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Customs trade facilitation programs and the reduction of customs-related corruption. Are these concepts connected?

Pedro Dutra



>> **FICHA TÉCNICA****CUSTOMS TRADE FACILITATION PROGRAMS AND THE REDUCTION OF CUSTOMS-RELATED CORRUPTION. ARE THESE CONCEPTS CONNECTED?**

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>> RESUMO

Com o aumento do fluxo do comércio, as empresas multinacionais começaram a procurar pelos menores custos de produção, neste intuito, as empresas até mudaram seu modelo de produção. Ao invés de focar toda sua cadeia de produção em um único local, as companhias começaram a alocar cada fase de seu processo produtivo em locais que oferecessem os custos mais baixos para os diferentes tipos de atividades. Observando esta realidade, somente aqueles países que eram capazes de oferecer custos competitivos poderiam participar dessa cadeia de valor internacional, excluindo os Países de Menor Desenvolvimento Relativo (PMDR) e Países em Desenvolvimento (PED) dos benefícios da liberalização do comércio. Analisando este contexto, é possível perceber que uma grande parcela deste problema pode ser atribuída à baixa eficiência das autoridades aduaneiras no processamento de maiores volumes de transações comerciais, instalações inadequadas em fronteiras terrestres ou portos, fraca infraestrutura física, burocracia ineficiente e corrupção. Neste artigo será analisada a última justificativa para a baixa eficiência das autoridades aduaneiras, a corrupção. Como vamos ver, procedimentos aduaneiros inadequados podem criar diferentes tipos de problemas, dentre eles o que mais preocupa nos dias atuais é a corrupção. Corrupção relacionada com as aduanas custam para o membros da Organização Mundial das Alfândegas pelo menos \$2 bilhões de dólares americanos em receita fiscais a cada ano. Usando estatística sobre pagamento de propinas e a atual experiência quanto ao pagamento delas, é possível expor que a adoção de medidas de facilitação do comércio somente iriam ajudar a reduzir os níveis de corrupção e melhorar a eficiência – em um grande número de agências aduaneiras – se o diretor dessas agências aplicasse uma grande abordagem reformista. Baseado na teoria do clube da corrupção, este artigo tem, por um lado, o objetivo de expor quais agências aduaneiras em processo de reforma estão caminhando para os níveis de integridade e eficiência da OCDE ou, por outro lado, quais estão deslizando para o grupo dos países da “zona vermelha”. Tal deslizamento resulta do incentivo que autoridades aduaneiras corruptas têm para bloquear a reforma. Por exemplo, países realizando programas aduaneiros de reformas – como aqueles aprovados pela Organização Mundial das Alfândegas – não devem adotar medidas reformistas parciais. Eles precisam engajar-se em programas de anticorrupção e de melhoramento de eficiência de forma profunda o suficiente para garantir que eles se beneficiaram da facilitação do comércio. A remoção de tais barreiras comerciais através do melhoramento das medidas de facilitação do comércio irá elevar significativamente o comércio entre esses países. A metodologia usada neste artigo baseia-se nos métodos de pesquisa analítico e dedutivo praticado na análise de publicações de agências internacionais e

na análise de recentes dados estatísticos que mostram que os programas de facilitação do comércio somente ajudam a diminuir a corrupção se a agência aduaneira realizar um sério e extensivo trabalho anticorrupção e de promoção da eficiência.

Palavras chaves: Facilitação do comércio – Corrupção relacionada com as aduanas – Eficiência aduaneira – Fluxos de comércio.

Códigos JEL: K29; O24.

>> ABSTRACT

With the trade flows' increase, the multinationals companies started to chase for lower costs of production in this order these companies changed their production model. Instead focus all its productive chain in one single spot, the companies started to allocate each phase of its productive process in the spots that enabled lower costs for the kind of activity made. Facing this reality, only those countries that were capable of offer competitive costs could participated on these international value chain, excluding many Less Developed Countries (LDC's) and Developing Countries (DC's) from the benefits of the trade liberalization. Analyzing the context, is possible realize that a big amount of this problem can be attributed to the low efficiency of the customs authorities in the processing of increasing volumes of trade transactions, inadequate facilities at the land and sea ports, weak physical infrastructure, inefficient bureaucracy and corruption. In this paper will be analyzed the latter reason for the low efficiency of customs authorities, the corruption. As we will see, inadequate customs procedures can create different kinds of problems, among these what most concerns today is corruption. Customs-related corruption costs to World Customs Organization (WCO) members at least \$2 billion of American dollars in customs revenue each year. Using data about bribe payers' actual experiences in paying bribes, it is possible to show that the adoption of trade facilitation measures would only help reduce the levels of corruption and improve efficiency – in a large number of customs agencies – if the customs agency's director undertakes a huge approach to reform. Based on corruption clubs theory this paper aims, on one hand, to show which customs agencies in the process of reform are either moving toward OECD levels of integrity and efficiency or, on other hand, which one are sliding toward a "red zone" group of countries. Such a sliding results from the incentives corrupt customs officials have to stymie reform. For instance, countries undertaking reform customs programs – i.e. those endorsed by the World Customs Organization – should not adopt reform measures piecemeal. They need to engage an anti-corruption and efficiency-enhancement programs deeply enough to ensure they benefit from trade facilitation. Removal of such trade barrier though improvement in trade facilitation measures will generate significant rise in trade among those countries. The methodology used in this paper was the analytical and deductive research's methods in publications of international agencies and the analyze of recent data which shows that trade facilitation programs help decrease corruption only if the customs agency undertakes serious and extensive anti-corruption and efficiency enhancing work.

Keywords: Trade facilitation – Customs-related corruption – Customs efficiency – Trade flow. **JEL codes:** K29; O24.

>> 1. INTRODUCTION

Facing the growth of the multilateral trade liberalization that started principally after 1995, when the World Trade Organization (WTO) was set out, the trade facilitation topic is getting more importance and maturity among the countries that participate on international trade. This happens as a consequence of the international trade growth, which also requires from the customs agencies the necessity of adopting an efficiency customs service, in order to respond to the big amount of operations that customs is required to process. In other hand, other determining factor is the formation of an economy increasingly global, which requires that countries create a bigger participation in the markets and proportionate the maximum of competitiveness to national companies for the purpose to achieve an economic growth.

Trade facilitation reached such level of importance for the dynamic of the international trade in order to promote the development by increasing the trade flow that after twelve years it has gone from being a topic which was on debate in the consecutive rounds of negotiations of the WTO, to become the main subject of agreement sealed and signed by the countries that integrate the WTO. This document is called of Agreement on Trade Facilitation and it was created in the WTO's Ministerial Conference occurred in Bali in December 2013¹, most known as Bali Round. The aforesaid agreement incorporates a compilation of the best standards practices of the matters concerning to trade facilitation, with a view to further expediting the movement of goods, customs clearance procedure and good release, including goods in transit.

With the trade flow's increase and the panorama of high competition level among the countries to get more space in the international trade system and collect more trading partners, the multinational companies started to chase for lower costs of productions based its production model on the value-chain view of global economic integration², it means that the firms instead focus all its productive chain in one single spot, the companies started to allocate each phase of its productive process in the spots that enabled lower costs for the type of activity made. Front the reality of intensive trade exchange and high level of competition, only those countries that were capable of offer competitive costs could participated on these global value-chain, excluding some countries, most of them less developed coun-

¹ In: www.wto.org

² Gary Gereffi; John Humphrey; Raphael Kaplinsky; Timothy J. Sturgeon. IDS Bulletin Volume 32, Issue 3, 2001, p. 2.

tries (LDC's) and developing countries (DC's), which, in their great majority, has inadequate customs procedure that impairs the competitiveness of the local industries and clogs up the economic development, from the benefits of the trade liberalization.

