Trade Facilitation and the COVID-19 Pandemic

22 April 2020

Trade facilitation is critical in the current crisis to ensure the swift movement of essential medical, food and IT supplies.

Implementing reforms in the WTO Trade Facilitation Agreement can help. In particular, governments can do three things:

- First, they can ensure that all formalities are transparent and accessible to all traders, especially Micro, Small and Medium-sized Enterprises;
- Second, they can expedite standard formalities to leave room for necessary additional COVID-19 related controls;
- Third, they can digitise all possible processes as much as their infrastructure allows to speed up processing and reduce the need for physical contact between border agencies and traders.

Trade facilitation is particularly important for the MSMEs hit hardest by the crisis. Reforms to automate and streamline border procedures, simplify fees and foster inclusion of MSMEs in consultation processes matter most.

In the midst of this global crisis, international co-operation in trade facilitation will remain important to keep trade flowing. Continued aid for trade will be particularly important to assist developing countries to implement trade facilitation measures needed in the crisis.

What's the issue

While declining trade is largely a reflection, not a cause, of the current economic contraction, rising trade costs – from transport, logistics and supply chain disruptions, as well as additional border controls and documentation requirements – act as additional brakes on both trade flows and the global economy. The World Trade Organization (WTO) forecasts the fall in world merchandise trade to be larger than the decline in GDP, with estimated declines ranging from 12% to 32%, given the high degree of uncertainty about the duration and severity of COVID-19 and the measures necessary to contain it. The rise in trade costs from additional border controls, transport and associated logistics-related disruptions is estimated to account for up to a third of this decline (WTO, 2020).

Disruptions experienced in the transport and logistics that move goods to and beyond the border, leading to as shortages in sea, air and road cargo capacity[1] are impacting trade routes worldwide. Additionally, to limit the spread of the pandemic, many governments have put in place measures such as channelling traffic through fewer border crossings; conducting at-the-border health checks; or, in some cases, reintroducing border controls that had previously been removed. These measures place additional demands on border agencies that are also wrestling with how to efficiently carry out their functions while implementing containment measures such as social distancing.

Yet the smooth operation of logistics chains in the midst of the COVID-19 outbreak depends on reconciling the fast and efficient movement of goods and services with increased control measures, temporary disruption to staffing, and restrictions on human contact.

Early information from interviews with businesses across a range of sectors indicates that the speed and facility with which shipments are being cleared has already been negatively affected by the COVID-19 crisis. For instance, within the European Union, enhanced border checks are reported to have led to more than three-hour average border delays at the end of March 2020[2]. With keeping the flow of goods moving quickly across borders critical to many countries' food supply, to the global economy and most importantly to the supply of pharmaceutical and sanitation products essential for facing the pandemic, there is a need to find solutions fast. The trade facilitation measures that countries have already agreed to implement as part of the WTO Trade Facilitation Agreement can help quickly. Indeed, implementing these measures is more important than ever.

Trade facilitation matters in the current crisis…

In making border processes faster and safer

In the current extremely challenging context, trade facilitation measures such as those set out in the WTO Trade Facilitation Agreement (TFA) offer a solid basis for dematerialising a significant part of the border process, so as to ensure that physical interactions between Customs and other border officials and traders are kept to a minimum.

Trade facilitation measures – such as digitizing and streamlining border processes – speed up processing while reducing person-to-person interactions

- All paperwork related to the movement of goods, including declaration, assessment and payment of duties, and release and clearance of goods can be carried out without physical contact – given

[1] https://www.agility.com/insights/COVID19/homepage/
[2] https://covid-19.sixfold.com/

sufficient digital infrastructure. This can be important in reducing the need for face-to-face interactions between traders and border officials, reducing risks of COVID-19 infection.

