

A perspective on the impact of trade friction on customs performance

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Abstract

International trade contributes significantly to economic growth. Yet, increasing cases of trade friction have emerged as one of the main issues undermining international trade. Indeed, the WTO-OECD-UNCTAD *Reports on G20 trade and investment measures* state that ‘at a time of continuous economic difficulties, trade frictions seem to be increasing’. The most frequent measures associated with trade friction continue to be trade remedy actions, in particular the initiation of anti-dumping investigations, followed by more stringent customs procedures.

Customs administrations are mandated to control the cross-border movement of goods and thereby safeguard national interests. However, with increasing cases of trade friction, where certain forms of trade are perceived by one country to have negative economic consequences, Customs face a conflicting situation between the desire to manage their performance effectively and efficiently and the political inference that inefficient customs procedures can actually be a desirable objective in instances where two countries are mired in trade friction. This paper analyses the impact of trade friction on customs performance and suggests a number of indicators that may be useful in analysing trade friction.

1. Introduction

Recent *Reports on G20 trade and investment measures*,² prepared by the World Trade Organization (WTO), Organization for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) indicate that ‘at a time of continuous economic difficulties, trade frictions seem to be increasing’ (WTO-OECD-UNCTAD 2012, p. 5). The mid-May to mid-October 2012 Report also calls on G20 governments to ‘redouble their efforts to keep their markets open, and to advance trade opening as a way to counter slowing global economic growth’ (WTO-OECD-UNCTAD 2012, p. 5). According to the Report, the trade coverage of the restrictive measures put in place since October 2008, excluding those that have been terminated, is estimated to be around 3% of world merchandise trade, and around 4% of the trade of G20 economies. The most frequent measures used in trade friction are the standard trade remedy actions, in particular the initiation of anti-dumping investigations and surveillance measures, followed by more stringent customs procedures such as the application and enforcement of anti-dumping measures.

Since their first summit meeting in 2008, the G20 leaders have agreed to take measures to promote global financial stability; this includes the shared view of resisting widespread protectionism. Despite this commitment, there is no strong evidence to indicate a slowdown in the imposition of new trade restricting measures. What is worrisome is that the restricting measures so far have not successfully

solved nationalistic problems and risk generating trade friction and tit-for-tat reactions amongst trading partners.

Notwithstanding the various causes leading to trade friction, it also has an impact on customs performance; for example, by requiring Customs to enforce technically complex measures borne out of trade friction, or simply by the fact that in a situation where two countries enter into trade friction, inefficient customs procedures – at least at home – may be considered virtuous. This paper attempts to address the following questions: what is trade friction? what are the implications of trade friction on customs performance? and, what performance indicators can be applied in light of the customs measures borne out of trade friction?

2. What is trade friction?

There is no common agreement on the definition of trade friction, be it by international organisations or amongst those countries mired in trade friction. However, the OECD argues that the promotion of trade policies in support of market access and ‘fair’ trade can be at odds with the competition policy aim for efficiency in cases where managed trade is used to gain market access or where remedies are applied to protect domestic producers from ‘unfair’ trade. Trade friction can arise because competition laws and market regulations are designed primarily with domestic consequences in mind (OECD 1996). Suggesting a solution, the WTO states that ‘Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them. ... Trade friction is channeled into the WTO’s dispute settlement process where the focus is on interpreting agreements and commitments, and how to ensure that countries’ trade policies conform with them. That way, the risk of disputes spilling over into political or military conflict is reduced’ (WTO 1994).

By reference to the applicable literature and the documents of relevant international organisations, many other terms bearing similar implications to trade friction can be found. These include *trade tension*, *trade dispute* or *trade conflict*, suggesting multiple levels of tension between trading partners. By reference to the causes and consequences of past and current trade friction between the US-EU, US-Japan, EU-Japan, US-China, EU-China, the following definition can be offered:

New tariff and non-tariff restrictive measures encompassing procedures that are inconsistent with WTO rules, especially technical barriers and customs procedures that impede free trade and the flow of legitimate goods. These restrictive measures are driven by protectionist trade policies and restrictive border regulations designed to support the national interest.

