assistance to strengthen their administrative capacities and support their national reform efforts. Such assistance has been taken into consideration at a WTO trade facilitation workshop held in May 2001.  

The Doha Declaration states that that “negotiations on trade facilitation will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations”. They recognized the case for “further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area”. In the period until the Fifth Ministerial, the WTO Council for Trade in Goods, which had been working on this subject since 1997, “shall review

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2 (http://www.wto.org/english/tratop_e/tradefacilit_e/dfacilit_e/dfacilit_e.htm)
and as appropriate, clarify and improve relevant aspects of Articles V (“Freedom of Transit”), VIII (“Fees and Formalities Connect with Importation and Exportation”) and X (“Publication and Administration of Trade Regulations”) of the GATT 1994 and identify the trade facilitation needs and priorities of Members, in particular developing and least-developed countries”.  

There continues, however, disagreement between developed and developing countries regarding formal launch of negotiations and the modalities for such talks. Many developed countries are of the opinion that after more than four years of exploring and analyzing the scope of WTO rules on this issue, it is time to launch negotiations at the Fifth WTO Ministerial in 2003. A group of members advocating the negotiation of new binding trade facilitation rules proposed a two track approach to talks that would include border-related procedures to expedite the movement, release and clearance of goods. Binding rules proposed are suggested to build upon existing principles such as transparency, non-discrimination and proportionality.

In addition, the proposal calls for the development and implementation of a comprehensive technical assistance program in parallel to negotiations. On the other hand, many developing countries are not prepared to launch negotiation on the issue of trade facilitation in 2003, even though they are generally supportive of the objectives of trade facilitation. Further, many of the least developed are not willing to accept new legal commitments in the WTO at this point. Their concern is that additional rules will exceed implementation capacities and make them susceptible to dispute settlement. Some even doubted the need for new binding rules.

3. **Asia Pacific Economic Cooperation (APEC) Agenda in Trade Facilitation**

The 21 APEC member economies have placed trade facilitation as a high priority, along with trade and investment liberalization and economic and technical cooperation. APEC’s trade facilitation agenda was first formulated in Osaka in 1995. At the Auckland Summit in 1999, the APEC members stressed the importance of developing new initiative in the areas of trade facilitation. The emphasis was on (1) wide publicity of APEC’s agenda in trade facilitation and (2) developing consistent principles for APEC’s trade facilitation activities. APEC’s trade liberalization and facilitation measures committed to expand the region’s annual income (GDP) by an estimated US$ 75 billion (at 1997 prices), or 0.4% of the region’s total GDP. Independently, APEC trade facilitation measures committed to expand the region’s income by an approximate US$ 46 billion (Yuen Pau Woo and John S. Wilson 2001).

According to James Goh (2000) “customs regulations and procedures can often make or break trade facilitation efforts.” APEC guiding principles in trade facilitation, include; accountability, consistency, transparency and simplification. Customs

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3 (http://www.wto.org/english/tratop_e/dda_e/dohaexplained_e.htm - tradefacilitation)
administration officials are working to incorporate these principles in modernization of custom policies. APEC economies have also worked toward custom reform through automation and electronic data interface (EDI), electronic risk management and harmonizing and simplifying custom procedures.

Another important aspect of trade facilitation is e-commerce. APEC’s objective is to achieve free and open trade and investment for the developed countries in 2010 and 2020 for the developing countries. In order to achieve the goal, the APEC is implementing an “e-commerce action program” so that each member can learn how to improve the environment of law, technology, business and trade. APEC has also compiled a guide to e-commerce law to assist entrepreneurs understand the regulations and barriers associated with e-commerce.

APEC members with developed e-commerce infrastructure, such as the U.S., New Zealand, Australia, Singapore and China dominate the information technology and network infrastructure. On the other hand most developing countries are lagging behind in this aspect although they understand the importance of e-commerce. APEC trade facilitation strategies center on narrowing gaps in technology and e-commerce between developed and developing countries.