Looking deeper inside this panorama is possible to realize that a significant part of the reasons that can explain it must be attributed to the low efficiency of the customs agencies in the processing of increasing volumes of trade transactions, inadequate facilities at the land and sea ports, weak physical infrastructure, inefficient bureaucracy and corruption. Thus, arise the necessity to overcome the customs' backward movement through the trade facilitation measures in order to create extended trade opportunities and stimulate economic growth of the countries directly affected by them.

The objective of this paper is to analyze the customs-related corruption as a reason for the low efficiency of customs service, showing that inadequate customs procedures can create different types of problems (among them the topic that most concerns the international society today is the corruption), for subsequent evaluation if the adoption of trade facilitation measures in the customs agencies would help to reduce corruption and improve efficiency.

The methodology used on this work was the analytical and deductive research's methods in publications of international agencies and bibliography productions of scholars, as well the descriptive analyze of data which shows statistics about the correlation between trade facilitation programs and the decrease of corruption in customs agencies.

The second chapter of this paper provides a brief exposition on the history of the international trade, its evolution and the current importance of the trade facilitations programs. The third chapter analyses the problems of corruption in customs administration and its vulnerability for corruption in practice. In the fourth chapter will be analyzed if does trade facilitation measures affect customs-related corruption in fact. Finally, the fifth and last chapter shows a brief conclusion about the subject developed in this paper.

Before start the descriptive and critical analyses it is important to declare that the author doesn't intent exhausting the topic here exposed.

>> 2. THE INTERNATIONAL TRADE SYSTEM AND THE TRADE FACILITATION PROGRAM

Globalization has become a slogan for the international economy in the late 20th century. It is real that the nations' economies (so consecutively the own nations) have become more interdependent through the flows of goods, services and financial capital since the 1970s. The export-oriented industrialization increased its importance in such high level that has made integration into the global economy to become basically synonymous with development for a number of nations. In the later decades, the projection of national production systems across thirds nationals' borders has expanded the interdependence and functional integration of the world economy¹

However, this panorama of interdependence and integration among the nations had a dark time. More specifically between the two world wars, amongst the various events that contributed to the later war broke out, one is crucial and need to be exposed. This is the adoption by USA of the famous "Smoot-Hawley-Tariff" in June 1930, which raised from 38.2 till 55,3 per cent the average level customs duties required by the North American Customs officials².

The "Smoot-Hawley Tariff" was unsustainable because it was impossible to justify it based on classics protectionism ammunition³ and as well expressed by Pedro Infante Mota citing Jagdish Bhagwati, "the fact of the USA's balance of payments was not in deficit contributed more to increase the irritation of third countries due the establishment of the new tariff, manifestation of prosperous nation's unworthy selfishness"⁴.

As a result, the nations had started a protectionism rush and the economic depression of 1929 just got deeper than before. The answer of many countries it was the same, they changed its international economic policy from a liberal to a protectionism tendency and many of them have put in place more restrictive exchange control as well quantitative restrictions. For instance, the Great Britain, well known as free trade's biggest defender, in February of 1932 has established its first general tariff since the middle of the 19th century and months later, in June of 1932, the British Empire

¹ Gereffi, Gary, et al., IDS Bulletin Volume 32, Issue 3, 2001, p. 1. These authors also mentioned, "however, there is an acute awareness that gains from globalizations are very unevenly distributed within, as well as between, societies".

² Lake, David, Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939, Cornell University Press, Ithaca e Londres, 1998, p. 194

³ Looking for the import's reduction.

⁴ Bhagwati, J., 1990, apud Infante, P. M., 2005.

Economic Conference¹, which would lead to the extension of the imperial preference origin rule to all the *Commonwealth's* countries and territories.

Moreover, the most important event for the breakout of the World War II it was the greater reduction of the international trade flows which decreased the strength of the moderates' opposition comparing to the nationalists in Japan and helped the Nazis party to win the elections in Germany in 1932.

During the World War II all the north-americans politicians had conclude that high tariff could create commercials wars, which could it turn give rise to army wars². So doesn't surprise that yet in the course of the conflict the USA and England negotiated some international trade regulations rules. For instance, the documents were negotiated during that war it was the Atlantic Charter of 1941³ and the Anglo Saxon Agreement for Mutual Assistance of 1942.

Almost in the end of that war, the most developed nations, realizing the losses that an army war could bring for their nationals and for the economy, decided to search for a wider international economic cooperation through a system that would regulate the economics relations among the countries. The Bretton Woods Agreement, celebrated in June 1944, tended to provide solidification and to regulate the international trade by institutionalization of the transnationals economics relations, seeking to control the aforesaid economics protectionism tendencies and transfer the sovereign powers to supranational institutions (Gonçalves, L. C., 2012).

As a consequence of the conclusion of this agreement, two international organizations were created in 1944, one is the International Monetary Fund (IMF), its founders planed an institution charged with overseeing the international monetary system, which has as mission the promotion of international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provide resources to help members in balance of payments difficulties, avoiding the adoption of harmful measures to the international economic⁴, and the other one it was the International Bank for Reconstruction and Development (BIRD), that integrates the World Bank (WB), which had the as initial objective the promotion the reconstruction and development after war and subsequently to improve the

¹ Also known as the Imperial Economic Conference or Ottawa Conference.

² Infante, P. M., 2005.

³ It was negotiated by the British Prime Minister Winston Churchill and the USA's President Franklin D. Roosevelt, which would have the objective of to discuss the major principles that could base the economic and political organization of the world after war.

⁴ International Monetary Fund in: <http://www.imf.org/external/about/history.htm>

economic development and boost shared prosperity in order to reduce the extreme poverty in the world¹.

After the end of the World War II, the USA has proposed to its allies proposals on how to expand the international trade and the employment. These proposals have taken the shape of the International Trade Organization's charter, also known as Havana Charter (Mota, P. I., 2005), which was signed in Havana, Cuba, in the United Nations Conference on Trade and Employment, which had the purpose of promoting the expansion of the production, exchange and consumption of goods (United Nations, 1948), as well to regulate the international trade (Scorza, F. A. T., 2007). Though, the International Trade Organization (ITO) never entered in force, this failed experience of the ITO it was in the origin of the born of the General Agreement on Tariffs and Trade (GATT) in 1947². This agreement had as essential objective to be used as a guide to the international trade until come into force the ITO (which never happened, which mainly was caused by the refuse of the USA's Congress to sign the Final Act of the United Nationals on Trade and Employment).

The GATT 1947 had a regulation system less wide than Havana Charter, didn't have legal personality and it was applicable only if didn't contradict the internal legislation of the signatories countries³ (Gonçalves, L. C., 2012). Despite the GATT 1947' limitations, its institutional structure allied with institutional framework's IMF and WB enabled the international trade flow's increase and made GATT become the mainly international organization responsible for the international trade during forty-seven years⁴.

Beyond the institutions that regulate the international economic relations, other factors contributed to increase the international trade among the nations, for instance, it is the technologies advances in the systems of production, communication and in the transport logistic, besides the local institutional reforms, as happened in those countries that changed the repla-

¹ Mundial Bank in: <http://www.worldbank.org/en/about>

² While the ITO's Project has been negotiation, in parallel and in conformity with the 17th article of this project, 23 countries has been negotiated the reductions of the trade barriers until then existed.

