CHAPTER 1

The Multifaceted Role of Customs and Its Importance for the Economy and Society

Gilles Montagnat-Rentier and Christian Bremeersch

However essential it remains in all countries with a value-added tax (VAT) system, and especially in developing countries, the collection of taxes on imports is today only one of the facets of the role of customs. This role has also taken on economic and societal dimensions and confronts many major global challenges. Thus, the customs administration’s mission is composed of three elements, all related to international trade in goods: the fiscal element (revenue collection, directly and in support of the tax administration), the economic element (implementation and oversight of certain government economic policies), and the protection and security element (safeguard of citizens’ health and protection of society from transborder criminal activity). The relative importance and priority of the roles and functions of customs may vary depending on geographical, economic, and other features of the country, yet the three core elements are systematically present. This chapter first gives an overview of these many and diverse customs responsibilities. It then briefly presents the typical processes implemented by the customs administration and highlights a few major trends in its environment.

THE FISCAL ELEMENT OF THE CUSTOMS’ MISSION

International Trade Growth Has Been Slowing Down

The imports of goods—and exports for some countries, though to a lesser extent—constitute the basis for customs revenue. After several decades of continuous growth, slower trade growth resulted from structural change coinciding with the global financial crisis in 2008–10 (see Figure 1.1). Between 2001 and 2008, the volume of world trade in goods grew annually by 5 percent, which was persistently faster than the annual GDP growth of 3.9 percent. Consequently, international trade was considered to be an important “engine of growth.” After the 2008 financial crisis, however, the average annual growth of world trade slowed to 3.8 percent. In terms of value, the slowdown was more marked, with the
The average annual growth of world trade value was merely 0.2 percent from 2011 to 2018. As a result, international trade in goods decreased from 50.2 percent of GDP in 2011 to 46.1 percent in 2018, while international trade in services continued to grow, rising from 11.8 percent to 13.4 percent of GDP (World Bank,
2020). Figure 1.2 shows comparable trends by type of economy, although developing economies’ international trade is growing faster and transition economies are experiencing more variation.

Although the beginning of 2020 gave hope that trade tensions would ease, the health and economic crisis caused by the coronavirus disease 2019 (COVID-19) pandemic greatly affected global trade. Overall, world trade recorded a drop in value of about 9 percent in 2020, with trade in goods declining by about 6 percent and trade in services decreasing by about 16.5 percent (Global Trade Update 2021). As the pandemic was still ongoing during the development of this book, trade volumes were expected to grow 10.8 percent in 2021 and 4.7 percent in 2022 (World Trade Organization 2021), however, remaining below the precrisis trend.

**Tariffs Will Remain an Important Source of Revenue**

The data in Table 1.1 on average tariffs by country income group and region show that the rates remain significant. Yet these figures should not obscure the significant trade liberalization that has taken place, including in countries that continue to apply high tariff rates. As Keen pointed out (2003), trade liberalization is not limited to the reduction of tariff schedules and export taxes, the latter mostly found today on natural resources, but also includes the reduction of a range of restrictions on trade flows. In this respect, a fundamental aspect has been the conversion of quantitative restrictions on imports into explicit customs duties, a measure that tends—provided that duties on goods’ quotas are not collected in the form of sales of import licenses—to increase both rates and revenues. Moreover, where tariff rates are set at levels that aim to be protectionist and revenue maximizing—with the understanding that prohibitive rates do not increase revenue—small reductions in these rates have been shown to increase tariff revenue. All this considered, and even though trade liberalization must ultimately reduce revenue from customs duties, for many years to come, particularly in developing economies, customs duties will remain an essential component of public revenues and finances.

**TABLE 1.1.**

<table>
<thead>
<tr>
<th>Simple Average Tariff Applied, 2018–19 (Most-Favored Nation, Percentage)</th>
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<tbody>
<tr>
<td>Advanced Economies</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td><strong>All commodities</strong></td>
</tr>
<tr>
<td><strong>Agricultural</strong></td>
</tr>
<tr>
<td><strong>Nonagricultural</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>East Asia &amp; Pacific</th>
<th>Europe &amp; Central Asia</th>
<th>Latin America &amp; Caribbean</th>
<th>Middle East &amp; North Africa</th>
<th>South Asia</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All commodities</strong></td>
<td>6.1</td>
<td>5.8</td>
<td>9.6</td>
<td>9.1</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Agricultural</strong></td>
<td>12.2</td>
<td>15.5</td>
<td>14.2</td>
<td>17.9</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Nonagricultural</strong></td>
<td>5.1</td>
<td>4.3</td>
<td>8.8</td>
<td>7.7</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Because today customs duties are designated generally in ad valorem terms, that is, based on the value of the goods, verification of the value declared by traders is an essential task of customs administrations. Regarding imports, the World Trade Organization (WTO) has established standard rules for the determination of the value, the basic principle of which is the use of the transaction value. Customs valuation is discussed in Chapter 2.

The Role of Customs in Domestic Tax Collection

Customs plays a crucial role in the enforcement of indirect tax regimes at the border. Indirect taxes—mostly the VATs (or sales taxes in countries where a VAT has not been adopted) and excise duties—are generally levied according to the destination of the products, which means that any product intended for domestic consumption is taxed at the same rate whether it is produced locally or imported, while exported products are exempt or relieved from duties and taxes. Hence, customs administrations are responsible for ensuring that products entering the territory of a given country pay all applicable duties and taxes upon clearance and that goods declared for export actually leave the territory free of indirect taxation and are not returned to the domestic market. The number of countries adopting VAT reached 165 in 2020, compared with 45 countries in 1990. Most of those countries that recently adopted VAT were developing countries (see Figure 1.3).

Figure 1.3. Number of Countries Adopting a VAT

“VAT collected by customs on imports represents more than 50 percent of total VAT collected in many countries.”

Source: Keen 2020.
Note: VAT = value-added tax.
Borne by the final consumer, the VAT consists of a tax levied at each stage of production: the VAT collected on the imported good is deducted from that payable when the good is sold or is refunded when the imported good is later exported or used as an input and the amount of tax collected on importation exceeds that applicable to the finished product. The VAT therefore applies to all taxable imports, whether the imports are intended for consumption or production. Thus, a significant part of the VAT revenue is collected on imports. Most of this revenue may be deducted or offset at later stages of the production or distribution cycle or, in some cases, at export, but, more important, for many developing countries, a significant share of VAT and excise revenue is collected at the border.