The APEC Leaders meeting held in Shanghai in 2001, adopted a work program called the “Shanghai Accord”. The accord was adopted to facilitate APEC activities over the next ten years. As a part of the accord two proposals were made by Australia. First is the “pathfinder initiative” which will allow the small economies to implement trade liberalization measures. The next is a facilitation target that would reduce transaction costs by 5% across the APEC region by 2006. The Shanghai Accord is a commitment to broaden APEC’s vision for the future that will cover reforms and capacity building at both domestic and international levels. It also incorporates a guideline for achieving the Bogor goals and Osaka action agenda on schedule and reinforce capacity building efforts.

4. **Capacity Building and Lending in Trade Facilitation: World Bank Experience**

The World Bank’s work program and lending operations include projects to support public sector reform or infrastructure and facility modernization to take care of health, safety and environmental issues. Along with the focus on development objectives, capacity building is also under review within the context of Integrated Framework for Trade-Related Assistance to Least Developed Countries.

In fiscal year 1999 the World Bank’s lending with the direct and indirect objective to support standards infrastructure totaled $419.2 million as observed by John S. Wilson (2000). The objectives of the standard related projects are: (1) adoption of international conventions directives related to standardization (2) investments on standards infrastructure, calibration, laboratory accreditation systems (3) assisting firms to adopt international quality standards (ISO 9000) and environmental management standards (ISO 14000) (4) facilitating access to business information technology and also
provide assistance on packaging and quality control. The World Bank has funded several projects related to product standards and regulatory reform. (1) Turkey’s Industrial Technology Project with a total cost of $155 million dollars has the goal to improve Turkish technology infrastructure and services. (2) Ghana Trade and Investment Gateway with an allocation of $2.25 million is aimed to attract export-oriented investors to Ghana and foster export-led growth. (3) Cape Verde Privatization and Regulatory Capacity Building Project has a funding of $2 million dollars and it expects to change the role of the government conducive to private sector growth and also raise the private sector participation in sectors like utilities, trade and transport.

The World Bank has played an equally important role in lending operations related to customs. In fiscal year 1999, the Bank funded projects in the amount of $610.7 million to modernize customs infrastructure and simplify customs procedures. Korea was allocated $2 billion loan in order to reduce red tape in customs clearance and also to simplify export, import regulations. Indonesia received an amount of $300 million for customs modernization and to cut tariffs on food and non-food items and eliminate import restrictions and other non-tariff barriers.

Electronic commerce projects have also been supported by the Bank as a part of trade facilitation projects. In 1995 the bank had launched a project called Information for Development Program (InfoDev) to help the developing countries continue their development process at par with the information driven world. In 1999 this program lent $13.2 million to developing countries of which 4% share went to the APEC members. One project known as “Assistance to Emerging Economies to Participate in the World Trade Organization Telecommunications Market Liberalization” addressed issues of e-commerce and provided assistance to The Philippines and Thailand.

In year 2000 the World Bank financed a project in Bangladesh known as the fourth fisheries project aiming to increase fish and shrimp production for domestic consumption and exports. Total project cost was estimated at $60.8 million of which the IDA lent funding in the amount of $28 million. The remaining project costs were financed by DFID of UK, Global Environmental Facility, and Government of Bangladesh and the beneficiaries. The Agricultural Services Innovation and Reform Project in Bangladesh is another trade facilitation project with a total cost of $14.4 million of which $5 million was financed by IDA ($2.4 million was trade related lending). Legal and judicial reform project in Sri Lanka in year 2000 was aimed to strengthen the capacity of legal and regulatory framework with a total cost of $21.4 million. The IBRD had a commitment of $18.2 million. Another trade facilitation project in the Asia region was financed by the World Bank in Vietnam in year 2000. The project was known as Coastal Wetlands Protection and Development Project and had a cost of $65.6 million. The IDA financed $31.8 million.