³ Most known as grandfather's clause.

⁴ According Mota, P. I., 2005 *apud* OMC, *WTO Focus*, n.º 6, 1995, p.2, the trade flow's volume increased around fourteen times and its value changed from 57 billions of dollars to 4.090 billions of dollars. The average level of customs duties ad valorem charged for the industrialized countries on manufactured goods changed from 40%, when GATT came into force, to 3,7%. The level of contribution of the international trade in the world's GDP developed from 7%, in 1950, bringing it to over than 20%, in 1995 (Mota, P.I, 2005 *apud* Sampson, G., Chambers, B., Introduction and Overview, in Trade, Environment, and the Millennium, 2.ª ed., Gary Sampson and Bradnee Chambers ed., 2002, p. 3).

cement import models and chose to create economic systems focused on market.

With the increase of the international trade relations, became clear the necessity of to expand the regulation trade system to beyond the limits of GATT 1947. In this order, in 1986 it was initiated the negotiations of the Uruguay Round. The dynamics wills of the parties to this negotiations round has guided it for eight years of negotiations, which culminated in the World Trade Organization's (WTO) creation in 1994 (Scorza, F. A. T., 2007)¹.

It isn't possible to affirm that this result (the WTO's creation) could be only a big surprise. Indeed, since the 80s began to emerge a new phenomenal, crescent and determinant: the globalization. The globalizations in an economic view translate an idea of liberalization and circulation of the productions factors in a world scale, it means that this phenomenal "implies functional integration between internationally dispersed activities (Gereffi, G., et. al, 2001 apud Dicken, 1998). The globalization beyond of just represents a new investment process, production and consumption, as well imposes a process of markets integration and harmonization of the market framework and function rules.

The WTO's regulation system is based on the agreements signed in the Uruguay Round, which deal about a range of commercial themes, including a big review of the GATT 1947, which is known as GATT 1994, various aspects about the goods' trade, new rules (for that time) about the trade in services, questions about intellectual property, trade policy and an efficient dispute settlement system.

The WTO is an organization that has legal personality and a solid structured institutional framework, which enable it to coordinate, with a coercive force, if necessary, the international trade relations (Gonçalves, L. C., 2012). Since 26 June 2014, the WTO has 160 memberships.

The lower costs of production as a consequence of the bigger trade opening changed the production model of the biggest companies. In order to chase the lowest prices in the global value-chain, the companies started to allocate each phase of its productive process in the spots that enabled lower costs for the type of activity made. Has appeared the concept of supply chain management, which "encompasses material/supply management from the supply of basic raw materials to final product (and possible recycling and re-

¹ Eiiti Sato makes an interesting observation when says that "the no existence of a formal organization, which has shaped rights and obligations through statutes could permit, how indeed happened along the years, that the trade patterns could been established through negotiations rounds, in these rounds each country could widely use of its bargain power, what, for obvious reasons, had put USA in a pleasant situation" (Sato, E., 2001) (author freely translation).

use). Supply chain management focuses on how firms utilize their suppliers' processes, technology and capability to enhance competitive advantage. It is a management philosophy that extends traditional intra-enterprise activities by bringing trading partners together with the common goal of optimization and efficiency" (Croom, S., et. al., 2000, apud Tan et. al., 1998)¹.

Facing this reality, only those countries that were capable of offer competitive costs could participate on this global value chain. It means that big multinational companies started to make each step of its productive chain in only those places that may allow the establishment of highest efficient production systems. Moreover, the decrease of the trade costs allows the industry installed in the various countries enjoys better the comparative advantages of each sector in all the countries, thus taking advantage of the economies of scale.

Though, even after all this massive waves of increase of the trade liberalization achieved after years of negotiations first in the GATT's ambit, later with the creation of WTO, the result this liberalism tendency is the exclusion of many LDC's and DC's from the benefits of the trade liberalization, justified as a simple consequence of the global value-chain governance. In practice, "the lead firms are predominantly located in developed countries and include not only multinational manufactures, but also large retailers and brand-name firms. They play a significant role in specifying what is to be produced, how, and by whom" (Gereffi, G., et. al, 2001), according the levels of efficiency of the production systems.

Thus, the countries were not capable of developed its industry to the level of becoming international competitive are uninvolved with the benefits of the trade liberalization. Analyzing the context, is possible realize that part of this problem can be attributed to the low efficiency of the customs authorities in the processing of increasing volumes of trade transactions, inadequate facilities at the land and sea ports, weak physical infrastructure, inefficient bureaucracy and corruption (Micheal, B., et. al., 2011)

Due the recognition of the narrow relation between international trade insertion and economic development, the marginal position occupied for the LDC's and DC's in the international trade system, which impossibility it to take some advantage of the trade flow's increase become a critical point of discussion in the mainly international institution in the world related with the combat to poverty and the support the economic development. Facing this panorama, the WTO elected as the "fundamental objective" for the latest

¹ Croom, S., et. al (2000), also warns that "within the supply chain management literature there is a confusing profusion of overlapping terminology and meanings."

round of trade negotiations among its membership the improvement of the trading prospects of developing countries (WTO, The Doha Round). Thus, the negotiation round denominated Doha Development Agenda has as the first topic of the “Implementation-related issues and concerns” the necessity to increase the participation of developing countries in the multilateral trading system (WTO, 2001).

In order to reach the aforesaid objective provided for the Doha Development Agenda, the theme Trade Facilitation it was elected for WTO to integrate the themes of negotiations conducted by the WTO's membership in the Doha Round as a reflex of its mainly goal, which is decrease the costs of the international trade transactions related to cargo transport, customs procedures and trade regulations in a way that will promote the trade flow's increase among the involved countries, thus the trade facilitation measures can give more competitiveness to the industry of the LDC's and DC's in order to include it in the prospection of the benefits of the trade liberalization (Scorza, 2008).

According the OECD, the international trade transactions costs varies from 1 to 15 percent of the trade transaction' sum and this variability depends on the efficiency of the local administrations, specificity of the goods commercialized and of business type and dimension (OECD, 2003). This data guide us to a logic conclusion, without the possibility of the WTO's regulations to influence or to coerce the choice of the private party of the international trade game (it means the companies), the trade facilitation agreement focus on the implementation of reforms in the public institutions of the countries that deal with the international trade, in order to create inside these institutions a favorable environment to reach better international trade transactions' performances. Therefore, the trade facilitation measures can involve the improvement of the regulations that affect the international flow of goods, the rules transparence and procedures of institutions responsible for the international trade, ports and customs administrations, and other areas of the government that can affect the international trade transactions' costs (Scorza, 2007).

Talking about the trade facilitations measures addressed to the customs agencies, it is important say that LDC's and DC's have bigger losses caused by the customs inefficiency and corruption than developed countries, because those countries have few resources and higher average levels of corruption than the most industrialized countries (Horns, 2001).

Even if the trade facilitation may cover a wide range of aspects, the negotiations on trade facilitation were restricted to three specific matters, each one is pre-defined for specifics articles of the GATT 1994. These matters

deal with expediting the movement, release and clearance of goods, including goods in transit. It clarifies and improves the relevant articles V, VII and X of the GATT 1994.

