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**IMPLEMENTATION OF TRADE FACILITATION IN TRANSITION ECONOMIES
CURRENT ASPECTS AND ISSUES**

Note by the secretariat

This document is submitted to the Committee as **background information** for the Round Table on the Implementation of Trade Facilitation in Transition Economies, to be held on 31 May 2002.

Introduction

1. This purpose of this paper is to provide an overview of the major trade facilitation issues facing transition economies and to indicate where the United Nations Economic Commission for Europe (UNECE), the Committee for Trade, Industry and Enterprise Development (CTIED) and the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) could contribute in addressing these issues.

I DEVELOPMENT OF TRADE FACILITATION IN TRANSITION ECONOMIES

2. Since 1990, the transition economies, and the Commonwealth of Independent States (CIS) in particular, have faced difficulties with regard to fast clearance of goods at the borders and optimizing the processing of documentation at various offices. Even for those States which already had established borders before 1989, the nature of Customs operations changed. For the new States with newly instituted international borders the creation of an entirely new infrastructure has become a necessity. Some purely logistical problems persist, such as creating new border crossings that are hundreds of kilometres away from any pre-existing supplies of water, electricity, food and police offices or increasing the staff of national Customs Administrations by 500-600 per cent in some cases.

3. Governments in these countries are willing to establish modern commercial borders using modern systems and methods, and there has been a positive response on the part of the Western trading partners, and the European Union, in particular, to help them do so. In order for this assistance to be effective, however, more comprehensive programmes involving fewer ad hoc solutions are required. One positive example is the diagnostic studies programme instituted by the World Customs Organization (WCO), which helps national administrations analyse their own problems and determine the best solutions. The WCO has set up a database indicating the assistance required and work to be done in many administrations.

4. In most transition economies, the administrative, transport and warehousing infrastructure related to international trade is in serious need of development. The practice, in many cases, is that assistance for the improvement of this infrastructure is linked to the commitment of the respective countries in transition to modernize their international trade procedures.

5. Recommendations on the facilitation of international trade transactions, many of them developed by the UNECE, already exist. However, there is not enough awareness of these recommendations on the part of trade operators, and, too often, also on the part of individuals or organizations providing technical assistance to transition economies. Consequently, "procedures" continue to be an indirect trade barrier whose effects are often reflected in increased, or unpredictable, processing times, which have a cost and a negative impact on trade competitiveness that is real but difficult to measure.

6. In compliance with UNECE Recommendation No. 4: *National Trade Facilitation Bodies*,¹ most countries in central and eastern Europe have created national trade facilitation bodies ("PRO" committees). The work on the trade facilitation project jointly sponsored by the Czech Republic and UNECE has indicated some of the major lessons and recommendations for setting up and operating a successful work programme in a national trade facilitation organization in a transition economy.²

1 See www.unece.org/cefact/rec/rec4en.htm

2 See UN Document TRADE/CEFACT/2001/32

7. For example, the need to give adequate time for the implementation of real change; the usefulness of local events for raising awareness, particularly among government officials; and the need to develop forums where government and business can communicate and jointly develop plans for an effective and properly facilitated national trade environment.

8. The Southeast European Cooperative Initiative (SECI) has assisted in establishing national "PRO" committees in its member States to mobilize the public and private sectors to simplify procedures and otherwise facilitate trade. The Governments of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania and the former Yugoslav Republic of Macedonia have solicited financial assistance from the World Bank for one project in each country to improve the infrastructure at their border crossings and one of the conditions for accepting the project was that they improve trade procedures. These projects started in 2000 and are planned for a three-year period.

9. In January 2002, at the Eighth Meeting of the Working Group on Trade Liberalization and Facilitation under the Stability Pact, a report was presented on the World Bank and SECI-supported "Trade and Transport Facilitation Programme", which is being implemented on behalf of a number of donors. The overall aim of the Programme is to ensure a more efficient and effective Customs system in the region and it will shortly cover all SECI member countries, including Yugoslavia and the Republic of Moldova. The Programme has four components :

- reform of Customs procedures
- trade facilitation
- integration of Customs systems
- improvement of roads and border crossings.