In fiscal year 2001, the bank financed several trade facilitation projects as well in Asia. The Jiangxi Highway is one such project financed by the bank in China, aiming to provide more efficient and safe transport infrastructure. The total cost of the project was $535.7 million with $200 million coming from IBRD. The objective of the Pakistan
trade and transport facilitation project was to help the country reform and modernize its transport sector. Lower transport costs will enable Pakistan to become more competitive in the global market. The total cost of the project was $3.5 million with a $3 million commitment from IDA (entire amount was trade related lending). The Mekong transport and flood protection project in Vietnam was aimed to increase surface transportation in Mekong delta and has a cost of $143.89 million with an amount of $110 financed by IDA.

The World Bank is currently examining trade facilitation measures in a report for APEC Trade Ministers. The study is assessing trade facilitation and its impact on development. This analysis will shed light on the benefits of trade facilitation in (1) custom procedures (2) issues related to standards and (3) business mobility in the APEC region. Finally trade facilitation will be tied to capacity building projects and strategies will be outlined to integrate trade facilitation into an economy’s overall development strategy. (http://www1.worldbank.org/wbiep/trade/apec_project_summary.html)

Lessons Learned from Bank Projects:

Every lending project undertaken by the bank presents unique circumstances, and this is true in the area of trade facilitation. While it is difficult to draw universal lessons from these projects, there are certain experiences that will determine the success or failure of a loan in a particular context. Some of these lessons were learned in earlier trade facilitation projects undertaken by the Bank.

Highly Successful Projects. In one example, a loan to Sri Lanka from for telecommunications reform was rated as highly satisfactory. The loan was approved in 1991 and the project closed in 1998. A key lesson learned in this project was that labor unions should be involved at the early stages of reform, and their concerns should be considered in order to reduce resistance to reform. Another lesson drawn from this project was that the successful private operation of value-added and other marginal telecommunications services creates new job opportunities. This may reduce staff fears of privatization as well as provide comfort to potential investors who observe a track record of commercial operations and the workings of a sound legal and regulatory framework. Third, full corporatization with private management and suitable regulation provides the autonomy needed to quickly expand service and to become more consumer-oriented and competitive. A transit facilitation project for Macedonia from 1995 to 1999

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was likewise rated as highly satisfactory. The Customs Administration in Macedonia was recognized throughout the region for its customs reform process.⁶

Satisfactory Projects. A lending project in Morocco that took place between 1991 and 1998 for port revitalization was rated as satisfactory. One of the lessons drawn from the implementation of this project was that trade facilitation is too complex to be handled in a sub-sector project, unless a process is defined at appraisal, responsibilities are clearly apportioned, the objective is actively endorsed by key players, and private sector constituencies already favor the reforms.⁷ A similar port modernization loan to Pakistan during that same time frame was also rated as satisfactory. The key lesson drawn from this project was that trade facilitation requires high-level support.⁸

Partially Successful Projects. A loan to Bolivia from 1990 to 1998 for private enterprise development was rated as partially satisfactory with specific components rated as follows. Among the relevant project components, the regulation component was rated as partially satisfactory while the privatization component was rated as highly satisfactory. Institution building is a long and complex process. Delays should not be viewed as conclusive evidence of implementation failure per se where a project is achieving substantive institutional change. Limited interventions in institution-building projects are acceptable only if they form one part of a larger program.⁹

Lessons Drawn from These Projects. While neither comprehensive nor conclusive, the foregoing examples do suggest some of the factors that contribute to a successful trade facilitation-lending project. Among those critical lessons are:

- involve the stakeholders at early stages,
- establish independent regulatory institutions, and
- privatize industrial sectors in order to allow competitive enterprises to develop.

With these factors in consideration, the next section examines several of the Bank’s lending projects in the area of trade facilitation in greater detail.