In December 2013, the WTO members concluded negotiations on a Trade Facilitation Agreement at the Bali Ministerial Conference, as part of a wider “Bali Package”. Since then, WTO members have undertaken a legal review of the text until 15th June 2014, when the resulting final text it was concluded by the WTO members under a work conducted by the Preparatory Committee on Trade Facilitation, which is mandate under the Bali Ministerial Decision to “perform such functions as may be necessary to ensure the expeditious entry into force of the Agreement and to prepare for the efficient operation of the Agreement upon its entry into force”. Under the decision adopted in Bali, WTO members must draft a Protocol of Amendment to insert the new Agreement into Annex 1A of the WTO Agreement. The Trade Facilitation Agreement will enter into force one two-third of members have completed their domestic ratifications process (WTO, 2014).

As a final overview, the Trade Facilitation Agreement contains provision for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

>> 3. THE PROBLEMS OF CORRUPTION IN CUSTOMS ADMINISTRATION

Customs administrations play a vital role in the economic welfare of a country, this happens because customs administrations is situated in the center of the international supply chains of multinationals companies, therefore they occupied a strategic position that interferes directly in the trade facilitation and investment encouragement and thus contribute to the economic growth and development of the nations they serve. Moreover customs revenue represents a substantial share of total tax collections, much more for that countries which its customs administration's role in the operations of value added tax (VAT) system, in these countries the customs administrations is positioned as "a core revenue collection agency" (Ferreira et. al, 2007). For that reason, dysfunctional customs administrations can easily harm trade relations, curtail foreign investment and prejudice extern economic policy.

In spite of recent reductions of corruption among some customs administrations around the world that has invested in new information technology to increase efficiency and transparency, for example in countries from southeast' Europe, as BEEPS' database shows (James et. al, 2007), corruption in customs administrations generally still seen as a serious problem.

The last few years have seen a growing awareness of the crippling effect of corruption on economic development. Corruption increases inequality, distorts the state's redistribution role, wastes human and financial resources and degrades public services. In the case of customs administrations, the average still remain a barrier to trade by a combinations of corruptions, incompetence, complexity, and a failure to conform to the world's customs standards and conventions, what would be an excellent progress in direction of the trustworthiness, dynamism and efficiency.

Several empirical studies have shown that customs-related corruption significantly lowers investment levels and the productivity of capital. These effects are especially harmful in developing countries. In many of these countries, high levels of corruption drastically reduce the effectiveness of key public sector agencies. As a public agency, customs administrations are no exception and are used cited for scholars and researchers as the most corrupt of all the government agencies, regardless of their levels of development. The recent trade history, confirmed by several database and researches reinforce that no country is immune to the problem and that there are no quick-fix solutions available (McLinden, Durrani, 2013), but this

panorama should concern more the governments of developing countries, which customs' collects over 50 percent of all government revenue, according WCO (2003a).

According the World Bank, 40 percent of firms included in 80 countries rate Customs/Trade regulations as a major or moderate constraint to business investment (McLinden, 2005, apud World Bank, 2003). As business and investment decisions by multinational companies are increasingly subjected to international competition, the presence of widespread corruption in customs can act as a major disincentive to foreign investment (McLinden, 2005). In other hand, the customs service also plays a directly role in the national and international security, as a consequence of its new significance in the current environment of heightened concern about security of international trade. In practice, high technology system and procedures designed to detect weapons of mass destruction will offer little protection if they can be avoid simply by bribing customs officials.

Given the vitally important role customs plays in revenue collection, trade facilitation, national security, and the protection of society, the presence of corruption in customs can severely limit a nation's economic and social prospects and national development ambitions.

After this it is primordial think about what makes customs administrations so susceptible to institutionalized corruption? This chapter deals with the reasons for corruption in customs administrations and the conditions under which such practices flourish.

3.1. The customs administration's corruption vulnerability in practice

The mainly local institution of some government that interferes on international trade generally is the customs. It is the institution responsible for the goods' entry, transit or exit control in the countries' boundaries, in order to collect duties and taxes, implement trade policy, combat smuggling and protect the public (Balsadua, 2007).

As explained for many scholars and work papers, the customs' vulnerability to corruption is caused for the very nature of the customs work, for example customs officers deal with guns, drugs, money and contraband in quantities that are difficult for the layman to comprehend. Literally trillions of dollars' worth of goods passes through customs each year, thus international trade plays an increasingly important role in LDC's, developing and developed countries.

As Ferreira (et. al., 2007), observed, few public agencies exist in which the classic preconditions for institutional corruption are as clearly present as they are in customs administrations. The administrative monopoly - that exist in customs agencies -combined with broad discretionary power generate corrupt practices. The unique vulnerability of customs for corruption happens also because its practices are based on risk-based systems of control and doesn't exist accountability or it is easily breached. The customs' monopoly of goods flow give to this public agency the capacity of easily interfere with a firm's ability to do business. For this reason, customs administration are vulnerable to many forms of corruption from the payment of informal facilitation fees to large scale fraud and other serious criminal activities, even being considered by International Transparency as the world's organizations most vulnerable to corruption (Lane, 1998).

The faster development of world trade has brought new challenges for the customs administration. Begović (et. al, 2002), explain in a good way the actual panorama of the customs service:

“On the one hand it has increased the need to facilitate and speed up trade, in order to benefit as fully as possible from the positive effects of trade on economic progress. On the other hand the possibilities for corruption and smuggling have increased markedly; if the customs regulations have not been modernized, corruption itself can present 'the means' for the facilitation and speeding-up foreign of trade”.

The control of goods crossing frontiers under imports, exports and transits transactions, in order to collect duties and taxes, implement trade policy, combat smuggling and protect the public, as aforesaid, are the basic functions of all the customs administrations, but the particular command of customs administrations will differ among the national's customs agencies. Other matter that influence on the types of customs commands from one country to another is its level of development, as well as the tools and resources at its disposal.

The basic service provide for the customs agencies focus on cross-frontier goods flows, which are of three types, imports, exports and transits. All have to comply with customs requirements, which was describe in a few words for Horns (2001), which starts when a private operations prepare a legal document called the *customs declaration* in which they customarily give consignment details, including the nature of the goods, their quantity, their origin, their value and their destination. They may also be required to produce a number of documents such as invoices and origin certificates to support this information. The declaration is the key document in customs

release and clearance as it establishes a legal relationship between the operator and the customs.

Begović (et. al, 2002) made an interesting observation about the “dark side” of the modernization customs process when said that the modern information technologies and means of communications, while helping the work of the customs through the increase amount of faster data processing, also bring with them new difficulties of supervision, legal practice and crime detection, when money and goods can be moved internationally, at the push of a button.

Thus, the most, if not all, of the customs administrations functions are susceptible to corruption. This fact it is disseminate on the international trade environment, that the Customs Modernization Handbook (Luc De Wulf, 2005), brings a table with the most frequently cited activities as being particularly vulnerable as they provide both a motive for unscrupulous traders to circumvent customs regulatory requirements and an opportunity for corrupt customs officials to seek bribes.