Figure 1.4 provides highlights of the importance of revenue collections by customs administrations. While customs revenue as a percentage of GDP is higher in emerging market countries, it represents a larger share (about one-third) of total tax revenue in low-income countries. VAT on imports accounts for the largest source of revenue collections by customs, especially in emerging market economies. The amount of VAT collected on imports compared with total VAT is very large in emerging market economies and low-income countries yet remains significant even in advanced economies.

**Figure 1.4. Highlights of Revenue Collections by Customs Administrations, 2017**

1. **Customs revenue (percent of GDP)**

   - Emerging markets: 5.7%
   - Low-income countries: 4.7%
   - Advanced economies: 3.1%

2. **Customs revenue (percent of total tax revenue)**

   - Emerging markets: 27.7%
   - Low-income countries: 37.2%
   - Advanced economies: 12.9%

3. **VAT collected on imports (percent of total customs revenue)**

   - Emerging markets: 55.0%
   - Low-income countries: 47.1%
   - Advanced economies: 47.8%

4. **VAT collected on imports (percent of total VAT collections)**

   - Emerging markets: 53.3%
   - Low-income countries: 42.9%
   - Advanced economies: 20.6%

Source: staff calculations.
CUSTOMS’ RESPONSIBILITIES CONNECTED TO OTHER ECONOMIC OBJECTIVES

The subsequent elements are general. Further discussion of customs procedures with economic impact, special economic zones, and incentives follows in Chapter 2. Chapter 4 discusses trade facilitation in more detail.

Implementing Trade Policy

The number of regional trade agreements (RTAs) has increased significantly in the past two decades. RTAs are reciprocal preferential trade agreements between two or more partners, which are authorized under the WTO subject to a set of rules. According to the WTO, 321 such agreements were in force as of February 2021, 242 of them since 2000.¹ Only 17 of these agreements are customs unions (see Table 1.2), and the remainder are free trade areas;² however, existing customs unions involve a large number of countries.³ Intrazone trade varies considerably among these agreements. According to WTO and United Nations Conference on Trade and Development (UNCTAD) estimates, the European Union (EU) and the North American Free Trade Agreement (NAFTA) recorded 64 percent and 50 percent of intra-RTA trade respectively in 2017. The same year, the share of intracommunity trade was 24 percent in the Association of Southeast Asian Nations (ASEAN) and 13 percent in the Southern Common Market (MERCOSUR), while for the Common Market for Eastern and Southern Africa (COMESA) and the Economic and Monetary Community of Central Africa (CEMAC) this trade represented only 8 percent and 2 percent of their exports respectively.

Although implementation of many provisions of RTAs is under the responsibility of customs authorities, a specific challenge is the implementation of the preferential origin rules, which condition removal or reduction of tariff—within free trade areas and within the customs unions that have not implemented a free circulation principle yet. Difficulties stem from the complexity of origin rules, their differences from one agreement to another, and the cooperation with other customs administrations, which, in many instances, is not only necessary but mandatory to enforce these rules. On imports, customs must ensure that goods imported under

¹ Some of the new agreements are amendments to earlier RTAs, 119 of which have ceased to be applied since 2000.
² Examples of major multilateral free trade areas include the 2018 Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a new version of the initial Trans-Pacific Partnership, and the 2020 Regional Comprehensive Economic Partnership.
³ The member countries of a customs union agree to allow free trade on products between them and to implement a common external tariff with respect to imports from the rest of the world. Free trade area members do not have a common trade policy toward nonmembers.
TABLE 1.2.

<table>
<thead>
<tr>
<th>Customs Union Name</th>
<th>Entry into Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central American Common Market (CACM)</td>
<td>1961</td>
</tr>
<tr>
<td>Andean Community (CAN)</td>
<td>1988</td>
</tr>
<tr>
<td>Caribbean Community and Common Market (CARICOM)</td>
<td>1973</td>
</tr>
<tr>
<td>Economic and Monetary Community of Central Africa (CEMAC)</td>
<td>1999</td>
</tr>
<tr>
<td>Common Market for Eastern and Southern Africa (COMESA)</td>
<td>1994</td>
</tr>
<tr>
<td>East African Community (EAC)</td>
<td>2000</td>
</tr>
<tr>
<td>Eurasian Economic Union (EAEU)</td>
<td>2015</td>
</tr>
<tr>
<td>Economic Community of West African States (ECOWAS)</td>
<td>1995</td>
</tr>
<tr>
<td>European Union (EU)</td>
<td>1958</td>
</tr>
<tr>
<td>EU-Andorra</td>
<td>1991</td>
</tr>
<tr>
<td>EU-San Marino</td>
<td>2002</td>
</tr>
<tr>
<td>EU-Turkey</td>
<td>1996</td>
</tr>
<tr>
<td>Gulf Cooperation Council (GCC)</td>
<td>2003</td>
</tr>
<tr>
<td>Southern Common Market (MERCOSUR)</td>
<td>1991</td>
</tr>
<tr>
<td>Russian Federation-Belarus-Kazakhstan</td>
<td>1997</td>
</tr>
<tr>
<td>Southern African Customs Union (SACU)</td>
<td>2004</td>
</tr>
<tr>
<td>West African Economic and Monetary Union (WAEMU)</td>
<td>2000</td>
</tr>
</tbody>
</table>


the agreement comply with the rules of origin to protect revenue and prevent unfair competition. On exports, it may need to confirm eligibility to preferential treatment at destination, which extends to advising domestic producers while ensuring that the country’s international commitments are respected. It may be noted that unilateral tariff reductions granted by developed countries to developing countries under the Generalized System of Preferences raise similar administrative issues.

Supporting Competitiveness

To meet the different needs of businesses and to promote their competitiveness, customs regulations offer special procedures. Often known as customs procedures with economic impact, they are intended for both trade and industry and allow goods to be stored (customs warehousing procedures), assigned to a specific use (temporary admission procedures), or processed (inward processing procedures). These arrangements all suspend the obligations normally relating to imports, both for the payment of customs duties and taxes and for compliance with the rules of commercial policy. Their use has become widespread and requires customs to set up specific organizational roles, systems, and methods for monitoring the undertakings. Customs, on the one hand, is mandated to simplify formalities, while, on the other hand, it should ensure that goods are not misused and are eventually re-exported or correctly declared if they remain in the country. In the case of inward processing, customs also assesses manufacturing processes to ensure that all imported inputs under suspension have been incorporated into the production declared at the end of the scheme.