This definition, however, is subject to further discussion. For example, the Economic Planning Agency of Japan (1986) defined that ‘fundamentally speaking, trade friction is a phenomenon which arises when trade protectionism or the Customs of major countries themselves collide’. However trade friction is defined, there are several factors which jointly create a climate conducive to trade friction. Examples for a trade friction conducive climate include:

- The rise in protectionism resulting from economic recessions or imbalanced bilateral trade. With tight government budgets, high unemployment, and slower growth, governments may employ trade protectionist measures like WTO-inconsistent trade policies, extra technical standards, and various remedies and barriers to protect domestic labour markets or to prevent the excessive import of foreign goods.
- The increase in illegal trade such as smuggling, intellectual property rights (IPR) infringement, and harmful goods transactions which lead to disputes and lack of trust between importing and exporting

border agencies. In addition, profiteers and non-compliant traders rush to cut prices under informal transactions which result in implementing protective measures and remedies by the importing economy.

- The lack of real and complete customs statistics to assist decision makers. In this context, a particular challenge is that production networks are global and can be extremely complex. Consequently, intra-firm transactions³ can involve multi-nationalities and therefore challenge the interpretation of traditional trade statistics.

3. Implications of trade friction on customs performance

According to the *Reports on G20 trade and investment measures*, over the review period mid-May to mid-October 2012, 55 border measures were recorded, out of which the majority were measures that facilitate trade (64%). The main facilitating measure was the reduction and in some cases, elimination of import tariffs, while stricter customs procedures were among the main trade restrictive actions at a time of continuous economic difficulties and increasing trade friction.

Table 1: Border measures, mid-May 2012 to mid-October 2012

| Type of border measure | Restrictive | Facilitating | Total |
|----------------------------|-------------|--------------|-----------|
| Tariff | 6 | 30 | 36 |
| Tax | 3 | 1 | 4 |
| Customs procedures* | 9 | 4 | 13 |
| Quantitative restrictions | 1 | 0 | 1 |
| Other | 1 | 0 | 1 |
| Total | 20 | 35 | 55 |

* *Emphasis added*

Source: WTO-OECD-UNCTAD 2012, p. 10.

Trade friction has significant implications on Customs. A brief study of measures adopted in cases of trade friction generally includes trade remedy actions, tariff increases, quantitative limits (quota), higher technical standards of licences and restrictive customs controls. Such restrictive measures administered by Customs will reduce service levels and increase the compliance cost for business as well as the administrative costs for Customs. Therefore, Customs is frequently caught in an enforcement dilemma and becomes an object under attack from society, even from those stakeholders with high expectations of administrative efficiency and effectiveness. This situation can be exemplified by reference to the core customs roles identified in the WCO strategy document *Customs in the 21st century*. These roles are: promoting socio-economic development; creating the conditions for economic growth; controlling borders; providing security; and protecting citizens (WCO 2008).

3.1 Implication on customs revenue collection to promote socio-economic development

In most countries, customs revenue collection remains the main source of national revenue. In some African countries, that source represents more than 50% of their national revenue collection. This demonstrates that international trade drives economic growth as well as confidence in the faith of either *Smith's Absolute Advantage theory* or *Ricardo's Comparative Advantage theory*. However, in times of economic recession or in the context of imbalanced bilateral trade, governments likely employ trade protectionist measures and barriers to protect domestic labour markets or to prevent excessive importation of foreign goods. This becomes one of the main causes of trade friction.