Customs Functions and Their Vulnerability to Corruption

Selected Customs Functions	Examples of Integrity Violations
Processing of import, export, and transit declarations	Soliciting or accepting payment to: <ul style="list-style-type: none"> • accelerate the processing of documents • ignore the fact that some cargo listed on the manifest was not declared • certify the exportation of fictitious exports or provide for a wrong HS classification • permit goods in transit to be released for domestic consumption
Assessment of origin, value, and classification of goods	Soliciting or accepting payments to: <ul style="list-style-type: none"> • permit under-invoicing of goods • nor challenge the declaration of goods under a different HS that attracts a lower tariff rate • accept a false country of origin declaration, thus permitting the importer to be benefit from a preferential tariff regime
Physical inspection, examination, and release of cargo	Soliciting or accepting staff who would: <ul style="list-style-type: none"> • ensure that an inspecting officer is chosen who will take an accommodating approach to the inspection • skip the inspection • influence the findings of the inspection • simply speed up the inspection

Selected Customs Functions	Examples of Integrity Violations
Administration of concessions, suspense and exemption schemes, and drawback schemes	<p>Soliciting or accepting payment to:</p> <ul style="list-style-type: none"> • permit traders to release, for domestic consumption and without paying the required import duties, goods that entered under suspense regimes or goods made with inputs that entered under such regimes • obtain a release of the bond that is to protect customs revenues in cases of temporary admission of imports without adequate documentation • permit traders to claim excessive input coefficients for exports produced with inputs that benefited from the suspense regimes • permit traders to claim drawbacks for fictitious exports • permit importers to transfer imports that benefited from duty relief to non authorized users or for non intended purposes, or permitting them to import such goods in excess of the amounts agreed to.
Conduct of post-clearance audits	Soliciting or accepting payments to influence the outcome of the audit findings.
Issuing of import licenses, warehouse approvals, and authorized trader status approvals	Soliciting or accepting payments to obtain these licenses and certificates without proper justification.
Processing of urgent consignments	Soliciting or accepting payments to obtain preferential treatment or speedy clearance.

Source: McLinden, 2005.

Yet, still exists the cases of corruption at the border promoted by others public agencies besides the customs-related corruption. Ferreira (et. al., 2007) remember that in Russia, in parallel to the customs service control border, others standard border control, for example control of shipments entering the country by land requires checks by immigrations, border police, transport inspection, sanitary inspection, and veterinary control, can also commit fraud, receive bribes or another corruption type, and in the most of these cases the customs administration is blamed for these corruption acts.

For this reason, any program aimed at facilitating cross-border trade and reducing corruption should focus not just on customs but on the entire border administration, mapping corruption risks in all other border control agencies.

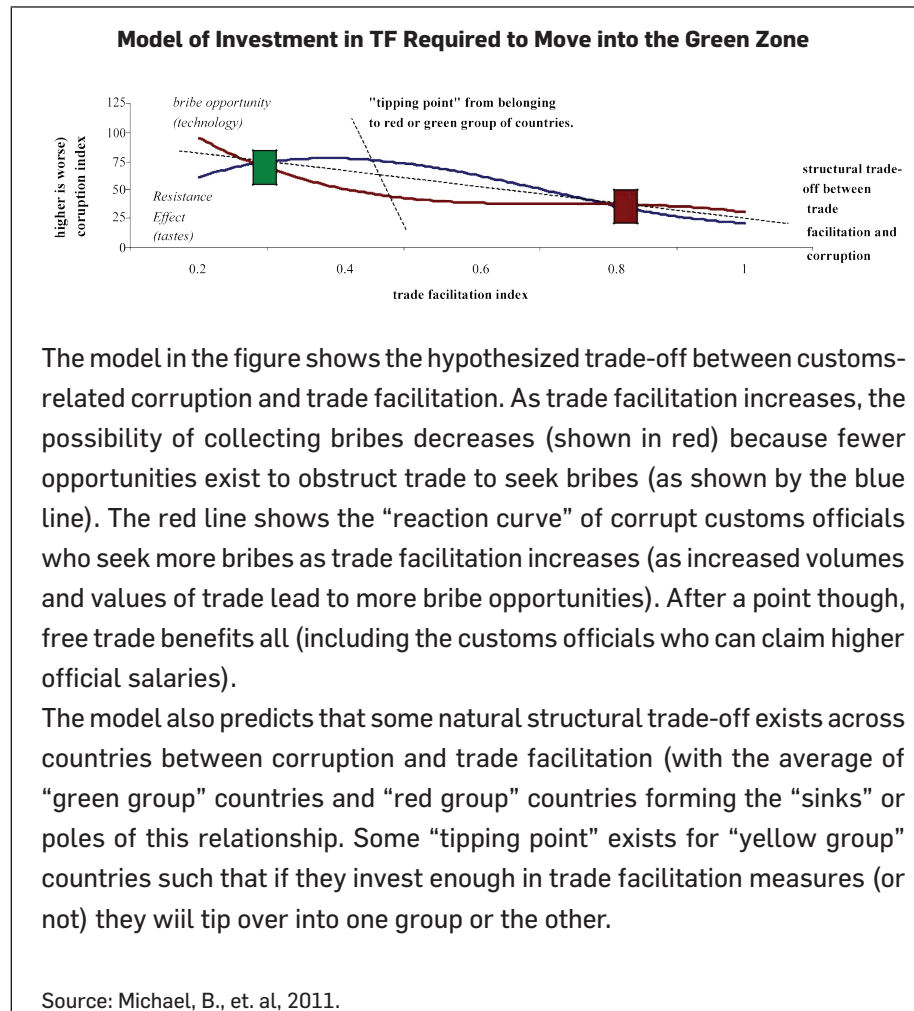
>> 4. IN FACT, DOES TRADE FACILITATION MEASURE AFFECT CUSTOMS-RELATED CORRUPTION?

This chapter is dedicated to analyses if in fact do trade facilitation measures affect customs-related corruption as the current literature review about this topic generally used to defend. For achieve this aim, it was used as background of statistical and literature analyze the work paper wrote by Bryane Michael, from the Stockholm School of Economics, Frank Fergusonn, from European Union Rule of Law Mission in Kosovo, and Alisher Karimov, from United Nations Development Programme – Tajikistan¹, through an descriptive analyze method of the data and models employed in this research, it was published in Anti-corruption Research Network (ACRN). Here, the main intention is disseminate among the academic community the results found by the aforesaid researchers about the correlation between custom-related corruption and trade facilitation, rather than exhausting this topic.

These authors using models² constructed by professional economists created some data that intend to shows a model of the relationship between customs-related corruption and trade facilitation. Concisely, the model describes four hypotheses in order to test the data collected by the aforesaid researchers. In the first point of view, intends to evaluate the reciprocity relationship between customs-corruption and trade facilitation, in Michael (et. al, 2011, p. 32) words, in order to “*feeds back on itself*”, i.e., corruption impedes trade facilitation to some breadth and trade facilitation impedes corruption to some breadth. The second point of analyze concerns about the “corruption clubs theory”, it means two different groups of countries that are divided according the levels customs corruption and trade hindrance, i.e., for one group of countries exhibits both low customs corruption and low trade hindrance and high levels of customs corruption and high hindrance for another group of countries.

¹ Michael, B., et al, Do Customs Trade Facilitation Programmes Help Reduce Customs-Related Corruption?, 2011.