**EXPORT DEVELOPMENT IN TUNISIA**¹⁰

Objective. The lending project was designed to address, in part, Tunisia’s inadequate trade facilitation mechanisms. At the time this project was devised, Tunisia was facing

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significant competitive challenges as a result of accession to the World Trade Organization and the Free Trade Association with the European Union. Although its offshore sector had been doing well, traditional exports had been facing severe competition. This was due, in large measure, to significant weaknesses throughout Tunisia’s export infrastructure. Foremost among these problems was the clearance of goods from the docks. The average time taken to clear goods after they have been unloaded from the vessel was 8 days, and in some cases, 18 days. Not only were these delays costly in financial terms, but they made it impossible for exporters to quickly respond to sudden orders.

Responsiveness was also impaired by high order execution cycle times, inefficient supply chains, cumbersome procedures, limited domestic infrastructure, and lack of stocks on hand in importing countries. Even in long-term buyer-seller relationships, Tunisian exporters were disadvantaged because they could not meet the short delivery times specified by buyers for each order. An enterprise that imported raw materials and processed them into finished export products had to go through 34 trade-related steps.

**Relevant Components.** The trade facilitation component of the project provided support for investments and technical assistance to reduce transaction costs involved in trading activity, with special emphasis on customs procedures and electronic exchange of trade-related documents. For this purpose, a coordinating body (Technical Committee for Trade Facilitation), consisting of representatives of key agencies involved in trade facilitation, was established to implement the component.

The procedures for external trade in Tunisia required the processing of documents by the Ministry of Commerce, various banks, the port authority, and customs, as well as the usual professional organizations such as customs brokers, shipping agents, and freight forwarders. Delays in clearance of goods were significant for imports. The key factors that slowed the process include time taken to submit and correct shipping manifests, manual processing of customs declarations, lack of training of customs staff, lack of proper equipment and facilities within customs for goods verification and analysis.

Trade document processing in Tunisia prior to the implementation of the project was essentially a manual operation. Document exchanges had to be carried out via paper copies of customs documents. Those documents had to be delivered and in some cases, picked up again after several days for further processing. International experience has shown that information technology can significantly assist in reducing both costs and time delays for trade document processing. The lessons and experience gained from implementation of such technologies are reflected in the project design. The implementation of the action plan for this component would lead to simplified trade documentation processing.

One single connection to a central server after implementation of the project will enable each participant to exchange forms and messages with other participants. Shipping manifests and customs declarations will be sent over the network, reducing processing agents’ time. Enhancements to the customs computer system will support international
message/document standards for automation of manifest acquittal and processing of customs declarations. Training is a fundamental part of the reform process, and the customs training center would deliver courses to Customs agents and professionals within the trade community, on modern trade facilitation techniques supported under the project.

Trade simplification mechanisms proposed under the project would make trade-related transactions more efficient and reliable than they are now. Improving the information exchange between cargo handling and clearance activities (for example, electronic pre-clearance of imports and exports; pre-scheduling of transport, containers, ports, and shipping facilities) would help to simplify and streamline cargo clearance process, and reduce the time needed to move goods through ports and handling facilities. In addition, by simplifying and streamlining customs and inspection procedures, the project would substantially reduce total cycle time for container movement.

Lessons. Among the lessons learned from previous projects and incorporated into the current project’s design, the most important is that regulatory and structural issues curtail private sector participation and competition in many segments of urban transport, thereby stifling entrepreneurship and private investment in cargo handling facilities. Related problems include the prevalence of inefficient transport sector monopolies, restrictive labor practices in ports, inefficient sector management, and inadequate financial sector development. The project's basic rationale is derived from cross-country experience showing that simultaneous actions that facilitate market access to small and mid-sized exporters and simplify the procedures involved in trade transactions are among the keys to success in export development.