Although protectionism is a broad issue generally out of reach of Customs and not within the scope of this paper, it can impact negatively on customs performance due to the fact that a significant share of restrictive measures will be performed by Customs or under customs supervision, including trade remedies such as anti-dumping duties, countervailing duties, and safeguard measures. In this connection, when trade friction is occurring, those trade restrictive barriers can cause national economic competitiveness to weaken due to the lack of facilitation of entry into a market and an increase of uncertainty for traders doing business. In examining the history of trade friction, such ensuing restrictive measures do not necessarily solve nationalistic expectations and risk, generating tit-for-tat reactions by trading partners.

Box 1: Case analysis on the Japan-US trade friction that trade remedies could not solve nationalistic problems

According to David Flath (1998): 'Before 1980, most of the friction was generated by U.S. industries seeking protection from Japanese imports, including textiles, steel, televisions, and automobiles. ... By the mid-1980's, a substantial fraction of Japan's exports to the United States were subject to Japanese government restraints. Nevertheless, protectionist pressures in the U.S. seemed to grow rather than dissipate. To counterbalance the protectionist pressure, American politicians and government officials attempted to shift the focus of U.S. trade policy, away from Japanese imports and towards expanded sales of U.S. products to Japan ... From the one-sidedness of the complaints, one might think that Japan-U.S. trade friction really is about Japan's "unfair" practices and "closed" markets. It is not. It is about how best to deal with, or deflect, the protectionist response in the U.S. to expanded Japanese exports ...' (Flath 1998, p. 7).

'The television case is illustrative. A 1968 petition by Zenith for imposing anti-dumping penalties on Japanese exporters was decided upon favorably by the U.S. Tariff Commission in 1971 ... Meanwhile, in December 1970, some American television manufacturers had initiated antitrust suits against the Japanese competitors (yes, charging them with violating U.S. law by pricing their products at too low a level) ... After the USITC [US International Trade Commission] ruled favorably on a petition by Sylvania for special protection based on the [WTO] escape clause, the government of Japan acceded to voluntarily restrain its exports of color television sets, between July 1977 and June 1980. The voluntary restraint did not prevent television imports from entering the U.S. from countries other than Japan ... Within a few years after the voluntary export restraint had expired, Zenith was the only American-owned manufacturer of televisions still in operation' (Flath 1998, pp. 9-10).

3.2 Implication on trade facilitation for economic growth and competitiveness

In most countries, trade facilitation is the key task of Customs in order to meet socio-economic development and national competitiveness, as evidenced by the WCO SAFE Framework (WCO 2011) and the WCO PICARD Programme (Partnership in Customs Academic Research and Development). Widdowson (2006) suggests that this (trade facilitation) implies keeping the amount of regulatory intervention or interference to the minimum necessary to achieve the desired policy outcome and also ensuring that regulatory requirements (red tape) are not unduly onerous or overly prescriptive. In seeking to achieve this balance, border agencies must simultaneously manage two risks – the potential for noncompliance with relevant laws and the potential failure to provide the level of facilitation expected by their government. This is supported by Grainger who identifies that 'transaction costs threaten business competitiveness and inhibit Customs' best use of limited control resources. However, despite the immediate utility of trade facilitation for both business and government organisations, the implementation of trade facilitation concepts is often riddled with difficulties. Most of these could be associated with conflicting interests, institutional limitations and lack of knowledge' (Grainger 2008, p. 25). This proposition is reinforced in the context of trade friction as those restrictive enforcements not only drive up trade cost but also could likewise legitimise bureaucracy or corruption if due attention is not paid to integrity and good governance where Customs is struggling with conflicting interests, institutional limitation and lack of knowledge.

The *World Competitiveness Yearbook* (International Institute for Management Development [IMD] 2009) listed one of the criteria in evaluating national competitiveness as 'Customs authorities do facilitate the

efficient transit of goods'. However, in the context of trade friction, those ensuing restrictive measures implemented by Customs serve to undermine the efforts of trade facilitation. This is clearly stated in the *Reports on G20 trade and investment measures*. When trade friction is happening, Customs is usually playing a vanguard role in implementing government restrictive policies and providing a service to realise national interest – including those measures borne out of trade friction – in the shortest possible timeframe. Yet, a poor customs service perception undermines confidence in the business environment, including economic competitiveness and implications for foreign direct investment. This situation presents Customs with a challenge as it attempts to secure the national interest through restrictive measures in a specific period as well as meeting expectations of various stakeholders for long-term trade facilitation.

