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A framework for transparency in international trade

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ABSTRACT

The aim of this paper is to cover the gap in literature about transparency in the context of international trade facilitation. It focuses on the importance of transparency in achieving growth in international trade and the differences between non-transparent practices and corruption in global trade. Managing the disclosure of information about rules, regulations and laws is not the only trade policy instrument where transparency becomes important. To build a framework on levels of transparency we developed a matrix classifying the transparency of each country based on ease of doing business and levels of bribery. Four different strategies are explained based on the different scenarios of transparency in international trade. The main conclusions reflect that disclosure of information is not enough to guarantee transparency and monitoring of transparency must be improved.
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Un marco para la transparencia en el comercio internacional

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RESUMEN

El objetivo de este paper es cubrir un hueco en la literatura sobre transparencia en el contexto internacional. Esta investigación se centra en la importancia de la transparencia para alcanzar el crecimiento en el comercio internacional y resaltar las diferencias entre prácticas no transparentes y corrupción. Gestionar la disponibilidad de información sobre procedimientos, regulaciones y leyes, no es la única manera de lograr la transparencia. Para construir un marco con los niveles de transparencia, presentamos una matriz clasificando la transparencia entre los distintos países basado en sus niveles de sobornos y facilidad para hacer negocios. Cuatro diferentes estrategias en comercio internacional son posibles de desarrollar en torno a dicha clasificación. Las principales conclusiones reflejan que la publicación de información no es suficiente para garantizar la transparencia.
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1. Introduction

In the coming years, all countries will face many challenges in terms of trade facilitation. Customs will be globally networked, customs procedures will be minimized and standardized, burden procedures will be made electronically, and the interoperability among traders will increase enormously. These impending changes are based on the basic principle of transparency in the rules for providing information and the clarity of appeal procedures (customs, national authorities and courts). Researchers have become increasingly interested in ways to reduce corruption; however, there is not a consensus in the definition of transparency. The goal of this paper is to provide insight into transparency in international trade, to develop metrics to measure transparency and provide evidence of the effects of transparency in reducing international trade costs.

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We introduce a framework that combines well-known Indexes to generate a 2×2 Matrix of Transparency in International Trade to group countries and evaluate potential strategies in International Trade.

Trade facilitation encompasses actions in two main areas: hard and soft infrastructures. The former involves the long-term assets that allow the physical flow of goods, and the latter is concerned with the assets, services and procedures that allow firms to trade internationally. Specifically, trade facilitation is comprised of three main parts. First, trade facilitation includes **physical infrastructures** such as ports, airports and roads among others. Second, trade facilitation deals with **customs and borders** administrative processes, transport formalities, tariffs and the application of trade laws and regulations. And third, trade facilitation involves the use of information and communication technologies (ICT) to harmonize and **standardize trade procedures** among countries and also among all stakeholders involved in international trade (e.g., sellers, buyers, banks, traders, customs, etc.).

Soft infrastructures, especially non-tariff measures, have been considered the most important methods of facilitating trade globally since the Uruguay Round reduced tariff barriers. Today's revolution of international trade is concerned with customs and trade procedures. Now, the main mechanisms for facilitating trade cover transparency, predictability and consistency of procedures, formalities, as well as rules and laws relating to exports and imports. Improving worldwide coordination and cooperation in international trade and related services would reduce the transaction costs, fostering the growth of global transactions.

2. Brief history of transparency

Trade facilitation aims to simplify, standardize, harmonize, and make transparent the norms and practices involved in international trade. The goals of transparency have increasingly become the focus of international organizations and multilateral agreements. Key agreements about transparency are close at hand.

Article X of the General Agreement on Tariffs and Trade (GATT), published in 1994, stated the commitment of the World Trade Organization (WTO) to improve transparency through its internal and external communication. In this article, the WTO promised to make its operations more transparent through more effective and prompt dissemination of information and improved dialogue with stakeholders. The article also urged all members to publish and disseminate laws, regulations and judicial decisions that could be relevant to trade abroad. The essential implication of the article is that no trade regulation could be applied unless it had been published.