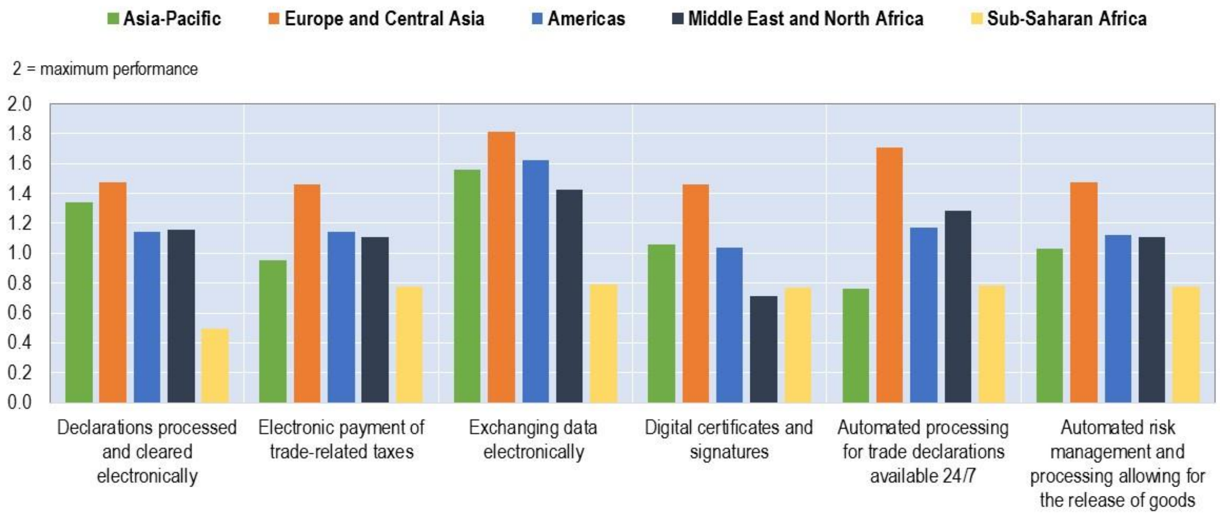
- The TFA requires that all border controls deemed necessary by authorities are undertaken in the most transparent, simplified and streamlined way. This continues to apply to all shipments, meaning that the necessary checks on those from heavily affected regions should still be transparent and as simple and streamlined as possible.
- Expediting standard formalities for the movement of goods not only reduces the time spent in physical interactions, but also makes space and time for additional controls and sanitary measures required in light of COVID-19. This is particularly important for perishable products, such as agro-food and time-critical medical products, which are essential in the COVID-19 crisis.
- Implementation of the TFA's requirements on transparency, on enhanced controls and inspections, and on information in case of detention of goods, would enable traders to adjust to the new demands and requirements with the least delay and disruptions. Indeed, in the current environment, G20 Trade Ministers have underscored the importance of transparency in trade regulation[3].

Ports, airports and land borders across Europe, Asia-Pacific and the Americas already have the tools in place to keep goods flowing

- Mechanisms limiting physical interaction – such as electronically lodging documents in advance, electronic payment of all trade-related taxes, digital certificates and signatures, or 24/7 automated processing of trade declarations – are already available in Europe and Central Asia, North America, Asia-Pacific, and Latin America and the Caribbean.
- Several economies have already implemented trade facilitation measures at their borders to address the current challenges, including "green lanes" or "corridors" for fast clearance of essential goods (such as, for instance, at intra-EU borders) or acceptance of digital trade-related documents, including sanitary and phytosanitary certificates, in place of physical copies.
- Those economies able to implement pre-arrival and 24/7 processing can also maximise use of special lanes for time-sensitive medical products and food stuffs.
- Single Windows also play an important role in speeding up border procedures, allowing "one stop shop" processing. Many economies across Asia-Pacific, Europe and the Americas already have trade Single Windows in place and can increase their use by making available more targeted user manuals for both border officers and traders.

[3] Statement by G20 Trade Ministers, 30 March 2020.