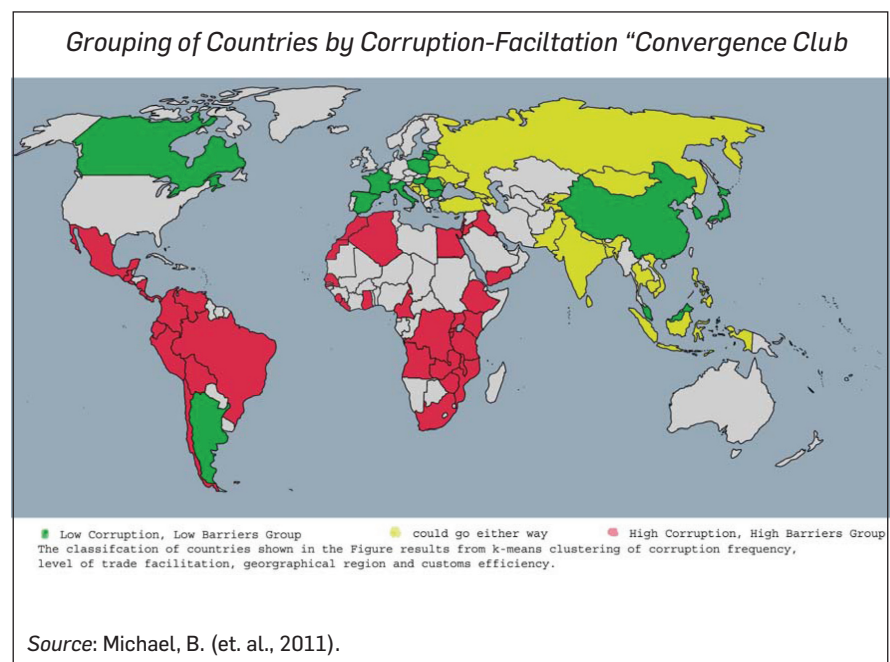
² According the aforesaid authors, these models helps create testable hypotheses and provide simple explanations for complex phenomenon. They also said that “without such models, we would simply drudge the data aimlessly until we found any relation in our data (Michael, B., et. al, 2001, p. 32).



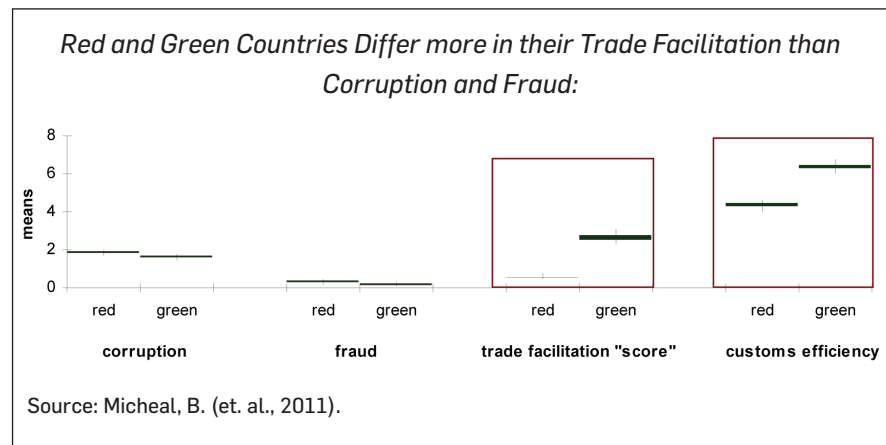
In the point of the level of salaries as a cause for the customs-related corruption there is a disagreement among the authors. For McLinden (2005), one of the reasons for customs be vulnerable to corruption is the low salaries that many custom officials, which is “a strong incentive to accept or solicit bribes in the execution of their duties”. Though, according Michael, B. (et. al, 2011), the analyze of the a foreshowed graph shows that after a point (when cross the resistance corruption effect – blue line – with the reaction curve of the corruption customs officials – red line) the benefits derived from the free trade (increase of efficient and trade’s flow) is extended for all the customs officials, including also those ones who used to claim to change the average of the official salaries in order to decrease the customs-related corruption.

As the literature review generally says, the acts of accept or solicit bribes for customs officials in the execution of their duties is a typically characteristic of the customs services, as a consequence of the very nature of this kind of public service (doesn't matter the level of development of the country for which the customs agency serves), as shown in the second chapter. In addition, if the later authors could prove based on economic professional models and data analyze that the trade-off between trade facilitation and customs-related corruption guides to benefits all, i.e. the customs' revenue agency and its officials (as well the business opportunities), it means, that doesn't matter the level of trade facilitation measures adopted, after a certain level will still exist corruptions actions in the customs administration. There is no doubting that the level of salaries is not primordial factor to curb the customs-related corruption, which will also collaborate to fall off the public budget.

The next data intents to support a categorization of countries in three groups (according to their levels of corruptions and trade facilitation). Countries marked in green comprise a low corruption and low barriers to trade group. Countries marked in red represent a high corruption and high barriers to trade group. Countries marked in yellow do not fall (statistically speaking) clearly in to either group. The lasts countries typify a liminal group whose customs services, according the service strategy adopted for each one, may "ascend" or "descend" into the green or the red group.



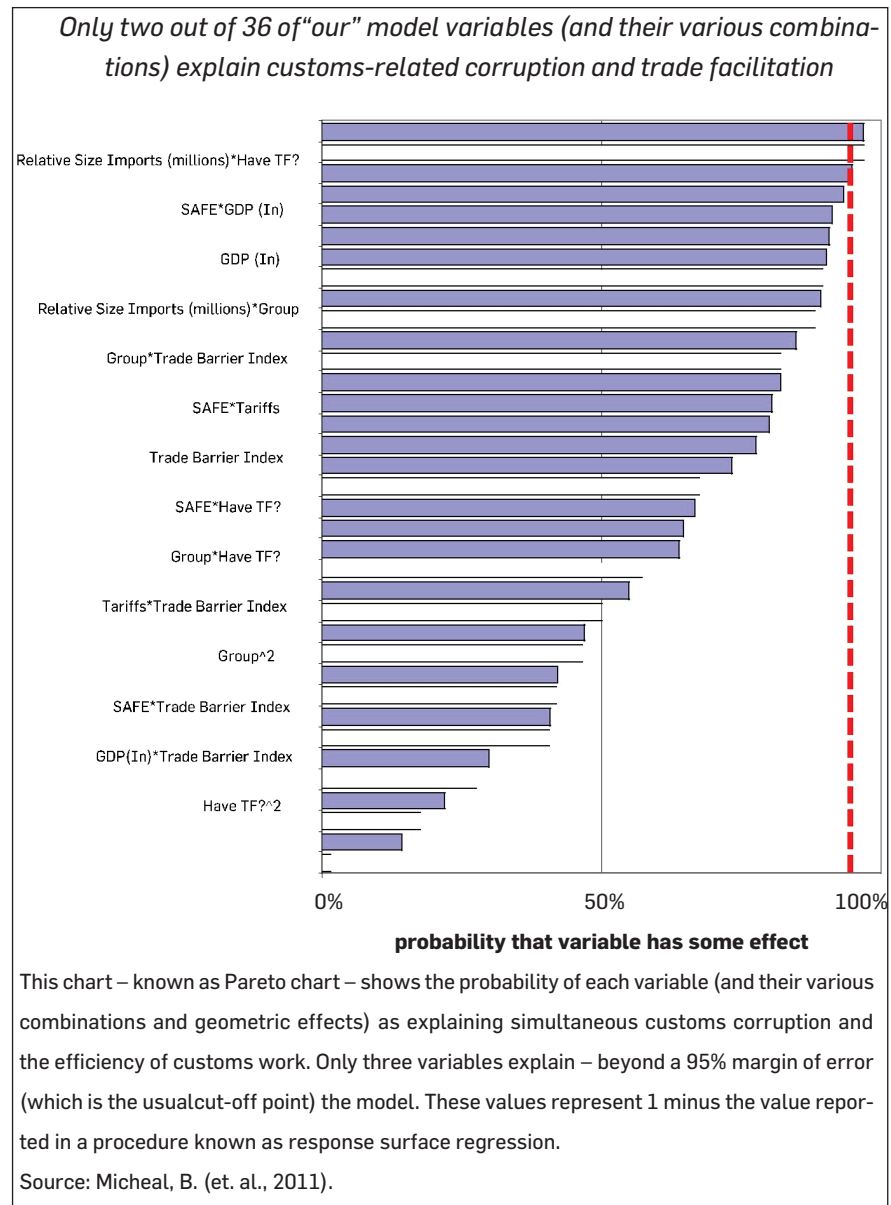
The method of grouping classification used in the next graph is the lack of customs corruption and fraud's level related with the correspondent countries' level of trade facilitation measures into in force. The result is surprising as you can see.