“Customs special procedures can be effective tools to promote economic activities including manufacturing.”
The free zones, also known as special economic zones, offer companies the same customs advantages as customs procedures with economic impact and, practically, the goods located in free zones are regarded as being outside the customs territory with respect to import duties and taxes. However, they generally combine with various other investment incentives: exemption or reduction of direct and indirect domestic taxation, reduction of obligations imposed on employers by labor law regulations, and simplified administrative formalities for the movement of goods. The proliferation of these zones is such that, whereas in 1997 there were 845 of them in 93 countries, there were 5,400 special economic zones in 147 countries in 2018—and at least 500 more special economic zones were in the pipeline (UNCTAD 2019). The Organisation for Economic Co-operation and Development (OECD) and the European Union Intellectual Property Office together consider that this increase has encouraged the production and trade of counterfeit products and other criminal activities, such as money laundering. To address risks related to revenue, intellectual property, and security, in particular, free zones should remain under customs control and should be well delimited and physically protected. Movements of goods between them and the rest of the territory should be electronically managed and connected to customs systems and the data used for traceability, surveillance, and control (Omi 2019).

Many countries, developing countries in particular, make extensive use of direct duty and tax exemption of imports to promote investment and support social objectives. It is not unusual, for example, for the foregone revenue from customs exemptions to equate to one-third of customs-collected revenue in sub-Saharan African, Caribbean, and Latin American countries. Administration of multiple and large-scale exemption schemes is problematic for customs. First, these measures represent a heavy administrative load that mobilizes significant resources, which are no longer available for more productive tasks. Second, exemptions are prone to abuse, resulting in revenue leakage and unfair competition between economic actors. The exempted commodities, authorized uses, and beneficiaries must be precisely defined by the law, which is not always the case, and customs should implement specific procedures and programs to prevent and detect noncompliance, not only at the point of entry but also after release of exempted goods to the domestic market. There has been little change in the necessary rationalization of customs exemptions in developing countries, and the monitoring and control challenges for customs administrations remain.

**Trade Facilitation**

The general principles of trade facilitation—that is, measures to simplify customs clearance and reduce its cost and time—are laid down in Article V (Freedom of Transit), Article VIII (Fees and Formalities Connected with Importation and...
Exportation), and Article X (Publication and Administration of Trade Regulation) of the General Agreement on Tariffs and Trade 1994. To expedite the movement, release, and clearance of goods, the WTO Ministerial Conference held in Doha, Qatar, in 2001 decided to have these principles reviewed and, if necessary, clarified and improved and the needs and priorities of countries identified. This work concluded with the coming into force in February 2017 of the WTO Trade Facilitation Agreement (TFA), which includes and clarifies all relevant measures in this area.

Modalities of implementation of the TFA are adapted to the capacities of developing countries, especially least developed countries. The latter, unlike developed countries that committed themselves to implement the TFA as soon as it is adopted, benefit from special and differential treatment that allows them to determine individually the pace at which they will implement the provisions of the agreement and to benefit from support, including financial support, when necessary.

More than 90 percent of developing countries and least developed countries have to date identified the provisions that they will be able to implement after a transition period and those for which they will need support in order to implement the agreement fully. The TFA is expected to give a decisive impetus to the implementation of key measures for the strengthening of trade facilitation, and customs is one of the main actors in this implementation.

The Application of Trade Defensive Measures

Three WTO agreements authorize (1) the application by a Member State of duties, tariff measures, and/or quotas to protect a domestic industry against an increase in imports that is causing it or threatens to cause it a serious injury (Agreement on Safeguards); (2) to restore the fair taxation of an imported product whose export price is lower than its normal value (Agreement on Anti-Dumping Duties); and (3) to respond to certain subsidies obtained in the country of production by suppliers of imported products (Agreement on Subsidies and Countervailing Measures). While the number of antidumping measures has remained relatively stable over the past few years, the trade tensions that have prevailed since 2018 have, on the other hand, generated a significant increase in countervailing measures of subsidies and safeguard

According to the WTO, the full implementation of the TFA could reduce the costs of trade by an average of 14.3 percent with an even greater reduction for African countries and least developed countries.”

6 Least developed countries are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets. There are currently 46 countries on the list of least developed countries, which is reviewed every three years by the Committee for Development. Least developed countries have exclusive access to certain international support measures in particular in the areas of development assistance and trade. Source: United Nations, Department of Economic and Social Affairs.
measures. The number of countervailing measures in force thus increased from 154 on June 30, 2017, to 228 on June 30, 2020 (WTO 2017, 2020), whereas the number of safeguard investigations initiated increased from 11 for 2016 to 25 for the period from October 2019 to October 2020 (WTO 2020). Within this framework, the responsibility of customs is to collect the duties, prevent and detect their possible circumvention, and make available to the authorities trade data that may be useful to initiate permitted actions under the agreements.

**The Production of Foreign Trade Statistics**

As administrative organizations vary from country to country, customs is not always responsible for compiling and publishing foreign trade statistics. However, achieving reliable foreign trade statistics is reliant on customs collecting declaration data that has a good level of accuracy. Customs’ investment in improving compliance, especially in relation to classification, valuation, and origin of goods, therefore also benefits the statistical information. Moreover, the WCO Data Model has helped with global standardization. Because all commercial imports and exports must be declared to customs, it is a rich source of data to enable statistics to be compiled for both general and special trade. These statistics are important for businesses and essential for the national authorities, for governance, definition of policies, and monitoring and control of key sectors.

In many developing economies, revenues from the extractives industries are a critical component of public finance, whereas information on these sectors’ activities and revenue due and collected is often insufficient. In many developing economies, revenues from the extractives industries are a critical component of public finance, whereas information on these sectors’ activities and revenue due and collected is often insufficient. Customs data from verified export declarations are one of the most reliable references to both cross-check the country’s natural resource revenue receipts with actual flows and disclose to the public and decision makers accurate data on extractive companies’ outputs. Unfortunately, customs in developing countries too often do not devote enough attention to control of exported natural resources.

The Harmonized Commodity Description and Coding System (“Harmonized System”) developed and administered by the World Customs Organization (WCO) is the international product nomenclature used for the collection of international trade statistics. It is composed of more than 5,000 commodity subheadings, each identified by a six-digit code, arranged in a logical and hierarchical structure. The legal text of the Harmonized System is composed of these codes, Notes, and General Interpretative Rules that direct how classification is undertaken. These legally binding provisions help achieve uniform classification

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7 This was a factor for the creation of the Extractive Industries Transparency Initiative. Founded in 2003 and organized as a nonprofit association, the Extractive Industries Transparency Initiative is a global standard that seeks to address key governance issues in oil, gas, and mineral resources sectors. As of January 2021, 55 countries were participating.