Box 2: Statement from WCO and the WCO Private Sector Consultative Group (PSCG) on the impact of non-tariff barriers to economic development

To emphasise the key role of Customs in international trade for economic competitiveness, the WCO called on the G20 not to use Customs procedures as non-tariff barriers to trade: 'Governments, through their customs operations, conduct a wide spectrum of international regulatory duties on the cross-border movement of goods and persons, including collecting revenue that funds government operations; consumer protection; national security; and environmental protection. Simultaneously, the WCO promotes the notion that these legitimate regulatory activities should not, and need not impede the smooth flow of goods. In other words, while government has the responsibility of conducting controls at the border, it also has the responsibility of facilitating trade in international supply chains' (WCO 2009, p. 1).

In the same vein, a report of the WCO Private Sector Consultative Group (2012) states that: 'The PSCG is undertaking a small study on Customs efficiency, ... [u]sing the World Bank Logistics Efficiency Index and levels of inventory on hand as indicators, our thesis is that poor Customs performance (characterized by uncertainty and inefficiency at borders) leads to higher costs for business due to the maintenance of higher levels of inventory' (WCO PSCG 2012, p. 2).

3.3 Implications on border control to combat illegal trade and to protect citizens

As analysed above, one of the causes leading to trade friction is illegal trade and lack of communication between relevant authorities and stakeholders. When trade friction occurs between trade partners, the potential exists for an increase in illegal trade and commercial fraud. With the target goods' price rising, low-quality, counterfeit and pirated goods try to bypass official processes, through informal channels, to force into market competitively low priced goods, resulting in a significant threat to social security and community safety. Grainger observes that 'Inefficient procedures not only inflate business costs, they also inhibit a border agency's ability to meet its control objectives. For example, a country's inspection efforts are severely impeded if its laws make it difficult for government officials to use risk management principles. ... And onerous regulations encourage traders to illegally circumvent costly, time consuming procedures by finding ways to shortcut regulatory requirements or by entering the shadow economy' (Grainger 2010, p. 159).

In fact, Customs is increasingly being brought under the spotlight in its protection of society role with the increasing interdependence of global economic growth. Society demands 'protection from unfair international trading practices such as smuggling of goods, under-invoicing, origin fraud, tariff misclassification and IPR infringements' (WCO 2008, p. 3). However, most customs administrations are almost exclusively focused on import controls; export controls remain superficial and with limited restrictions. This appears primarily due to the emphasis on revenue collection and efforts to grow exports. However, illegal trade and commercial fraud not only bring harm to the importing economy but also to the exporting economy in the long run, since illegal trade is likely to cause potential trade friction, or even trade embargo.

Box 3: Customs' efforts in resolving China-US trade friction

The China-US trade relationship is currently the world's most complicated. They spar over a wide range of sensitive issues; however, with so much at stake, the two nations have to keep their rapport cordial. According to the latest WTO trade dispute settlement statistics, the US has filed 15 cases against China, meanwhile China filed eight cases against the US (both figures are the highest on the WTO Map of Disputes). The main causes are argued by the US government as being the manipulation of currency exchange mechanisms, protectionist industrial policies and IPR infringements on the part of China; conversely, the Chinese government complains about the US protectionist industrial policies, the discriminatory treatment of China as not being a market economy and the trade remedy measures thereof. How can Customs play under this dilemma? As a catalyst to or an extinguisher of trade friction?