The data above shows the means of "red group countries (countries with high levels of corruption and trade hindrance) and "green country" (countries with low corruption and low trade hindrance). The solid boxes represent one standard deviation while the line represent 95% confidence intervals.

In the next graph, the mentioned authors utilized the method of regression analysis on their model, justifying their choice in the fact that "detailed statistical analysis fails to strongly support the story that theory tells" (Michael, B., et. al, 2011). The regression method shows double effects, one is the effect of the authors' model's variables have on customs-corruption, and the second one is efficiency of customs work. As a consequence of the hypothesis cried by the same authors – both corruption and efficiency "feedback" on each – it was required a procedure which took such feedback effects into account. In the end, the next graph it was thought intending shows how much corruption affects trade facilitation (and visa-versa).

The result is surprising (one more time), because only three – out of 26 of the variables from their model (and the consecutive interactions among the variables had chosen by the authors) – namely, the interactions of trade facilitation and GDP, the size of imports and trade facilitation and the country's "convergence club" (whether red, yellow or green), help the academic community to evaluate the prediction of the country's corruption and the efficiency of customs concluded in the graph.

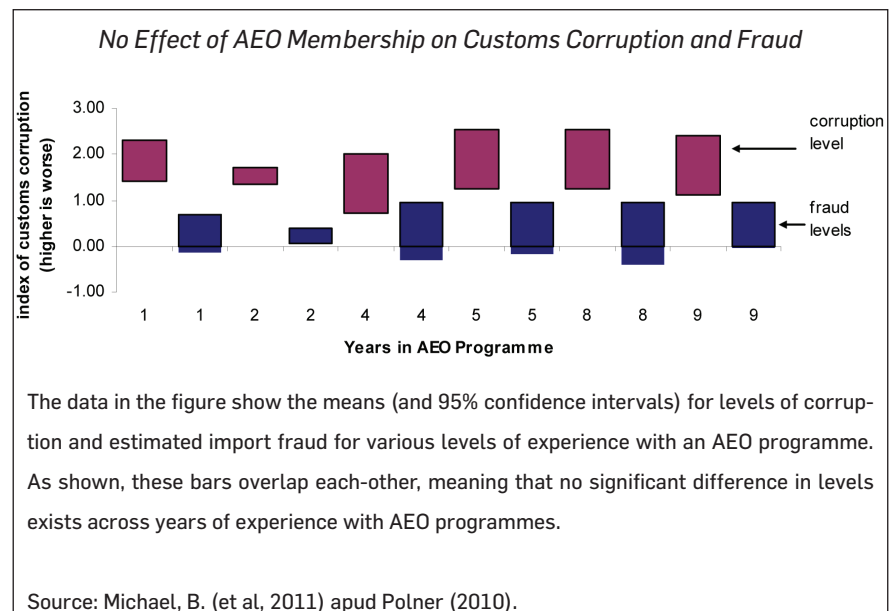


The next data also failed to find usual compelling support for the red country-green country story. Only three of the models created by the authors found significant effect on corruption¹. The authors didn't consider these

¹ The models that found a significant effect on corruption are: a) one showing a significant effect of participation in the WCO's Coolumbus Programme; b) one for trade barriers, and showing an interaction effect between participating in the Columbus Programme; c) and the general score for trade facilitation. It also important to cite that these data wasn't showed in the present work for reason of limitation of space but it can be found in the statistical appendix of the "Do Customs Trade Facilitation Programmes Help Reduce Customs-Related Corruption?" (Michael, B., et al, 2011).

results as “terribly troubling” in reason of the “very noisy nature” and thinks it promote a “critical observer pause”.

Analyzing the next graph, it was found another curious conclusion. The data shows that doesn't have any directly connexion between the number of years a country has operated an authorised economic operator (AEO) program and the variation of the level of corruption and fraud. “A country operating an AEO program for 9 years (...) has the same predicted frequency of corruption as a country just starting such programme” (Michael, B., et. al, 2011)¹.

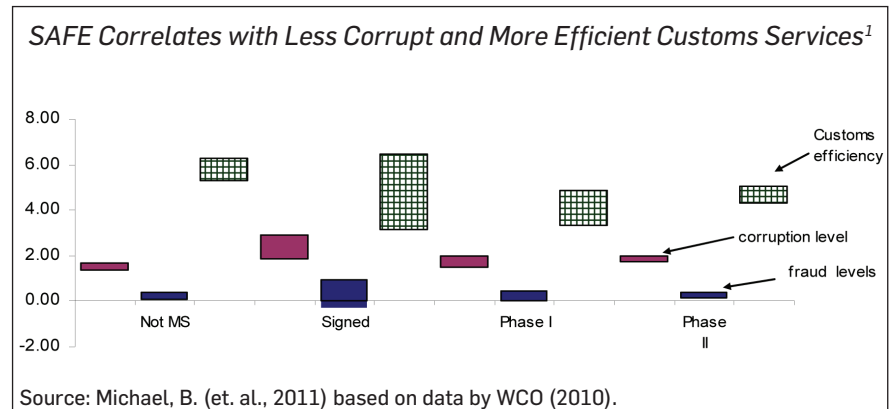


The next graph that quantify the correlation between the participation in the WCO's Columbus programme (implementing the SAFE framework) and the frequency levels of corruption and fraud².As the authors define, the result is paradoxically, while in countries which didn't sign the Columbus programme the customs efficiency score are higher and corruption frequency score are lower³.

¹ Also announced in Michael, B. (et. al, 2011) the levels of predicted import fraud (from the UN Comstat data) also show no significant variation between the experience with an AEO programme (though the data reflect a small sample and “map” a large amount of AEO experience a single indicator).

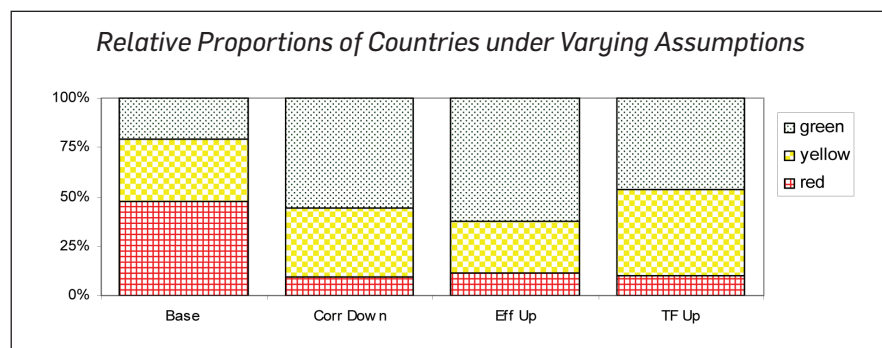
² The data shows the diferent levels of customs efficiency, frequency of corruption and fraud levels for groups of countries not signing on the Columbus programme, those which have signed on and those in phases I or II of the programme.