Figure 1. Many regions have the mechanisms in place to speed up border processes and reduce physical contact

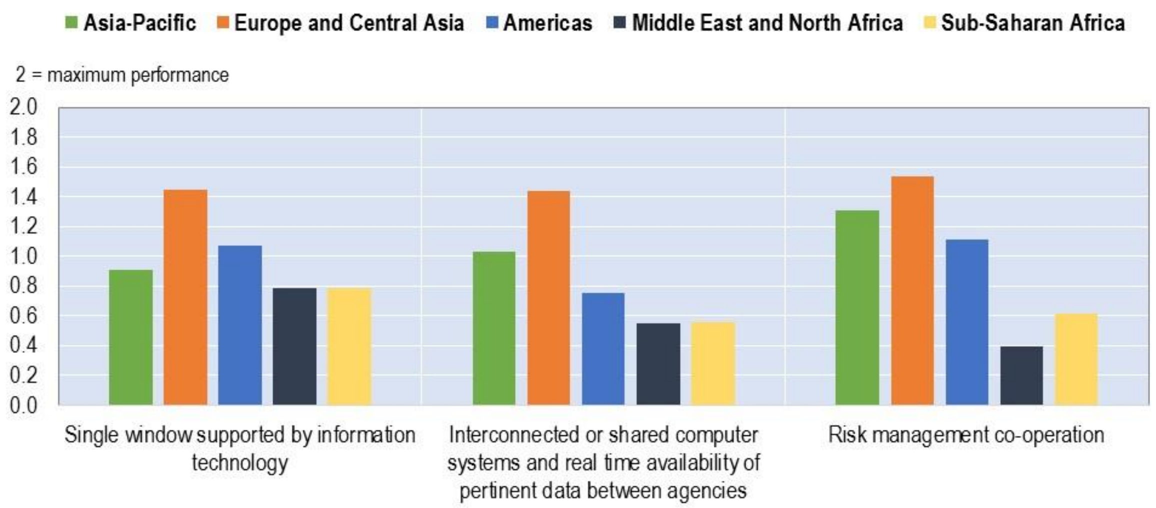


Source: OECD Trade Facilitation Indicators (TFIs) (2020).

Countries in the Middle East and North Africa and Sub-Saharan Africa can also capitalise on the tools they already have in place

- With lower availability of personnel due to confinement and social distancing measures, agencies need to make full use of their interconnected or shared computer systems and real-time availability to share relevant data among themselves to facilitate cross-border data exchange or clearing of export and import declarations electronically.
- Given the differences in capacities among countries, and the global nature of the crisis, enhanced international co-operation in risk management is key at this stage, requiring the sharing of inspection and control results among border agencies.

Figure 2. But there is a need to intensify cross-border co-operation on risk management and interconnected systems



Source: OECD Trade Facilitation Indicators (TFIs) (2020).

In facilitating e-commerce

Trade facilitation measures can ensure that goods ordered online face fewer bottlenecks, whether they cross borders individually or in bulk on their way to fulfilment centres

- With lockdown measures seriously restraining brick and mortar commercial activity, cross-border and domestic e-commerce can be important means for meeting essential needs, as well as sustaining demand and thus economic activity in all sectors. Moreover, given the significant difficulties already faced by the logistics sector in ensuring timely distribution, increased efficiency of government controls is even more important.
- TFA provisions allow for pre-arrival processing and electronic payment and for appropriate risk management mechanisms to be maintained. They also require that fees and charges applied are proportional to the processing cost. These are all important in keeping essential controls in place, while keeping costs down so that e-commerce can help fill the gap created by containment measures on conventional commercial activity.
- For both individual consumers and firms in e-commerce, transparency and availability of information are essential – to know what taxes need to be paid, how they can be paid, or which documents are necessary. To help enable e-commerce, agencies should improve what – and how – information is made available online.