8 More than 98 percent of the merchandise in international trade is classified in terms of the Harmonized System (WCO).
between countries to the six-digit level. Countries may further subdivide below this level, but such subdivisions are not internationally consistent. It is important to note that the Harmonized System is a multipurpose nomenclature of commodities. In addition to the statistical objective and application of customs duties, it is also extensively used in many other areas, for example, definition of rules of origin and application of internal taxes and various regulations on imports and exports.

**PROTECTION AND SECURITY**

**The Application of Standards and Regulations on Imports and Exports**

Whenever domestic legislation is applicable to imported or exported goods, customs plays a role, either by directly enforcing the law or by ensuring that other responsible agencies have concluded their review process before releasing these goods. This may be done through document-based inspection or, as needed, physical inspection and laboratory tests.

For example, in terms of environmental and health protection, customs monitors the application of the provisions of the relevant international conventions, especially the Basel Convention on the control of transboundary movements of hazardous wastes and their disposal, the Rotterdam Convention on the prior informed consent procedure for certain hazardous chemicals and pesticides in international trade, and the Stockholm Convention on persistent organic pollutants (together known as the BRS Conventions). For customs with maritime response capabilities, the action against the spread of waste extends to the fight against marine pollution. An equally important customs mission for the environment is the control of ozone-depleting substances, such as chlorofluorocarbons and other ozone-depleting substances covered by various protocols, the phasing out of which was enshrined in the 1987 Montreal Protocol. Customs contributes directly to compliance by checking that trade in these substances has been duly authorized and reported regularly to the United Nations Environment Program so that it can ensure that countries meet their ozone-depleting substance phase-out commitments under the protocol.

The role of customs in protecting the environment could expand considerably with the implementation of climate change–related initiatives. The administration could play a pivotal role in carbon taxation if border adjustment mechanisms are implemented to prevent carbon leakage and support fair competition. In July 2021, the European Commission made a proposal to establish such a mechanism that would target a selection of products imported into the EU. Chapter 2 discusses this topic.

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9 Under the provisions of regional trade agreements, the conditions to be met to grant preferential origin status to a product may include a change in tariff classification after local transformation.
Customs is involved in the application of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Counterfeiting of goods has been widely denounced, even more since it has been extended to products that threaten human health, such as car parts that do not comply with manufacturers’ standards, toys that are dangerous for children, and fake medicines that are inoperative or toxic. Evidence of the spread of counterfeit goods to all production sectors and the growth in this illicit industry have increased from $461 billion USD in 2013 to $509 billion USD in 2016 (that is, from 2.5 percent to 3.3 percent of world trade), thus highlighting the importance of combating this issue (OECD/EUIPO 2019).

In addition to detecting counterfeit goods, customs has a role in consumer protection by enforcing compliance with various technical quality standards (some customs administrations have their own laboratories for this purpose) and veterinary (animals and animal products) and plant health regulations. Veterinary and phytosanitary controls are examples of those usually undertaken by technical agencies at the border. Nevertheless, customs plays an essential role since, when releasing goods, it must ensure prior to release that these agencies have carried out their controls and have approved import or export. The so-called “mad cow” crisis (transmission of bovine spongiform encephalopathy to humans), which occurred in Europe at the end of the 1990s and caused fatalities and a serious crisis in the beef sector, bears witness to the importance of the customer protection aspect of the customs mission.

Dangerous goods, also known as “hazardous materials,” may serve as intermediate materials (for example, ethyl alcohol used for sanitizer) or semi-knocked-down products (for example, lithium batteries used for mobile phones) through the globalized production and account for a considerable portion of international trade in goods. Such goods are regularly transported and stored throughout global supply chains and therefore pose high risks to the security of societies. Customs takes responsibility for controlling these goods in both regulatory and operational terms.

**The Fight against Illegal Trafficking**

Legitimate trade has become a vector for illicit trade that runs in parallel. The pressure from society and the authorities to step up customs action to prevent trafficking in illegal dangerous goods has increased significantly. It is revealing that many customs administrations now focus as much or more of their resources and efforts on seizures of illegal products as on revenue performance. The safety, security, and protection of the society aspect of customs continue to increase in importance for many countries. In Chapter 6, suggestions for strengthening customs enforcement are discussed, and the discussion provides guidance on how administrations can bolster this important function.

"Illegal trafficking of goods takes place on a large scale, and customs plays a major role in detecting and suppressing these activities."
Drug trafficking is, more than ever, a major threat to society. According to the 2019 report of the United Nations Office on Drugs and Crime (UNODC 2020), the number of drug users has increased by 30 percent since 2009, and the most worrying trends in drug use are related to cocaine, methamphetamine, synthetic opioids, and heroin. Cocaine production has reached record levels and consumption has become globalized (143 countries in all regions reported cocaine seizures between 2013 and 2017, compared with 99 countries between 1983 and 1987). Seizures of these other substances have also increased as shown in Table 1.3, and customs is at the forefront of the fight against international trafficking in drugs. UNODC and WCO together launched a Container Control Programme (CCP) in 2004 that 59 countries have joined so far and that has resulted in establishing 98 port control units and 21 air cargo control units. During 2019, those units made 800 drug seizures involving 77 tons of cocaine, 1.5 tons of heroin, 850 kilograms (kg) of cannabis, 120 kg of psychotropic substances, and 37 tons of precursor chemicals.10

In order to combat drug trafficking effectively, many customs authorities do more than strengthen their traditional intelligence and control capabilities. They may have legal powers to conduct covert investigation operations, and in addition to the actual seizure, they can succeed in dismantling entire networks and seizing the capital generated by trafficking (anti-money laundering). In a more recent development, some of these customs authorities have also been given the legal power to monitor social networks in order to detect purchase orders and deliveries to individuals.

Another type of illicit trade that customs fights is the illegal trade in endangered species. Customs participates in protection of biodiversity through the fight against illegal trafficking of species protected by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES, also known as the Washington Convention). In addition to its ongoing work in this area, customs also

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10 CCP seizures in 2019 also included 104 containers of counterfeit goods and 705 million packs of cigarettes as well as toxic waste, weapons, and specimens of protected animal species.
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participates in coordinated interventions with police services organized by Interpol and the WCO or mobilizes itself to run such activities. An operation of this type was carried out in June 2019 in 109 countries and showed the magnitude of the problem. In less than one month, 582 suspects were arrested and more than 1,800 seizures were recorded, including 545 kg of ivory, 1.3 tons of pangolin scales, almost 10,000 live turtles, 30 big cats, 23 primates, more than 1,400 reptiles, more than 4,300 birds, 2,550 cubic meters of wood, and more than 2,500 plants.