³ What reflect the weight of developed countries not needing the programme.



In spite of the aforesaid conclusions, it is possible to affirm: trade facilitation clearly affects corruption and customs efficiency. The next figure shows the results of sensitivity analysis conducted on the countries belonging to the red, yellow and green groups before described. The authors made an experiment, which in it was decreased the frequency of corruption by 10% in all the countries in the sample to see how such changes would affect the results. The result was that, for programs which decrease customs-related corruption by 10%, an impressive (almost) 40% of the countries got out of the red group. Increasing 10% in the customs efficiency and changing the trade facilitation scores to 10% guide to almost identical results.

Thus, anti-corruption and customs efficiency-improving programs contribute to move larger numbers of countries into the green group². On other hand, it was found more modest results for trade facilitation, just sending more countries into the yellow zone.



¹ The bars in the figure show the mean levels of the frequency of corruption, estimated amounts of import fraud (from UN Comtrade data) and customs efficiency. Adoption of various "levels" of the WCO's Columbus programme - which itself helps member states implement the SAFE framework of trade - seems to correlate with different average levels of customs efficiency and corruption.

² As the yellow group countries pass into green zone and red zone countries pass into the yellow zone.

The data in the figure show the proportion of countries clustered (by k-clustering) into each group of countries. The clustering factors included the frequency of corruption, geographical group, efficiency of customs and trade facilitation scores. For our sensitivity analysis, we reduced corruption frequency scores by 10% (keeping all other variables constant), raised efficiency scores by 10% (keeping the other variables constant) and increased trade facilitation scores by 10% (again, keeping the other scores constant). We could not show the effect of all changes at once as such a change would partition variance away from the “green countries” (and we did not want to restrict our clustering size to two groups).

It is difficult to reduce customs work into a single number for the reason that it represents a complex area but analyzing the graph above it is possible to make a prediction about “which countries would benefit most from anti-corruption and efficiency-enhancement” (Michael, B., et. al, 2011) programs.

Before explaining the next graph it is primordial to alert that the future result of work programs can't be predicted by analyzing past statistical relationships but they can guide the policy makers to areas of possible future work and research. The next graph shows the countries which changed categories after one of the simulated changes discussed previously. After this, it is possible to predict which customs agencies in the process of reform are either moving toward OCDE levels of integrity and efficiency or, on the other hand, they are sliding toward a “red zone” group of countries. Particularly, for countries like Brazil or Philippines it is possible to develop to the green group with driving a serious anti-corruption or efficiency-enhancing program. However, in countries like Russia, Macedonia, and Indonesia marginal reform programs are not enough to change categories (statistically speaking), to reach this result they need to implement radical reform initiatives¹ in order to move out of their high corruption-inefficiency panorama.

¹ Called by Michael, B. (et. al, 2011) as “big bang reforms”.

Estimated Trade Facilitation Effort Needed to Match Top-Tier Customs Agencies¹

Countries able to reform with marginal change	Bolivia	El Salvador	Panama
	Brazil	Guatemala	Peru
	Chile	India	Philippines
	Colombia	Mexico	Turkey
	Costa Rica	Nicaragua	Venezuela
	Ecuador	Nigeria	Vietnam
Countries Requiring “big bang” Reforms	Algeria	Israel	Senegal
	Angola	Jordan	Serbia
	Armenia	Kenya	Sierra Leone
	Azeri	Kuwait	South Africa
	Bangladesh	Kyrgyz	Sri Lanka
	Belarus	Lebanon	Tajikistan
	BiH	Liberia	Tanzania
	Burundi	Macedonia	Thailand
	Cambodia	Malawi	Timor Lest
	Cameroon	Moldova	Uganda
	Congro-Brazza	Mongolia	Ukraine
	Croatia	Montenegro	Yemem
	Egypt	Morocco	Zambia
	Ethiopia	Mozambique	Zimbabwe
	Georgia	Nepal	
	Ghana	Nigeria	
	Indonesia	Pakistan	
	Iraq	Russia	
		Rwanda	

Source: Micheal, B. (et. al., 2011).

¹ The figure shows the countries which changed group when we decreased by 10% the frequency of customs bribery, increased by 10% their customs efficiency index, or increased by 10% their trade facilitation score. It was specifically used the variance around four indicators (these and which continent they belonged to) in order to create clusters (k-groups). It was asked the software to provide us with groupings of countries which made the most sense from a statistical point of view (as of course the software can not make qualitative judgments about countries). We recorded when a country jumped from one group to another – the “red” group for example into the yellow group. Such an exercise has the benefit of removing judgment and discretion from the researcher – allowing us to un-passionately assess the likely effects of customs-related policy changes. We naturally exclude the possibility that some customs agencies may be irredeemable. With a big enough band (to speak informally), every customs agency should be able to achieve the same corruption and efficiency scores as those recorded in the OECD (Micheal, B., et. al., 2011).

>> 5. CONCLUSION:

This work paper it was planned starting from the follow critical analyze: while fewer official customs seem to take bribes in several countries (and less frequently), some customs agencies see rising corruption. Why some agencies are succeed with reducing it and making trade easier? Does trade facilitation measures helps to curb the customs-related corruption and to improve customs' efficiency?

Before analyze the pure effect that the adoption of trade facilitation measures provokes on the combat against customs-related corruption, this article contained a brief historical explanation about the development of the international trade system; later the author looked for analyzes where comes from the vulnerability of the customs' service to the corruption, and, finally, it was made a critical and descriptive analyze on several data sources in order to answer these questions.

Despite the usual data's result contraction, it was conclude that the own customs-service's nature and some new customs' procedures¹ can justify the vulnerability of the customs administrations around the world, regardless of the developing level of the nation. Moreover, customs agencies can be grouped within two corruption-clubs and those countries within one of these groups tend to either get better or get worse – level of corruption – depending on the type of reform's programs adopted for them. Later, it was concluded that trade facilitation influences corruption and efficiency². Finally, countries located in a high corruption and high inefficiency group (red group) need an extremely, solid, or even, a “big bang” anti-corruption and efficiency-enhancing reform programs in order to support an development toward OECD levels of corruption and efficiency.

The later conclusion is based on three arguments. First, it was observed by the past statistical experience of other countries that the countries can't move out of the red group with marginal reform programs. Second³, it was noted that corrupt customs officials will block the progress that trade facilitation brings when such reform threatens their personal financial interests, which gives a great responsibility to customs agency directors to implement a vertical reform program extensive enough to guarantee that it will provide increase of the customs revenue which can help pay under-paid customs inspectors. Third, exists a large link between corruption and inefficiency and

¹ Derived of the new trade facilitation and efficiency-enhancement programs.

² Even when is impossible witness such changes through the statistical analysis.

³ This conclusion has more political than statistical justification.

the data's analyzes suggest that curbing corruption with tackling inefficiency will likely lead to weak results.

There is no doubt that trade facilitation programs helps to reduce corruption and increase efficiency but only if these programs are conducted in parallel to anti-corruption and efficiency enhancement programs, which can increase the revenue which trade facilitation provides.

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