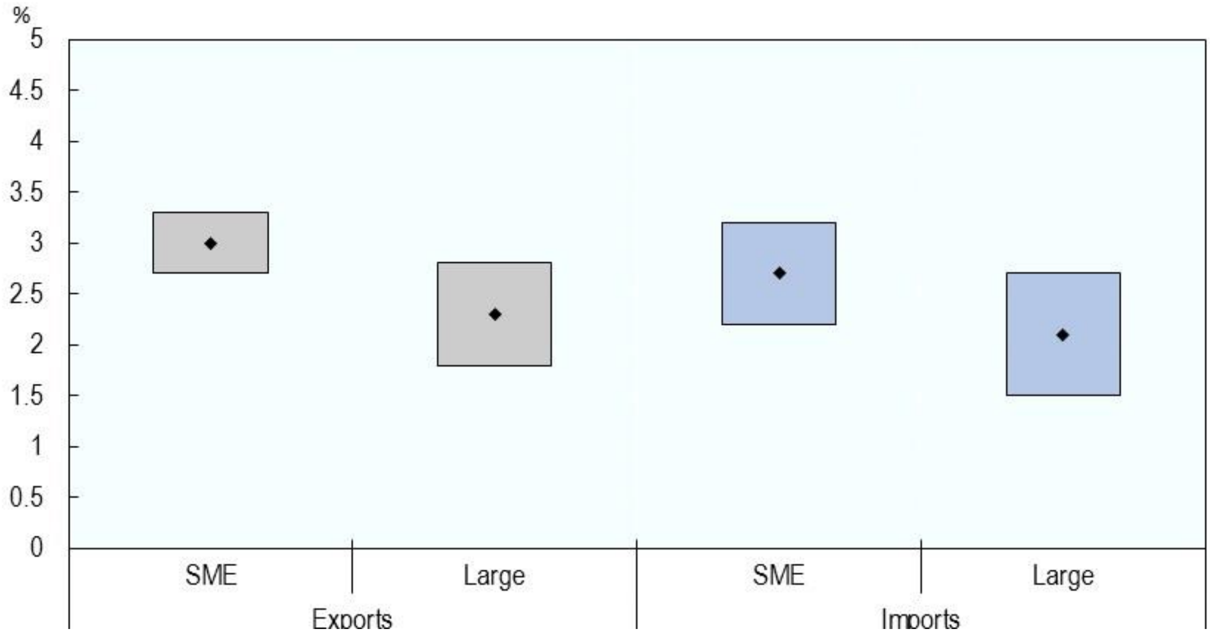
And for the firms hit hardest by the crisis

Trade facilitation is particularly important for MSMEs

- Firms of all sizes – but especially MSMEs – and from all sectors of the economy are severely affected by the current crisis. Governments have rightly taken a wide range of measures to support firms, notably MSMEs including suspending or deferring payment of customs duties and tariffs. However, there is scope to do more to help MSMEs via trade facilitation.
- While trade facilitation helps all firms, OECD work shows that improvements in the trade facilitation environment benefit smaller firms more than they benefit larger firms. Trade facilitation reforms reduce fixed and variable trade costs, helping MSMEs not only become importers and exporters, but also helping MSMEs that already export and import increase their volumes.
- Especially in developing countries, trade facilitation can have an important impact on the propensity of MSMEs to engage in exporting and importing (Figure 3).
- Similarly, while more efficient customs procedures help both large and small firms integrate into global value chains (GVCs), they also help MSMEs more (Figure 4).
- Of the range of trade facilitation reforms, measures such as streamlining of procedures, automation of the border process, simplification of fees, inclusion of MSMEs in consultation processes, or efficiency of appeal procedures have the largest differentiated impacts on MSMEs relative to larger firms. This is true across both developed and developing countries (Figure 5).