Following GATT, the Doha Ministerial Declaration in 2001 recognized the need for the clarification of three cornerstones of international trade: non-discrimination, transparency, and procedural fairness in interactions between trade and competition policies.

The Revised Kyoto Convention (RKC) of 2006 states that countries wishing to become contracting parties in this convention (as of July 2013 there were 82) must accept the General Annex to the RKC which includes the following principles: (a) transparency and predictability of customs actions; (b) standardization and simplification of the goods declaration and supporting documents; (c) simplified procedures for authorized persons; (d) maximum use of information technology; (e) minimum necessary customs control to ensure compliance with regulations; (f) coordinated interventions with other border agencies; and (g) partnership among members of the supply chain (formal consultative relationships).

More recently, in 2009, the Organization of Economic Cooperation and Development (OECD) approved the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 2011). This Recommendation reinforces international understanding and cooperation regarding bribery in international trade transactions. At the same time, transparency has become the minimum standard for accountability in both the public and private sector (Smithe & Smith, 2006). Not coincidentally, transparency can generate accountability (Fox, 2007).

These agreements create a framework for applying transparency in international trade. Hence, transparency can be applied in three ways: trade facilitation, consultation processes, and regulations. Transparency enormously influences the way goods are moved across borders and along the full supply chain. Indeed, transparency has become an essential component of trade facilitation. Furthermore, transparency is vital to the consultation processes among private and public institutions to bring together the strengths of both sectors and increase the efficiencies of international trade. Finally, transparency refers to the elaboration, adoption and implementation of rules and the practices acquainting stakeholders with the relevant measures affecting international trade.

The objective of this paper is to shed light on the study of transparency within the international supply chain, especially in border and "behind-the-border" measures. This paper contributes to an examination of the way those measures, rules, and policies are administered with transparency. While a number of previous studies have examined the broader links between institutions and trade (Smithe & Smith, 2006; Tibana, 2003), our focus is on analyzing in detail the issue of transparency in terms of trade facilitation. This paper adds to the literature by examining new dimensions of the determinants of transparency – namely, the effects of losses; the value of gifts expected in order to secure a government contract; the value of gifts expected to obtain an import license or to get things done; and the amount of documentation, time and expense required to export and import. The framework to be introduced, in the form of a 2×2 matrix that combines the "Doing Business Index" and a "Bribery Index," allows grouping countries and categorizing them into four groups to get a better understanding of the available strategies for International Trade.

Transparency has a key role in the avoidance of unnecessary trade restrictions. This paper is not focused on how governments can apply a number of non-tariff trade policy measures such as technical standards, trade remedies, and quotas, which all are considered trade barriers. Rather, in this paper we provide an analysis of non-transparent practices, which are also called hidden trade barriers (Helble, Shepherd, & Wilson, 2009). These hidden trade barriers take the form of gifts, irregular payments for exports and imports, and bribes.

Using a cost-benefit approach, it is possible to save some costs from transparency by deploying resources efficiently in customs. But transparency could also involve the entire chain of import-export operations, including not only traders, customs and other regulatory authorities, but also private-sector participants such as banks, customs brokers, insurance companies, freight forwarders and other logistics service providers. It is well known that high trade costs and weak logistics erode international trade business. Conversely, it has been shown that transparency in a business environment significantly increases the flow of international trade (Duval & Utoktham, 2011). The benefits that transparency brings to international trade include: improving trader compliance; easing the logistics procedures; increasing the efficiency and guarding against delays in port inventories and logistic hubs; and speeding up documentary procedures among importers, exporters, traders, freight forwarders, and other logistics providers (e.g., port operators, carriers), which actually reduces trade costs.

By observing costs, number of documents, and days required to import and export as illustrated in Figs. 1 and 2, it is possible to see less bureaucracy in imports than in exports, in terms of the number

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