Facing the increasing cases of trade frictions, customs administrations of both China and the US realised the importance of strengthening cooperation and compliance management of supply chains, for instance, in terms of mutual exchange of information, mutual support in enforcement and mutual recognition in control, underpinning the effort to combat and prevent illegal trade from escalating into mutual exchange of blows. In this regard, the two sides have been strengthening trust building, particularly concerning supply chain security and trade facilitation, exchange of information and personnel, joint operational exercises to identify and interdict illegitimate and illicit trade activities such as IPR infringements. However, trade friction is a broad issue that goes well beyond customs control.

Source: China Customs, <http://english.customs.gov.cn/publish/portal191/tab3972/info304642.htm>; US Customs and Border Protection, Department of Homeland Security, www.cbp.gov/xp/cgov/newsroom/highlights/2011/china.xml.

3.4 Implications for customs statistics to assist decision making

Customs is at the forefront of global commerce activities. It has the mandate, expertise and responsibility to inform what commodities are being imported or exported by which party and from where they originate or are transferred. Thus the involvement of customs statistics in decision making is essential for national economic development as a whole. This proposition is also demonstrated in an evaluation report for the World Bank's *Doing Business* survey: 'Since regulations generate social benefits as well as private costs, what is good for an individual firm is not necessarily good for the economy or society as a whole. Therefore, policy implications are not always clear-cut, and the right level and type of regulation is a matter of policy choice in each country' (IEG 2008, p. xv). Pascal Lamy, the WTO Director General, has said that 'With trade imbalance causing friction between leading economies, the [current trade statistics] measures we use can gravely exacerbate geopolitical tensions at a time when co-operation is more vital than ever' (Lamy 2011, p. 1). (See 'Box 4: The role of customs statistics in China-US trade friction cases' next page.)

4. Recommended indicators to analyse the impact of trade friction

For Customs involved in a trade friction context, the question of whether or not priority is given to restrictive enforcement, trade facilitation or knowledge-based rational control will vary as these are derived from the mandate that Customs receives from its government. In such potentially contradictory situations, Customs usually has no choice but to implement tailored restrictive measures, each of which has its own specific tariff schedule. False documentation such as invoices and certificates of origin may be on the increase as some non-compliant importers or exporters try to ensure that their goods qualify for the lower rates and are not subject to restrictive measures. This situation not only drains already scarce human resources but also impacts on the efficiency of customs performance. Ireland, Cantens and Yasui indicate that customs performance measurement is most effective when it 'take[s] into account the varying aims of the customs service and the specific political, social, economic and administrative conditions in their country' (Ireland, Cantens & Yasui 2011, p. 2; see also WCO 2012, p. XIII-2). Indeed there exists a myriad of performance indicators, quantitative or qualitative, in a bid to provide recommendations and benchmarking for measuring service quality. In this connection, the following indicators are suggested with the intention of analysing potential causes of trade friction and their negative impact.

Box 4: The role of customs statistics in China-US trade friction cases

Increasing global trade interdependence is leading to fragmentation of production worldwide and complexity in trade statistics. This is evident in China-US trade relations, where a trade imbalance exists. However, there is a large gap between the statistics of the two sides which can be reduced significantly in three aspects:

Apply the WTO '*Made in World*' initiative to measure trade in value added statistics. The traditional measurement of trade statistics, which is based on the full commercial value to the last country of origin, fails to capture values added to the goods in each country. For example, 'a study (IDE-JETRO and WTO 2011) estimated that the trade deficit of the United States against China was reduced by 53% in 2005 and by 42% in 2008 if estimated in value added ...' (Yasui 2012, p. 7).

Take account of processing projects in customs statistics. Processed goods make up a large portion of China's exports to the US, and US businesses have established a number of processing projects in China – and the Chinese receive comparatively low processing fees.* It is noteworthy that most of the commodities China exports to the US are consumer goods, many kinds of which are labour-intensive, low value added goods.