Illegal trade flows also notoriously include cultural heritage goods, precious minerals and gemstones, food products, and goods subject to high excise duties such as tobacco, alcohol, and fuels, among others. In response to the growing threat posed by cross-border flows of small arms and light weapons, in 2015 the WCO started the Small Arms and Light Weapons Project, which aims to detect and prevent illicit trafficking of these items.11

Customs’ Contribution to National Security and Combatting Terrorism

Following the attacks against the United States on September 11, 2001, a review of border security identified trade flows as a significant potential vector of international terrorism. Mitigation measures were taken, a number of which were the responsibility of customs administrations, to better secure the supply chain and ports. These included the Container Security Initiative implemented by the USA in 2002 and the Import Control System put in place by the EU 2005. Whether by deploying teams of US Customs and Border Protection officers at the main ports of shipment to the United States (58 ports in 2021) or by requiring the sending to customs of a prior declaration before boarding to the EU, these measures respond to the same concern: to detect high-risk consignments as early as possible (at or before the port of departure).

At the June 2005 WCO Council Sessions, WCO members adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade, regularly updated since then, which is based on three pillars. The core element of the first pillar—strengthening of cooperation between customs administrations—is the exchange of advance information transmitted electronically to identify high-risk cargo and conveyances prior of their dispatch. The second pillar—strengthening of the partnership between customs and business—is based on the Authorized Economic Operator (AEO) status granted to traders who can justify their

“The SAFE Framework prescribes standards that have been tested and perform well around the world, setting a new approach on working methods for both customs and companies toward a common goal based on trust.”

11 Since 2015, the number of specialized programs run by the WCO has increased considerably, and they target the following customs enforcement areas: drugs, environment, revenue, security (including the Small Arms and Light Weapons Project), cultural heritage, intellectual property rights, health and safety, and anti-money laundering and counter-terrorism financing.
compliance with regulations and security of their supply chain and internal procedures. The third pillar—strengthening customs cooperation with other government departments responsible for security—aims to avoid duplication of requirements and controls in the supply chain and to streamline procedures. Further detail on the AEO program can be found in Chapter 4.

In addition to implementing the SAFE Framework, customs strengthens security through specific measures such as the WCO’s Strategic Anti-Fraud Program. This program aims to combat the trafficking and smuggling of weapons of mass destruction and related materials and to monitor compliance with restrictions on the movement of dual-use goods (that is, goods, including software and technology, that can be used for both civilian and military purposes).

**Participation in the Fight against Cross-Border Crime and Intelligence Gathering**

Customs is involved in the fight against organized crime as an element in its border controls or search activities within the territory. At the border, many customs administrations have the mandate and power to arrest the persons involved in cases of trafficking in human beings, illegal migrant smuggling networks, or any other criminal activity. At the border and within the territory, customs may collect information relating to a criminal organization or criminal acts (such as money laundering) and transmit it to the competent judicial and police services.

**TYPICAL CUSTOMS PROCESSES**

To execute their mission, customs administrations implement processes that are similar worldwide. This can be explained by the fact that they have the same objectives and types of expected results in all countries and by the existence of international conventions and standards, which have brought a global harmonization of steps (see the following section). These processes are succinctly described to facilitate the reading of the following chapters of this book.

Goods arriving in ports or leaving the country are first presented to and recorded by the customs authorities. They are then cleared through customs, which means a customs procedure (import for consumption, temporary import, export, and so on) is requested by the declarant through the filing of a customs declaration.

Customs then verifies that the declaration is correct to ensure that all relevant entry or exit obligations are fulfilled and that the correct duties and taxes have been assessed and paid. This verification may include physical inspection of the

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12 This status has been incorporated into numerous customs laws, and mutual recognition agreements have been concluded between countries strictly applying the eligibility criteria defined by the SAFE Framework so that AEOs can benefit from reduction of controls and access to simplified procedures beyond their country.
goods. The duties and taxes collected depend on the value and/or quantity, the physical characteristics, and, for customs duties, in some cases the country of origin of a specific product. Total or partial exemptions of duties or taxes generally also depend on the status of the importer (beneficiary of the measure) and the final use of the exempted good.

Customs may carry out additional verifications after it clears the goods, either by a desk review of documents furnished or by conducting a more detailed and/or comprehensive audit at an operator’s premises. The purpose of these checks is to recover duties and taxes that may have been evaded at the time of declaration and ensure compliance with import and export regulations.

Monitoring of goods within the customs territory—not at one border crossing point only—is required for many customs procedures and very common, either to manage transit cargo circulating between countries or inland customs offices or because a conditional suspension or exemption of duties has been granted. Customs transit procedures are essential for landlocked countries, and exemptions are widespread in developing countries.

A mobile customs preventive service is normally present at borders and around ports to ensure that goods are directed to customs clearance offices, combat smuggling and other criminal activities, and participate in border surveillance. Investigation units are responsible for tackling fraud and trafficking throughout the entire customs territory, including prosecuting serious offenses.

Customs intelligence and risk management functions select and target interventions. From a focus on goods, attention of these functions has progressively extended to the details of the trade transaction, players involved, and supply chain and logistics. Conjointly, the gathering and use of data have become critical.

Customs administrations also increasingly rely on collaboration with other stakeholders to achieve their objectives. This takes the form of a broader and deeper dialogue with the private sector, exchange of information and coordination with tax administrations and other government agencies, and international customs cooperation, particularly for enforcement and trade facilitation purposes.

Customs control is often more present on the import side than on the export side, yet customs is equally in charge of export and import. The customs responsibilities described earlier show numerous reasons for checking export goods and transactions—from witnessing the actual exit of goods from the territory for VAT and excise management purposes to certifying the country of origin of an exported product, enforcing restrictions on export of civilian and military dual-use goods and technologies, collecting data to enhance transparency in natural resource sectors, and seizing prohibited goods, to name a few. Growing cooperation between the authorities of destination and departure countries will increase requests for administrative assistance, with responses from the departure country facilitated if effective checks have been carried out on the export. The processes and functions summarized previously therefore apply to trade flows in both directions, and insufficient export control, as is sometimes found, would need to be remedied.
Chapter 1  The Multifaceted Role of Customs and Its Importance for the Economy and Society

TRENDS IN THE GLOBAL ENVIRONMENT OF CUSTOMS

The customs environment is constantly evolving, and customs must address the different components of this evolution. Modernization is the only option to remain effective. Here we highlight some global trends that have a direct and significant impact on customs strategy and operations. Many, if not all, of the changes underway tend to reinforce the role of customs and the need to have well-functioning and effective customs administrations.