10. Significant progress was reported in Customs reform and trade facilitation, including the preparation and approval of new legislation in a number of countries and progress towards the implementation of a single payment window. An active training programme comprising distance learning and conventional programmes is under way. However, there has been less progress in the area of information management and improvement of border crossings. Further information is available at the seerecon.org website.

11. Again, with reference to trade facilitation in Southeast Europe, Working Table II of the Stability Pact has developed a Memorandum of Understanding on Trade Liberalization and Trade Facilitation between Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro (as part of Yugoslavia), Romania, and Yugoslavia. In addition, there are a growing number of bilateral free trade agreements in the region, as can be seen in the annex to the present paper.

12. Developing national trade facilitation bodies, pursuant to UNECE Recommendations, is on the agenda of international trade activities in the Russian Federation and other countries of the CIS. In this context, the expertise of UN/CEFACT, SECIPRO, FITPRO and the other national trade facilitation bodies cooperating with UN/CEFACT may be very useful for these countries.

13. Despite the significant progress described above in implementing trade facilitation measures in some transition economies, much work remains to be done, especially in many of the other transition countries not

mentioned above. Feedback received by the UNECE secretariat indicates such typical problems as lack of coordination between the related activities of various institutions; lack of interest among small and medium-sized enterprises and lack of willingness among them to bear part of the cost for providing a public good (such as trade facilitation); as well as slow implementation and a lack of harmonization among electronic tools used in international trade.

14. A study within the framework of Working Table II of the Stability Pact has indicated slow licensing and registration procedures, and cumbersome technical barriers to trade (TBT), particularly in the areas of sanitary and phytosanitary (SPS) and quality control measures, as being widespread and costly problems impeding trade flows in the western Balkans. As another example, the World Bank report on Trade Facilitation in the Caucasus (October 2000) emphasized the particular problem of overly bureaucratic procedures and rent-seeking activities, an issue that hampers trade in varying degrees in several transition economies.

15. In general, trade facilitation faces the classical problem of any public good – the difficulty of defining who will be able, and willing, to bear the cost of providing it. Thus, raising awareness of the benefits of trade facilitation is a cornerstone for its acceptance and implementation.

II. ELECTRONIC BUSINESS

16. Transition economies face problems in implementing modern information and communication technologies (ICT). In some cases companies develop electronic means to facilitate their trade transactions, but Customs and other agencies are not equipped to deal with them. In general, these countries have qualified ICT specialists and the challenge is to use part of this potential for trade facilitation.

17. In Russia, for example, a number of companies provide ICT solutions for businesses (mostly business-to-business), using a pool of well-trained ICT specialists. Some businesses (e.g. the GUM store in Moscow with its web site) successfully use Internet. There is no unique standard for messages, most companies bilaterally agree on the terms. Extended markup language (XML) is in use. A number of companies, working with the representative office of Microsoft, are developing an XML standard for Russia (adapted to the local requirements). Companies providing ICT solutions for traders in Russia work with their clients with XML. UN/EDIFACT, however, is not widely used in the Russian Federation.

18. A key problem for the automation of foreign trade activities in the Russian Federation is the fact that Customs are not equipped for such operations. If a company prepares a foreign trade operation through electronic means, the automated chain often breaks at Customs. The Customs administration requires five different forms to be filled and handed in by the trader. One major obstacle to the development of ICT solutions is the lack of a legislative basis. The adoption of a Law on Electronic Signatures and a Law on Electronic Documents is expected but, for the time being, Customs officers insist on their old requirements.