Expand US exports to China. '[T]ight US control on high-tech exports has deprived many competitive US companies of the opportunity to enter the Chinese market. Between 2001 and 2011, China's import of high-tech products increased from US\$56 billion to US\$463 billion, up by 23.5% annually. Yet in the same period, the share of US high-tech products in China's total high-tech imports dropped from 16.7% to 6.3%' (Xi Jinping 2012). And, '[A]ccording to the U.S. Census Bureau, ... U.S. ATP [advanced technology products] exports to China in 2011 were [US]\$21.4 billion; these accounted for 20.6% of total U.S. exports to China and 7.5% of U.S. global ATP exports. In comparison, U.S. ATP exports to China in 2003 were [US]\$8.3 billion, which accounted for 29.2% of U.S. exports to China and 4.6% of total U.S. ATP exports' (Morrison 2012, p. 9).

* A study on the Apple iPod 'concluded that Apple's innovation in developing and engineering the iPod and its ability to source most of its production to low-cost countries, such as China, has helped enable it to become a highly competitive and profitable firm (as well as a source for high-paying jobs in the United States)' (Morrison 2012, p. 13).

Degree of trust building between import and export customs administrations

A common belief is that people who trust each other are more likely to accept their mutual viewpoints and ideology and maintain greater confidence. Building trust and harmonising customs procedures between customs administrations will achieve close collaboration and gain necessary synergy in targeting non-compliance activities. This will help to reduce the causes of potential trade friction on the one hand and on the other hand, will encourage trade partners to minimise the negative impact of friction.

In situations where two or more economies are in trade friction, inefficient customs procedures actually become a desirable objective in terms of domestic protectionism. Administrative inefficiency, red tape, and rules and procedures that favour the home country may suddenly be viewed as virtuous. As an immediate result, customs administrations in both the importing and exporting country may feel the need to employ improvised restrictive measures in order to 'punish' or 'create barriers against' each other. Holding against such threat to trade, the WCO's *International Convention on the Simplification and Harmonization of Customs Procedures* (the Revised Kyoto Convention) seeks to build trust amongst customs administrations. Due to the legally binding nature of the Revised Kyoto Convention, it helps Contracting Parties to collectively build trust and maintain efficient modern customs procedures consistent with international standards, where legitimate trade is facilitated without compromising the customs controls function.

Degree of compliance management based on multilateral trade rules

Customs is not only seen as a support for national economic development but also as an internationally acknowledged trading mechanism to help achieve a level playing ground for business. Therefore, while supervising traders to ensure compliance with laws and regulations applicable to border control,

customs administrations themselves should maintain compliance with internationally acknowledged standards and rules. Customs must therefore seek to harmonise procedures and remain consistent with multilateral trade rules in a bid to minimise negative effects in a trade friction context. Moreover, application of standardised measurement criteria and the WTO-consistent trade rules will help monitor the appropriateness of customs enforcement strategies and provide a benchmark for a better business perception in the long run.

The current WTO trade facilitation negotiations under the Doha Development Agenda are mostly focused on customs procedures. Aniszewski (2009) observes that a potential WTO Trade Facilitation agreement would mean that these measures (non-binding WCO instruments, guidelines, recommendations, etc.) would become legally binding obligations and countries would need to introduce them as part of their legislation.

Effectiveness of knowledge management

The demand for a specific range of knowledge has already placed Customs in a unique position to specify data requirements, analyse transaction data, monitor cargo movements and identify high-risk cargo. In the context of trade friction, Customs is required to implement various trade remedy actions by implementing government restrictive measures tailored to different origins of goods and exporters under different trade friction cases. This means that customs administrations, particularly those frontline officers, are challenged with a higher demand for professionalism on core customs techniques such as the application of rules of origin and tariff classification, in line with the remedial rules that apply in times of trade friction – such as anti-dumping and countervailing duties, and safeguard measures.

In this context, timely and accurate customs statistics for decision making are essential for effective knowledge management. Customs statistics can:

- support government decision makers to monitor the world market through import and export and make appropriate macro-economic adjustments
- provide additional intelligence for risk management in combating illegal trade
- provide pre-warning for the private sector to be aware of potential restrictive barriers resulting from trade friction.