Changing Patterns of International Trade

International trade is unlikely to grow as fast as it did before 2008, a situation that some academics have dubbed “slowbalization.” The strong growth before 2008 and subsequent slowdown are not a cyclical economic phenomenon but a structural change that can be explained first by the slower growth of global value chains and may be accentuated by several other developments. Trade tensions were started as a political agenda focusing on bilateral trade imbalances and thus a cause of unemployment. They may remain in the form of increased trade barriers, particularly tariff increases. Service sector evolution, such as the sharing economy and leasing rather than purchasing goods, may contribute to a further slowdown in the growth of world merchandise trade.

More recently, policies in response to COVID-19, including “secure supply,” may have added further momentum to slowbalization, if not deglobalization. Overdependence on foreign production of medical and other essential goods has created a perception of strategic vulnerability, prompting countries to implement policies to reduce their reliance on foreign suppliers for these goods. Such policies have included export restraints, which have exacerbated countries’ vulnerability to supply disruptions, and measures aimed at diversifying or shortening supply chains, if not boosting domestic manufacturing. Separate incidents in early 2021—shortage of semiconductors, for which production is highly concentrated, and the temporary blockage of the Suez Canal—have further warned of current supply chain disruption risks, which had previously been highlighted by the Great...
East Japan Earthquake in 2011. Companies may attempt to secure their activity by diversifying and introducing more flexibility in their sources of supply and may avoid using value chains that are too complex or geographically dispersed. Although a spontaneous rapid shift in supply chains is not in sight, companies have started reorienting their supply chains from just-in-time to just-in-case inventory management in order to reduce the risk of supply disruption. The potential effect of this restructuring and diversification on customs tasks is not clear. Pressure might be relieved from customs administrations for reaching very short clearance times, but complexity of applicable rules and workload might increase with protectionist initiatives and the number of bilateral trade agreements. Slowbalization will have implications for customs’ revenue collection, regardless of the types of duties and taxes levied. In addition, the increasing frequency of combining both physical and digital elements in a single sale (for example, a physical good with a digital subscription service) will increase the number of complex cases for the calculation of customs value. Insofar as these taxes are based on the import value, customs should be aware that revenue collection may not increase as fast as previously.

Nevertheless, there is a convergence of views that international trade will play an important part in the implementation of the major structural economic reforms needed globally following the recovery from the COVID-19 pandemic disruptions. At the March 23, 2021 high-level seminar WTO Aid-for-Trade Stocktaking Event, the IMF managing director emphasized the following issues: “Trade will be at the heart of efforts to build forward toward a greener, more inclusive and digital recovery. We are going to experience structural shifts to the new climate economy. It will depend on the exchange of goods and services.” In this context, maximum efforts should be made to avoid administrative bottlenecks or a blockage anywhere. The agenda for customs will include streamlining, digitalizing, and guaranteeing predictability of their own procedures and, likely, asserting a leading role in an efficiently coordinated border management. Customs and other agencies are already increasingly ensuring coordinated risk management and inspection of goods at borders (for example, Dutch State Inspection terminal at Rotterdam port and similar structures at Schiphol airport), performing specific inspections on behalf of others, or merging administrative structures to improve efficiency (for example, customs and border sanitary inspections in China).

Rapid growth of e-commerce, including business-to-consumer, is an evolution that poses specific problems to customs administrations. According to the WTO, the value of world e-commerce markets increased from $19.3 trillion in 2012 to $27.7 trillion in 2016 (86.3 percent of this amount was transactions between companies), that is, an increase of 43.5 percent in four years.15

“A major challenge for customs is to continuously adjust to the evolving patterns and modalities of international trade and commerce.”

15 In accordance with the commonly accepted definition, electronic commerce as defined here is that of goods and services ordered by digital means and delivered either physically or digitally.
Physical delivery of a multitude of small parcels of low value mobilizes significant customs resources for two reasons: (1) existing thresholds *(de minimis* value) for the application of duty and VAT tend to be lowered or removed to mitigate revenue and the competition impact of large volumes of exempt imports and (2) the transborder fraud that has developed through online orders, particularly for cigarettes, drugs, counterfeit goods, weapons, and false documents. To be effective, the fight against such trafficking cannot be limited to traditional methods of control. Customs administrations have set up services to collect, enrich, and exploit information to effectively combat internet fraud (for example, French customs’ Cyberdouane unit).

On digital deliveries, in 1998, as global electronic commerce created new opportunities for trade, members of the WTO decided, in line with the practice of the time, not to impose customs duties on electronic transmissions (WTO 1998). While this moratorium has since been renewed, customs faces a different type of challenge with the possible transfer of the production of physical goods to any part of the world through electronic transmission of appropriate software. The WTO (supported by the G20 with the June 2019 launch of the “Osaka Track” initiative on the digital economy) has reinvigorated work on the scope, definition, and impact of the 1998 moratorium. Whatever the conclusions of this work, three-dimensional (3D) printing represents one of the most disruptive digital technologies for customs administrations since it changes the notions of borders and trade flows. To overcome the lack of global standards and guidelines for the growing trade in cross-border electronic commerce in physical goods, the WCO released the Cross-Border E-Commerce Framework of Standards in June 2018. E-commerce is discussed further in Chapter 2.

**A Global Normative Framework but National and Regional Priorities**

Compared to other institutions, customs has the advantage of having global standards and rules defined collectively within international organizations and, in particular, by the WTO and the WCO, whose functions and main contributions are presented in Box 1.1. Without this international frame, world trade could certainly not have developed in the same way. These rules have formalized the obligations and actions of customs and have simplified and harmonized customs procedures and practices. However, customs may derogate from them when the implementation of either national or regional directives so requires. (In a customs union, a national customs authority must follow the common rules). This is particularly the case when authorities decide to exempt themselves from these rules in the name of protecting their economic or fiscal interests. Recent examples

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16 3D printing refers to a manufacturing process whereby a product is assembled by layering materials in accordance with programmed commands. By contrast, manufacturing traditionally involves taking lots of parts and screwing or welding them together. According to Mordor Intelligence (2021), the 3D printing market was valued at $13.7 billion in 2020 and is expected to reach a value of $63.46 billion by 2026.
include the unilateral measures taken by the United States and China since 2018 in the context of trade tensions between them; the closure by Nigeria in 2019–20 of its land borders with neighboring countries, including other ECOWAS members; and the United States’ new tariffs (suspended in January 2021) to retaliate against France introducing a digital services tax. In view of recent geopolitical developments, marked by increased competition and a more aggressive stance among powers, and significant challenges posed to unilateralism, a return to a more protectionist world cannot be ruled out. At the same time, international trade will remain a source of growth, although probably to a lesser extent than before 2008, and is essential to prosperity. There is, as a result, a growing consensus that a reform of the WTO would be necessary to reinvigorate its functions, help calm tensions, and tackle major current global issues impacting trade, although the contours of such a reform remain to be defined. Customs administrations once again will have to adapt to the global, regional, and national contexts.