Figure 3. In developing economies, smaller firms benefit more than large firms from trade facilitation improvements

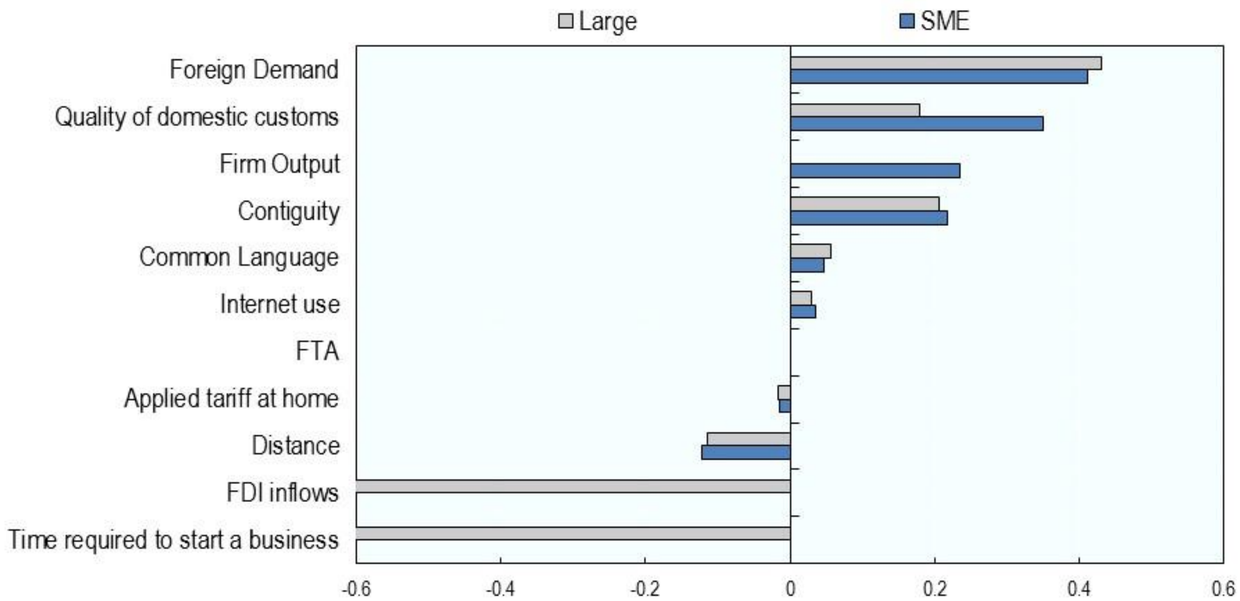
Effect of a 0.1 TFI improvement (average index of all 11 trade facilitation areas) on the probability of exporting or importing



Source: López González, J. and S. Sorescu (2019).

Figure 4. Trade facilitation helps MSMEs become integrated into GVCs

Determinants of SME participation in GVCs as buyers



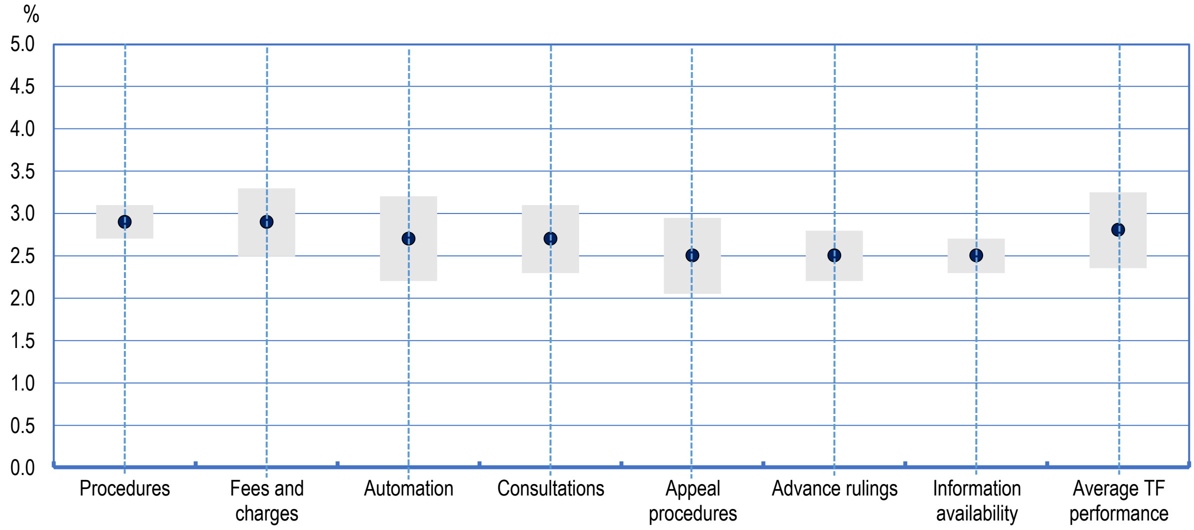
Source: OECD (2019).