19. Other transition economies are experiencing similar problems. At its meeting in Istanbul, Turkey, on 16 and 17 October 2000, the Stability Pact launched a project aimed at developing the infrastructure for electronic business, such as electronic networks and accompanying reforms to modernize business and government

procedures, which will be part of development and reconstruction in the region.³ A first meeting within the framework of this project, called eSEE (e-Southeast Europe) took place in Zagreb in January 2001.

20. The rapid pace of change in information and communication technology could widen even further the “digital divide” between countries. More and more countries and enterprises, especially large multinationals, are facilitating their trade operations by discontinuing the use of paper documents and by moving to modern means of electronic exchange of information in their commercial transactions and in the clearance of their goods. As large companies begin to require their partners to communicate business information via electronic means, enterprises in countries in transition which do not have these capabilities find themselves at a competitive disadvantage. Increasingly, international supply chains dominate trade in the region, and without adequate training and technology, the transition countries will face exclusion from a major trend in the world market.

III. REGIONAL ADVISORY SERVICES

21. The principal objectives of the activities of the UNECE Regional Adviser on Trade Facilitation are to increase awareness of trade facilitation issues and act as a catalyst for trade facilitation in countries in transition. The Regional Adviser has been proactive in supporting the establishment of national trade facilitation bodies in countries with transition economies. He has been actively participating in seminars and workshops, and developing information materials to be used for trade facilitation education and training.

22. Recently, the Regional Adviser has been instrumental in promoting major trade facilitation initiatives in the transition economies, especially in Southeast Europe, Central Asia and the other countries of the CIS. He is the focal point of the trade facilitation segment (SECIPRO) of the Southeast European Cooperative Initiative (SECI).⁴ He provides the secretariat for the Regional Steering Committee of the Trade and Transport Facilitation project for Southeast Europe (TTFSE), realized within the SECI framework and supported by the World Bank.⁵ He has been particularly active in promoting trade facilitation in Working Table II (economic and commercial issues) of the Stability Pact for Southeast Europe. In cooperation with other institutions, he is making an important contribution to the trade and transport facilitation activities of the United Nations Special Programme for the Economies of Central Asia (SPECA).⁶ He is also one of the key contributors to the joint project of the Czech Republic and UNECE for trade facilitation in the transition economies, whose beneficiaries are planned to be Belarus, Kazakhstan, Lithuania, the Republic of Moldova and Ukraine.

3 <http://www.stabilitypact.org>

4 For more information please refer to the web site of SECIPRO: <http://www.unece.org/secipro>

5 For more information please see: <http://www.seecon.org/index.html>

6 For more information please see: <http://www.unece.org/speca>

23. The transition economies still need to address essential problems mainly regarding the improvement of international trade procedures, but also in the advancement of electronic business. The Regional Adviser has played and is expected to continue to play an important role in the provision of knowledge and networking in this field.

IV. POLICY CONSIDERATIONS

24. It is particularly important that economies in transition include trade facilitation and electronic business development projects in their policy-making activities. For example, the Government of Estonia has placed a great deal of emphasis on improving government procedures and developing ICT “e-government” solutions for doing so (in particular through its Tiger Leap programme). Another example, is the “E-Macedonia for All” project which will assist in the creation of a national Centre for the Digital Economy and a number of start-up Internet companies. This work is being promoted by the Government in cooperation with the UNECE Team of Specialists on Internet Enterprise Development.⁷

25. The transition process has also reached a point where countries that have been less successful in improving their trading environment can learn from those which have been more successful in doing so. Another source of information, or guidelines, with regard to the necessary, detailed changes required in legislation and other areas may be, for some countries, the conditionalities imposed on accession countries to the European Union in areas related to trade.

26. Trade facilitation techniques can act as a catalyst for economic growth. Arguably, trade facilitation should become part of national economic policy. An industrial policy incorporating trade facilitation techniques should include measures to facilitate business investment, improve public infrastructure (e.g. telecommunication networks), and promote research, education and training in this field.