Box 1.1. The World Trade Organization and the World Customs Organization

The World Trade Organization (WTO) provides the framework for negotiating trade agreements, reviewing trade policies, and settling trade disputes between members. WTO members (164 as of 2021) commit themselves to rules of good conduct in trade policy, including “bound” tariff rates that can only be exceeded in emergencies (although countries have the option of imposing a general increase in their tariff schedules when faced with a balance of payments crisis, with the IMF intervening to certify that the situation does indeed require it). The WTO’s Agreement on Customs Valuation on the basis of the transaction value of imports, which prohibits overvaluation by customs for tariff reasons; the Agreement on Rules of Origin, which aims at harmonization of nonpreferential rules of origin; and the WTO Trade Facilitation Agreement (TFA), which came into force in February 2017, are three examples.

The World Customs Organizations (WCO) is a global organization of customs from 183 countries, as of 2021, involved in the management of more than 98 percent of world trade. Its mission is to improve customs efficiency to which it has contributed by developing standards for harmonized and simplified procedures—in particular with the Harmonized Commodity Description and Coding System and the revised Kyoto Convention on the simplification and harmonization of customs procedures—and by promoting the exchange of experience and the dissemination of good practice in these areas. The WCO is also responsible for the SAFE Framework of Standards and the Framework of Standards on Cross-Border E-Commerce.

It is important to stress that these institutions act in a coordinated manner. For example, the WCO supported the negotiations on and implementation of the WTO TFA and developed a program called Mercator to assist its members in implementing the facilitations provided for in the agreement. The Technical Committees on Rules of Origin and Customs Valuation function under the auspices of the WCO, the latter with a view to ensuring, at the technical level, uniformity in interpretation and application of the WTO Valuation Agreement.

Source: Keen (2003) and authors.
Note: TFA = Trade Facilitation Agreement; WCO = World Customs Organization; WTO = World Trade Organization.
In respect to national legislations applicable to imported and exported goods, increased requirements and checks at borders for market access have been observed over recent years, particularly in advanced economies. To mitigate the need for increased border controls by customs and other agencies, developing international standards and mutual recognition of compliance controls is critical. It will be all the more necessary that requirements are no longer limited to the features of the products. They extend to production and distribution and to meet environmental and social expectations, such as extraction or manufacturing of goods not involving forced or indentured labor, and more similar requirements are likely to emerge from ongoing discussions for promotion of green economies.

**Digitalization**

The information systems that equip almost all customs administrations today make it possible to computerize and automate, and thus secure, the entire customs clearance procedure. Customs in developing economies are not exploiting this advantage fully. To the detriment of the traceability of operations, simplification, and revenue protection, their use of existing information and communication technologies is not optimal, and more important, procedures have not yet been updated, automated, and converted to electronic format. Declarations and commercial documentation in paper are still presented to customs officers. Adopting e-documents and automation is therefore a huge project that is critical for customs’ future success. The need for social distancing caused by the COVID-19 pandemic starting in 2020 significantly improved the awareness among customs managers and traders that electronic systems and processes could be extremely useful and their implementation should be completed everywhere as soon as possible.

To enhance performance, customs should further integrate its information system with its partners, and this will be facilitated by the adoption of electronic documents. Interconnecting customs systems with neighboring countries enables a better monitoring of transit cargo moving under customs controls from one country to another. It also facilitates export and import data cross-checking for verification purposes. A more ambitious and longer-term objective for a national customs administration is to use digital technologies to monitor the supply chain beyond the customs territory from departure from the export country to arrival, and vice versa. This process is already underway within the customs territory, but by extending it abroad, customs will move from transactional management of border-crossing operations to the monitoring of entire trade flows. Blockchain technology, in particular, may find a suitable application here. See Chapter 7 for more details on digitalization.

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17 Customs were among the first public administrations to introduce computerization as far back as the 1970s.
Data

A customs declaration contains several dozen types of data relating to the trans- action, the goods, the persons involved, the means and modes of transport, and the customs treatment it has received. All this data is archived in the customs information system, which creates a considerable repository of information at the disposal of customs administrations. Many entities are faced with scarcity of data while having the tools to exploit them. Customs is usually in the opposite situation: it is sitting on a mass of data that it often has not sufficiently analyzed nor matched on a large scale with external data sources to identify patterns and possible anomalies. Systematically using data for strategic and operational purposes (control and enforcement, trade facilitation, staff performance, integrity monitoring, and so on) is definitely one of the critical projects for customs administrations in the coming years. This is further discussed in the following chapters.

Data sharing and matching between customs and other stakeholders is a key element of the data agenda. With regard to revenue collection, customs and tax administrations must share data to assess compliance risks effectively. Particularly in developing countries and even more so in fragile and conflict-affected states (FCS), this exchange of information is not optimal, although a simple cross-checking would be enough to reveal significant anomalies between tax and customs declarations by the same taxpayer and possible noncompliance or fraud on either or both sides. Cooperation of customs with tax is discussed particularly in Chapters 3 and 6. Another powerful tool with significant benefits for customs is mirror data analysis, that is, the reconciliation of export data from the world to the country with import data recorded by the country’s customs administration, particularly when conducted at the finest possible level of detail (as indicated in Chapter 2).18

Customs in Fragile and Conflict-Affected States

The importance and range of responsibilities assigned to customs make it a key institution in any country. However, this position is most pronounced in FCS, where the continuity of the state ultimately rests on a small number of institutions. Customs is also one of the most visible administrations, both inside and outside the country, and so it must be an example of a technical and ethical organization capable of leading the way in improving governance and, in numerous cases, maintaining or restoring the rule of law. Moreover, there is no indication that global illegal trade and associated criminal activity is decreasing or even being contained. On the contrary, entire regions are being destabilized, further facilitating illegal activities and raising the stakes for effective customs control in collaboration with other law enforcement agencies. The FCS issue is becoming increasingly important given the depth of challenges they face and exacerbated by