Figure 5. Some reforms matter more

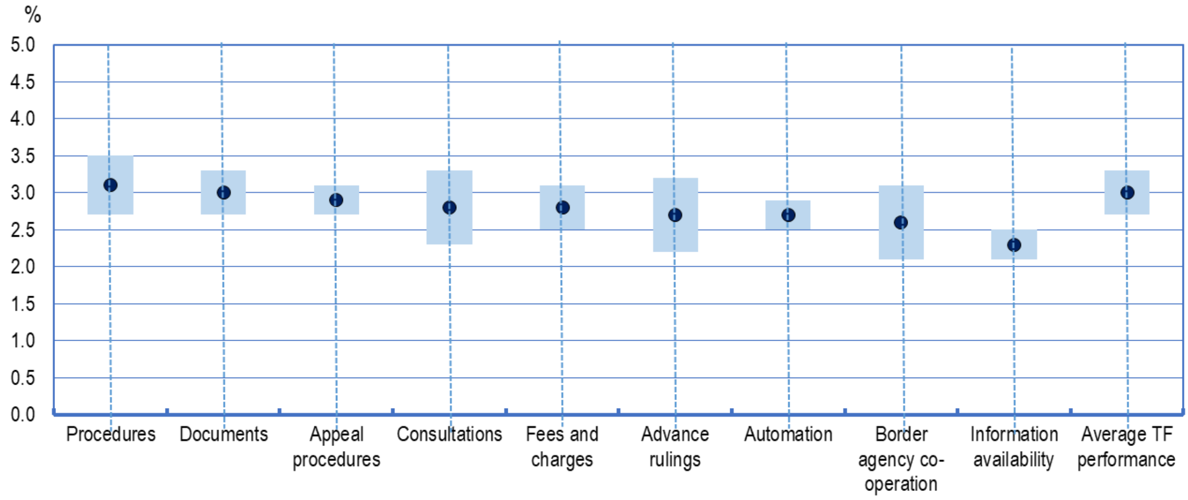
Trade facilitation policy factors underpinning SMEs propensity of exporting

Effect of a 0.1 TFI improvement (by area) on export engagement

a. In developed economies



b. In developing economies



Source: López González, J. and S. Sorescu (2019).

Continued international co-operation matters

Implementing trade facilitation reforms is very important for keeping trade flowing, and keeping MSMEs trading, even in normal times. But in the current context – with trade tensions placing strains on firms even before the significant supply and demand shock from the COVID-19 crisis – these measures represent an important effort at international co-operation to ease the burden on traders. And there are important broader economic gains from these reforms: OECD work estimates that implementation of the WTO TFA would result in trade cost reductions of between 14% and 18%, with low and lower middle-income countries seeing the biggest reductions in trade costs. But these countries also face the largest challenges in implementing reforms. This is explicitly recognised in the TFA, which links implementation to provision of assistance. Indeed, Aid for Trade commitments supporting trade facilitation increased considerably between 2016 and 2018.

More generally, since the beginning of the Aid for Trade Initiative in 2002, commitments to support Trade Facilitation have multiplied by a factor of 17, reaching USD 637.8 million in 2018. In order to address the global challenge of COVID-19, it will be important to continue the provision of assistance, and to enhance co-operation in the short term.

Sources

López González, J. and S. Sorescu (2019), "Helping SMEs Internationalise Through Trade Facilitation", *OECD Trade Policy Papers, No. 229*, OECD Publishing, Paris, https://doi.org/10.1787/2050e6b0-en.

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