V. CONCLUSIONS

27. The above assessment indicates that while significant progress has been made in some transition countries *vis à vis* the development of trade facilitation, this is certainly not the case in all transition economies and much work remains to be done. Specific areas requiring attention are as follows:

- (a) **Trade facilitation as a trade development tool:** As argued in this paper and in the UNECE paper on “Trade Facilitation in a Global Trade Environment”,⁸ trade facilitation can have a significant impact on trade and economic development and should, therefore, be included as a key policy tool for development. It is suggested that transition economies carefully consider this point and should look at the issue from a policy rather than a technical perspective.

7 For further information, please contact Mr. Dae Won Choi, Secretary of the UN Team of Specialists in Internet Enterprise Development, at daewon.choi@unece.org

8 UNECE, “Trade Facilitation in a Global Trade Environment” (TRADE/2002/21)

- (b) **Political Will:** The introduction of trade facilitation instruments can often require major changes to existing infrastructures and procedures. Strong political will at the senior levels of government and business is required to introduce such changes and to see them through to completion. In order to achieve this level of political will and support, it is necessary to generate enhanced awareness of the significant benefits both for Governments and for business associated with trade facilitation. It is suggested, therefore, that a strong promotion campaign be launched by UNECE / UN/CEFACT and other national and international organizations involved in trade facilitation, directed to these target audiences.
- (c) **Training and awareness** is also required to enable transition economies to fully participate in negotiations for the inclusion of trade facilitation in the World Trade Organization.
- (d) **National Agendas:** The specific requirements for trade facilitation will vary significantly from one country to the next. It is essential, therefore, that each country develop a national agenda or action plan for trade facilitation development. These action plans should be based on international norms and standards and should be consistent with international priorities in this area. National trade facilitation agendas should be developed in close cooperation between the government and business community. The existing PRO organizations could be most useful in spearheading and coordinating this work. Existing diagnostic tools, such as the WCO diagnostic studies programme previously mentioned and the audit methodology developed by the World Bank, should be used⁹.
- (e) **Regional Agendas:** Transition economies should consider regional approaches to trade facilitation wherever possible. This could both facilitate regional trade and open the doors to the broader international community. In addition, transition countries with well-developed trade facilitation experience and infrastructures should work with other countries in their region to share both their experience and expertise. In particular, it may be useful to establish a network within the transition economies (of Governments, businesses and NGOs), which will provide feedback on the utility and practical implementation of the products of UN/CEFACT in transition economies. To this effect, UN/CEFACT could interact with, for instance, the trade facilitation segments of the Stability Pact, SECI, SPECA, and the TTFSE project.
- (f) **Technical assistance:** There is a major need for technical assistance to support the development of trade facilitation in some transition economies. As present, a relatively open attitude to such assistance exists in the donor community, particularly in the context of the WTO Doha Development Agenda. Transition economies should seize this opportunity and present requests to relevant donor organizations, based on the above-mentioned national and regional development agendas. UNECE could assist transition economies in both the preparation and the presentation of such requests.
- (g) **Public private partnerships:** In addition to the above, transition economies are strongly encouraged to develop public/private sector partnerships in the establishment of trade facilitation systems and infrastructures. The examples of Mauritius and Singapore should be considered in this regard.