CUSTOMS IMPROVEMENT IN ALBANIA

Objective. This project forms part of a regional program for trade and transport facilitation in Southeast Europe that aims to strengthen and modernize the customs administrations and other border control agencies in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, and Romania. The project’s objectives are to reduce regulatory barriers and reduce smuggling and corruption at border crossings. The project is targeted at customs reform, strengthening interaction and cooperation between private and public parties at regional, national and local levels, disseminating information, and providing training to the private sector. It also includes financing of infrastructure and equipment at selected border crossings, and implementing, at pilot sites, an integrated set of new customs procedures, information technology, human resource management techniques, supporting infrastructure, and cooperation mechanisms for agencies at border crossings. The reduction in duty evasion and corruption would allow for an increase of government revenues and enable a moderate reduction in effective tariff rates while not forfeiting revenues.

The Customs Directorate began to institute procedures to improve revenue collection and modernize into a self-sustaining service. In 1997, the Directorate implemented a pre-arrival intelligence system and a modernization and development program that included a valuation and reference file and the adoption of a new EU-compatible Customs Code in 1999. Despite this modernization, the actual implementation of customs procedures needs further attention to facilitate trade and transport activities.

Stakeholders have indicated they have concerns about several issues, including changes in the legal system and regulations without advance notice, insufficient clarity and transparency of customs regulations, application of legislation at border points, coordination among border agencies, and interaction with the Government. At the same time, the Customs Directorate expressed concern regarding the need to revise the definition of responsibilities between Customs and Border Police and the lack of sufficient training in legislation and procedures by both trade operators and customs officers. Other problems remain, including inadequate infrastructure and equipment at border crossings, extremely deficient telecommunications services, and the prevalence of installations rendered unusable due to bombings in recent conflicts.

The project will address the dual problems of modernizing Albania’s customs law and upgrading its customs infrastructure. It builds on previous efforts and takes full account of ongoing EU support to avoid duplication. The project will combine resources from the Albanian Government, the Bank, and the United States. The project will seek improvements in border agency procedures, border infrastructure and equipment, and improvements in the business environment for transport and trade. In addition, the project will finance rehabilitation of critical roads sections on main corridors leading to Albanian borders.

Relevant Components. The project consists of the following components: a customs services procedures reform initiative that includes monitoring and review of customs procedures, and enhancing interagency awareness and training; and a trade facilitation development initiative that includes provision of technical assistance and advisory services to trade and international transport participants through the Ministry of Economic Cooperation and Trade, improvement of communication between border control agencies and the trading community by using a virtual forum, and provision of equipment necessary to support information availability.

Implementation of the project continues to be satisfactory, particularly with respect to the implementation of the financial sector reforms. Many of the lessons learned from an earlier project were incorporated into the current project and have been further strengthened in the proposed operation. These lessons include the need for strong borrower commitment and good coordination. Earlier projects also demonstrated the need for continuity of staff, from both the Government and the Bank, which leads to closer cooperation.

RAILWAY IMPROVEMENTS IN MONGOLIA

Objective. This is a multi-component infrastructure development project involving improvement of roads and railways in the land-locked country of Mongolia. The project was undertaken in order to assist Mongolia in developing the infrastructure necessary to support private sector growth, create markets, and create a climate conducive to foreign investment.

One objective of this project is to expand trade by developing and implementing a financial accounting system for Mongolia’s railways. The Mongolian Railway system has been in transition from a production to a service oriented transport operator. Although physical infrastructure has been upgraded and a management information system has been put into place, obstacles to full-scale implementation remain because of the railway management’s inability to grasp the extent of the structural changes required by these systems, and because there were no timely and reliable systems in place to determine which services comprising the rail operation, if any, were profitable.

Relevant Components. To address these obstacles, the Bank will provide technical assistance to Mongolian Railways for the development and implementation of an off-the-shelf, but comprehensive financial accounting system which, when deployed with the management information system components already in place, will give the railway the ability to determine costs and revenues of individual services. In turn, this will enable the railway to design more efficient operating methods, make better use of its human and financial resources, and better allocate its traction and rolling stock to services in a more efficient manner than is now possible. In particular, the new financial accounting system will allow Mongolian Railways to transport more freight, particularly high revenue earning transit and export traffic, and thereby facilitate improved trade and economic growth. The design for the system should be completed by April 2002, and will be tested and implemented by April 2004.