In this regard, Customs plays a key preventive role in guarding against trade friction because accurate statistics are critical references in providing the right information to the right person at the right time, enabling Governments to make the right decision for macro-economic competitiveness and in negotiation with trade partners, for balanced trade relations. In this sense, potential trade friction causes could be reduced at the border performance level through mutual administrative support and mutual information exchange. Kunio Mikuriya, the WCO Secretary General, emphasises that ‘Customs managers [of both public and private sectors] need quality information and reliable analysis on which they can base their strategic decision-making and leadership to manage change and guide their organisations’ (Mikuriya 2011).

Effectiveness of risk profiling

As discussed above, key causes leading to trade friction are illegal trade and lack of communication between relevant authorities and stakeholders. In this connection, effective risk management can empower Customs to attain the necessary intelligence so as to minimise the potentially negative impact of trade friction. Widdowson and Holloway contend that [r]isk management is a technique that facilitates the effective allocation of resources. ... [N]o border agency is going to check each and every single passenger, consignment, carrier, or crew member. Nor is it likely to have the resources to do so. ... In other words, risk management is at the heart of border management efficiency and effectiveness’ (Widdowson & Holloway 2010, p. 100).

In the context of trade friction, what is worth highlighting is that effective information sharing between Customs, other border agencies and reliable traders, can assist governments to prevent potential trade friction. Indeed, the information provided by traders can greatly benefit customs risk management, since traders have in their custody large amounts of commercial and logistics intelligence. Taking IPR protection as an example, traders are more cognisant than regulators: where an infringement is taking place and from where the contract is ordered; what commodity is being infringed; and which parties are involved. In parallel, timely information exchange can also be supportive in ensuring that traders are aware of regulatory requirements. No compliant traders want to see their imports or exports suddenly encounter difficulty in market access due to an abrupt or unanticipated imposition of restrictive measures. In this regard, Holloway suggests that ‘A more three dimensional approach to performance measurement necessarily implies better integration between border (regulatory) performance and supply chain performance. In this way the impact of particular border management initiatives on the efficiency of international supply chains can be assessed, as can the effectiveness of the border management initiative in achieving particular policy objectives ...’ (Holloway 2010, p. 47).

5. Conclusions

The rise in international trade and subsequent economic growth has, to some extent, been undermined by the high costs and restrictive measures associated with trade friction. Generally speaking, trade friction is an issue beyond the reach of Customs in terms of policy making and legislative and institutional frameworks but Customs is generally tasked with the implementation of these restrictive tariff and non-tariff measures. In enforcing these requirements, Customs is facing the dilemma of its desire to carry out its responsibilities efficiently, and the political inference that inefficient border procedures can actually support the national interest in situations of trade friction. In this context, inefficient knowledge management, misuse of trade facilitation standards or misunderstanding of multilaterally acknowledged trade rules on the part of both policy makers and administrators may create distortions to Customs’ mandate. A focus on trust building between customs administrations, strict adherence to multilateral trade rules, effective knowledge management and effective risk management assist in avoiding such distortions.

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Notes

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- 2 These reports on a semi-annual basis have been prepared in response to the request by the G20 to the WTO, together with the OECD and UNCTAD, to monitor and report publicly on G20 adherence to their undertakings on resisting trade and investment protectionism and promoting global trade and investment.
- 3 Intra-firm trade is defined as cross-border flows of goods and services between parent companies and their affiliates or among these affiliates. The OECD made a broad estimation that intra-firm trade in goods accounted for one-third of world merchandise trade. The share of intra-firm trade in total trade showed a great variation across countries and industries. For instance, it is higher among OECD economies and lower between OECD and emerging economies. It is driven by the activities of multi-national enterprises (MNEs) who use their affiliates to move raw materials and intermediate goods across borders along international production networks, as well as distribute final and consumer goods through wholesale trade affiliates in distribution networks (Lanz & Miroudot 2011; Yasui 2012).

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