9 World Bank (2001), "Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action"

- (h) **Implementation of existing trade facilitation instruments:** An important first practical step would be to consider existing trade facilitation recommendations and guidelines, and look for ways of implementing them in the transition economies. These may include many from the UNECE, such as the UN Layout Key for Trade Documents (Recommendation 1), codes for trade data, Recommendation 31: *The Electronic Commerce Agreement*, Recommendation 32: *Self-Regulatory Instruments in E-Commerce (Codes of Conduct)*, UN/EDIFACT and the technical specifications for electronic business XML (ebXML).
- (i) **Development of trade facilitation structures to support the new economy:** In addition to implementing existing trade facilitation measures, transition economies should seek to develop and implement relevant trade facilitation infrastructures to support the new economy characterized by e-commerce and global supply chains. Indeed, it is imperative that transition economies seek to exploit the advantages of such developments at the earliest possible stage of their trade facilitation development.
- (j) **The need for benchmarks:** The establishment of benchmarks regarding the level of trade facilitation development would be most useful in determining the current status of development and prioritizing the work required to be undertaken within the national trade facilitation agenda. Much work needs to be done internationally in the establishment of such benchmarks and the transition economies could play a lead role in both developing and testing such measures of trade facilitation implementation. The availability of benchmarks would be most useful to transition economies in targeting and (measuring progress) for technical assistance. The UN/CEFACT International Trade Procedures Working Group could assist in this development.
- (k) **Greater involvement of transition economies in developing trade facilitation instruments:** Transition economy countries should be involved on a larger scale in developing trade facilitation standards and recommendations. Involvement in the development process could be provided through technical cooperation, as this would ensure a greater understanding of norms, recommendations and guidelines. This could be realized through participation in the UN/CEFACT International Trade Procedures Working Group.
- (l) **The role of the UNECE Regional Advisor:** UNECE and its subsidiary bodies CTIED and UN/CEFACT, should work with the Regional Adviser on Trade Facilitation and the national trade facilitation bodies in these countries to:
- Update information on the specific needs of the transition economies in trade facilitation with a view to helping Governments, the business community and potential donors to devise and implement technical cooperation projects. The emphasis should be on the implementation of trade facilitation instruments.
 - Developing educational materials and training experts in the facilitation of trade procedures and electronic business;
 - Assisting in the establishment of new national trade facilitation bodies, especially in the countries of the CIS, using the lessons from the experience in central and eastern Europe and SECIPRO;
 - Offering expert advice in the field of simplifying and harmonizing trade procedures and in the implementation of electronic tools in international trade;

- Providing assistance on the basis of the expertise within UNECE and UN/CEFACT in the areas of legal, procedural and documentary trade facilitation and in developing international standards for electronic business, including UN/EDIFACT and the latest technological solutions.

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		Albania	Bosnia and Herzegovina	Bulgaria	Croatia	FYR of Macedonia	Republic of Moldova	Romania	Yugoslavia
Albania			Under Negotiation Meeting date To be determined		Under Negotiation Meeting 27/28 February	<i>Initialled</i> 11 January, 2002			Under Negotiation Meeting end March.
Bosnia and Herzegovina		Under Negotiation Date for meeting to be determined			Applied from 1/1/2001	Under Negotiation Proposals under consideration			Signed 1 February, 2002
Bulgaria					<i>Signed</i> 4 December, 2001	Applied from 01/01/00		<i>CEFTA</i> Meeting 21 Feb. (as part of wider CEFTA group)	Under Negotiation Met 5 and 6 February
Croatia		Under Negotiation Meeting 27 and 28 February	Applied from 1/1/2001	<i>Signed</i> 4 December, 2001		Applied from 09/05/97		Under Negotiation Meeting on 22 February	Under Negotiation Met early February, next meeting April
FYR of Macedonia		<i>Initialled</i> 11 January 2002	Under Negotiation Proposals under consideration	Applied from 01/01/00	Applied from 09/05/97 Meeting in early February on possible revision				Applied from 7/10/96 Under revision, met mid February
Rep. of Moldova								Applied from 17/11/94	
Romania				<i>CEFTA</i> Meeting 21 Feb (as part of wider CEFTA group)	Under Negotiation Meeting on 22 February		Applied from 17/11/94		Agreement to commence negotiations announced at PM level
Yugoslavia		Under Negotiation Meeting end March	Signed 1 February, 2002	Under Negotiation Met 5 and 6 February	Under Negotiation Met early February, next meeting March	Applied from 7/10/96 - under revision met mid February		Agreement to begin negotiations announced at PM level	

Free Trade Agreements in Southeast Europe as of 22 February, 2002