ACCOUNTING REFORM IN CHINA

Objective. The overarching objective of the project is to assist the modernization of accounting in China. Bank assistance to China’s accounting modernization program began with an earlier Bank project, the Financial Sector Technical Assistance (FSTA) loan (August 1992), which had a component for accounting reform. The present project builds upon and extends the work initiated in the FSTA project, in terms of the development of new accounting standards. It adds a major component that focuses on the establishment of a training institute for China’s Certified Public Accountants and other financial professionals for continuing professional education.

Key performance indicators for the present project for the Development and Dissemination of Accounting Standards component include: the preparation, finalization

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and publication of new accounting standards; the holding of dissemination seminars to foster the application of the new standards; the creation of a website to disseminate and publicize the standards and monitor their application; and study tours and training of members of the new Accounting Standards Committee. Performance indicators for the Strengthening of Certified Public Accountants and Other Finance Professionals component include: the establishment of the proposed National Accounting Institute; the development of training curricula for teaching courses at the Institute; the number of accounting and finance professionals attending courses at the National Accounting Institute in the initial years of its operation.

Accounting reform bridges a number of sectors, financial institutions, and enterprises in all sectors of the economy. The lack of transparency in accounts, against an ill-defined accounting framework, has been a pervasive problem in financial institutions. Attention within the government to financial sector reform has accelerated, as a result of the regional financial crisis and the fear of contagion. While restrictions on capital flows have insulated Chinese financial institutions from external shocks, the crisis has served to alert authorities to the condition of these institutions, and the need for their strengthening. It is estimated that there is a high proportion of non-performing and possibly non-recoverable loans.

Key to the improved performance of China's banks is the use of a more transparent system of accounts in China's enterprise sector, which will permit financial institutions to be better aware of the borrower's debt servicing capacity. With the abolition of the credit plan, the banks will finally have to assume the responsibility of making sound lending decisions. Accounting reforms are also vital for improving the governance of China's enterprise sector.

Relevant Components. The project consists of two related components. The first component would support the continuing professional education of China's Certified Public Accountants (CPAs), and other finance managers and professionals, to familiarize them, on a large scale, with new accounting, auditing and business administration principles and practices that are generally accepted in market economies. The approach to be adopted is to establish a large residential continuing education facility in Beijing, the National Accounting Institute (NAI), which would offer a wide selection of short courses on specific accounting and business topics and issues for continued professional education. Such courses would include, for example, accounting practices, auditing techniques, taxation, professional ethics, computerized management systems, and various functional management topics. The facility envisaged could accommodate 1,500 persons at a time. Based on courses of around a week on average, the throughput of the institution would be around 350,000 student-days per year.

The second component would consist of continuing support of the government's ongoing efforts to develop and promulgate accounting standards predicated upon internationally accepted accounting standards. The principal vehicle through which this is to be effected is the China Accounting Standards Committee (CASC). The establishment of this body
was approved by the State Council in February 1998, and it was formally set up in September 1998. On October 6, 1998, the Ministry of Finance (MOF) issued a Notice of Establishment to all concerned institutions (No: MOF-K-(1998)34). The Committee is a permanent body, charged with a series of tasks that will include the researching, drafting review and evaluation of accounting standards; coordination of accounting activities with international accounting bodies; and formal responsibility for the proposed World Bank Accounting project component. By making accounts more transparent, reliable, consistent and comparable, the accounting reform envisaged in the government's program will benefit the enterprises themselves, their bankers, the government and regulatory agencies, individual and institutional investors; and prospective foreign investors.

Outcome indicators for the Development and Dissemination of Accounting Standards are:

- Strengthened accounting standards in line with international standards;
- Improved knowledge of new standards among finance professionals in China, and accelerated use of new standards;
- More easily available information on accounting standards and their application;
- Greater capacity to prepare accounts in accordance with the new standards and in conformity with international practice.

Impact indicators for the Development and Dissemination of Accounting Standards are: Knowledge of new standards by senior professionals throughout the country; Modernized accounting standards more closely aligned to international standards; Strengthened and more transparent financial statements, in both financial institutions and enterprises; and Strengthened financial performance of enterprises and banks and reduced risk.

Lessons. There is only one relevant bank-financed project in the country, which took place six years ago. Two projects with similar components have been financed by the Bank in other countries, and offer useful lessons. In all three projects, the accounting components are small parts of larger projects and as such the 1P/D0 ratings do not necessarily reflect the performance of the accounting components. From these projects, the key lesson that emerges is that the drafting of standards is not enough; therefore, the project should include in its scope the finalization and dissemination of new standards. Most of the 25 draft new accounting standards have yet to be officially issued. Widespread general acceptance of the new standards also requires the provision of public information and guidelines on application, as well as the appropriate follow-up training of practicing accountants and auditors.

The current project incorporates these lessons by giving a role to dissemination and rollout; both through programs of seminars and public knowledge in the first component, and through the CICPA/NAI component. A second key lesson is the value of practical international experience in the development of accounting standards. The present project
takes this into account by providing overseas training for the China Accounting Standards Committee, upon its establishment, and interchanges with associated international bodies, in addition to consultancy advice. The project team has also furnished the borrower with copies of the constitutions of Accounting Standards bodies in other countries. For the CICPA component, the Bank has provided the benefits of international consultation to the borrower, for the design of the training center and its curricula, and is also making provisions for specialized international consultant inputs on classroom design.

5. **Conclusions**

Trade facilitation is an integral part of trade policy reform. However, political commitment, distinct policy goals, partnership between private and public sectors and cooperation between international organizations are required for successful trade facilitation measures and reform. At the center of any future WTO agreement on trade facilitation, there should be concrete commitments on coordinated capacity building supported by WTO members. At the same time cooperation with the private sector is crucial for implementation of any trade facilitation initiative. There are considerable resources within the private sector to assist in trade facilitation. Future WTO rules should provide confidence to the private sector for investment of resources. A WTO framework of rules will also enable the developing countries to increase inward investment in the service sectors such as transport, distribution banking and telecommunication crucial for successfully simplifying trade procedures.

Successful trade facilitation programs require coordination between customs, trade, regulatory, and other officials. There is often overlap and duplication of efforts in government agencies. This happens due to a lack of integrated administrative structures and procedures. In addition, absence of internally adopted standards and rules for trade facilitation complicate reform initiatives. The importance of trade facilitation measures can be understood from an APEC study that estimated a gain of about 0.26% of real GDP to APEC as a consequence of trade facilitation programs which is almost double the expected gain from tariff liberalization (source, APEC?). Finger and Schuler (2000) indicate that “trade facilitation issues...are more difficult to reform than mere tariff rates, but are probably becoming more important as tariffs fall and global supply chains come to dominate production and trade.”

Trade facilitation is essential to further development and alleviate poverty. While there has been significant progress in lowering trade barriers at the border, such as tariffs, quotas, and other such measures, the implementation of the WTO accords has revealed problems in meeting basic requirements. This is especially true in the case of the SPS and TBT agreements. However, these problems can be addressed by applying the lessons drawn from the Bank’s work in trade facilitation, as demonstrated in the foregoing projects and in countless others. Those lessons can be summarized as follows:

- Excessive regulation curtails private sector participation and competition, thereby stifling entrepreneurship and private investment.
• Wherever possible, countries should make use of information technology to streamline and simplify customs and other regulatory procedures.

• Those responsible for implementing trade facilitation projects should be flexible and ready to adjust activities in order to respond to changing priorities.

• Care should be taken to avoid overly optimistic goals and to develop realistic timetables for implementing trade facilitation measures.

• Detailed indicators, such as increasing outputs, government revenues, cost savings, consumer satisfaction, productivity gains, job creation, and more efficient public institutions, should be used to monitor performance.

• Improving the enabling environment through infrastructure modernization and regulatory reform increases the ability of a country to improve efficiency, and to attract and retain appropriate private investments.

• In the area of capacity building, emphasis on beneficiary’s participation, intensive supervision, organization and coordination in the field are critical for timely and effective implementation of trade facilitation and reform measures.

• Ownership and political commitment are key to ensuring strong local leadership, availability of counterpart funds, and clear delineation of ministerial responsibilities.

• When developing new standards, training and other follow-up measures beyond the drafting should be taken to ensure that those who must apply those standards comprehend and accept them.

As can be seen from the foregoing discussion, the evolution of trade facilitation presents significant challenges in the coming years. As the above analyses of various lending projects suggest, substantial obstacles remain with respect to the implementation of the commitments to trade reform that have already been made in the WTO.

1. Funding to support modernization and reform. Foremost among these obstacles are the lack of modern facilities and training necessary to support customs and other government functions that facilitate trade. Development funding to address these needs is required. This does not only imply development lending or grants to the least developed countries. There is also a role for private sector assistance in meeting public sector functions. Priorities given available resources are clearly needed.

2. Ensuring non-tariff barriers in technical regulations are addressed. Second, as the global economy integrates, and as more developing countries become part of the global trading system, the potential for trade barriers to arise in such non-traditional areas as regulations and standards governing products and processes becomes greater. Consequently, reform measures in areas beyond the traditional definitions of trade
facilitation, which tend to focus strictly on border policies, must be undertaken. A coordinated approach across the WTO to next steps in liberalization is critical.

In particular, standards and technical barriers to trade are increasingly important to developing countries for several reasons. Developing countries do not predominantly rely on agricultural products or primary commodities for export any longer. At the same time, tariff rates and other traditional trade barriers have fallen. Third, as previously noted, global supply chains are integrating rapidly. These trends and others serve to highlight the importance of identifying and modifying trade-restrictive standards and regulations, and for ensuring that, in the future, standards and technical regulations promulgated for legitimate purposes do not themselves become trade barriers.14

The costs of modernization and infrastructure upgrading to meet WTO commitments, including programs to facilitate access to information on international standards, exceeds the total development budget in many less developed WTO member countries.15 As multilateral trade rules have expanded from border measures into areas of domestic regulation, requirements on international standards and how best to facilitate access to international standards are two questions that require innovative responses.16

3. Estimating the Economic Benefit of Reform. Customs and related revenue from regulations imposed at the border through licensing and other requirements continue to generate significant funds for developing country governments. In the least developed countries, this may total 30% of total government revenue.17 The average share of import duties in the OECD countries is .5% and in low income countries approximately 25.9%.18 Outlining the economic benefits of trade facilitation reform to highlight the systemic spillover impact of reform is critical to efforts to advance the liberalization agenda. The synergies of reform across these measures is a largely unexplored area in the economic literature based on empirical data and analysis.19

4. Donor Coordination and Country Ownership of Reform. Donor coordination in this area of technical assistance is clearly as important as in any other area of development

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19 The World Bank is launching a survey of technical and regulatory barriers to trade in 19 countries in 2001. This Global TBT Database will include data to better evaluate the trade impact of technical barriers which relate to overall trade facilitation measures.
and reform. There must be on-going coordination between programs such as the Integrated Framework, Poverty Reduction Strategy Papers (PRSP), and other initiatives of multilateral agencies. Mechanisms to ensure funding from bilateral donors is also clearly needed. In addition, national government ownership and commitment to reform, along with an institutional framework to ensure long-term progress is needed.

References (incomplete)