18 The IMF’s Fiscal Affairs Department has emphasized and prioritized tax and customs data matching and mirror data analysis under capacity development programs. On the latter, see in particular Geourjon, Anne-Marie, Bertrand Laporte, and Gilles Montagnat-Rentier. 2023.
the impact of COVID-19 on this group of countries. Following the World Bank’s classification criteria with some minor differences, the IMF Staff have maintained a list of FCS, which, as of 2021, includes 42 countries, affected to various degrees by lack of state legitimacy, limited administrative capacity, chronic humanitarian crises, persistent social tensions, and either ongoing violence or a significant legacy from armed conflict and civil war. The IMF is granting a special attention to those countries by adjusting its policies, support, and advice (International Monetary Fund, 2015, 2017). The approach to customs administration consists of setting up basic administrative procedures in the post-conflict or crisis context and a prioritization of tailored reform initiatives during the consolidation phase. See suggested orientations in Box 1.2.

Box 1.2. Customs Administration in Fragile and Conflict-Affected States

The following initiatives may be considered to guide the strengthening of customs administration in fragile and conflict-affected states.

- Adapt tax, tariff, and customs policies with which customs faces serious implementation challenges.
- Deviate from international administrative standards as necessary.
- Under the trade facilitation agenda, prioritize application of the rule of law.
- Focus on the few major ports and core functions with large revenue potential.
- Recognize that geography and the economy may dictate certain priorities (for example, customs transit for landlocked countries, monitoring of natural resource export).
- Implement a basic compliance improvement strategy.
- Maximize the use of technology to remove human intervention.
- Implement human resource management reforms limited to those essential to improved performance and integrity.
- Create specialist national functions and staff to assist field offices.
- Establish (at least) the minimum required infrastructure to be able to operate.
- Ensure that services from private providers (if any) and border interventions by other state agencies do not impede customs administration operations and reforms.

Source: Authors.

THE ROLE AND SUPPORT OF INTERNATIONAL INSTITUTIONS

The fundamental role of the institutions responsible for defining the standards that enable the development of international trade under the best possible conditions has already been stressed. Other institutions also support the development of international trade through capacity development programs benefiting requesting countries and their customs administrations. This is the case of the IMF. One of its objectives as set out in its Articles of Agreement is to facilitate the expansion
and harmonious growth of international trade, and Article V-2(b) specifically allows the IMF to deliver technical assistance to its members upon their request.

To achieve this goal, the IMF encourages and assists members to embrace trade liberalization. At the same time, it helps country authorities resolve the political and economic problems, revenue risks, and administrative issues involved in this approach. This is reflected in the IMF’s three main areas of work. As part of its general surveillance of member countries’ economic policies, the IMF generally provides for an assessment of trade and customs policies when required. In its lending to member countries, whether in the context of a program prompted by an immediate crisis or by long-term development and crisis prevention considerations, trade and customs policy reform is often a key component, and lending is often conditional on reforms in these areas. As part of its support for capacity development—which may or may not be linked to a program—the IMF has significantly increased its action by establishing, starting in the early 2000s, a global network of regional capacity development centers (RCDCs) and training programs and by increasing the use of external funding to support customs reforms.\(^{20}\)

These initiatives have considerably increased the number of capacity development activities in the past 20 years, especially to the benefit of fragile and low-income countries, many of which are in sub-Saharan Africa. Table 1.4 provides an overview of the evolution of the number of capacity development activities undertaken annually by the IMF Fiscal Affairs Department (FAD) to address customs administration reform and modernization (from a total of 30 strategy-setting, 

<table>
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<th>IMF Fiscal Affairs Department’s Capacity Development Missions in Customs Administration, 2000/2019</th>
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<tr>
<td>Missions 2000</td>
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<td>Total</td>
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<td>Western Hemisphere</td>
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Source: IMF staff calculations.
Note: Missions undertaken from IMF headquarters only. Regional capacity development centers’ activities not included here.

\(^{20}\) The global network of RCDCs and training programs is currently made up of the Africa Training Institute (ATI), the AFRITAC Central (AFC), the AFRITAC East (AFE), the AFRITAC South (AFS), the AFRITAC West (AFW), the AFRITAC West 2 (AFW2), the IMF Capacity Development Office in Thailand (CDOT), the Caribbean regional technical assistance center (RTAC) (CARTAC), the Caucasus, Central Asia, and Mongolia RTAC (CCAMTAC), the Central America, Panama, Dominican Republic RTAC (CAPTAC-DR), the China-IMF Capacity Development Center (CICDCC), the Joint Vienna Institute (JVI), the Middle East Center for Economics and Finance (CEF), the Middle East and North Africa RTAC (METAC), the Pacific Financial RTAC (PFTAC), the South Asia RCDC (SARTTAC), and the Singapore Training Institute (STI).
follow-up, or expert missions in 2000 to 60 such missions in 2019). These were complemented by more than 150 technical, often hands-on, interventions by RCDCs in 2019.\textsuperscript{21} The analysis and conclusions presented in this book are based on FAD’s extensive experience in supporting customs capacity building.

Besides the IMF, many international institutions provide support for customs modernization. The World Bank also attaches great importance to this activity and has been particularly active in supporting large-scale reform programs. The WCO delivers training and technical assistance programs, for example, on the Harmonized System, goods valuation rules, or the implementation of the provisions of its Revised Kyoto Convention and the WTO TFA (Mercator Programme). Substantial technical assistance is also provided by regional organizations and bilaterally. Since the early 2000s, there has been a renewed interest in customs capacity development as part of the broader effort to strengthen the participation of the developing countries with the lowest incomes in world trade. The Ministerial Declaration issued at the end of the WTO meeting held in Doha in November 2001 called, \textit{inter alia}, for a substantial increase in the resources devoted to these activities.\textsuperscript{22} Carrying out and coordinating this task has become more difficult and more urgent than ever and falls under the Integrated Framework for Trade-Related Technical Assistance. It is an interagency effort that brings together the work of the World Bank, the International Trade Centre (ITC), UNCTAD, IMF, WTO, WCO, and the United Nations Development Programme (UNDP), with the support of bilateral donors, to increase the efficiency and effectiveness of capacity development in developing and least developed countries on trade-related issues. IMF staff, at both the headquarters and RCDC level, invest considerable time and effort to coordinate capacity development activities with other development partners, particularly in the recipient country.

**SUMMARY**

The emergence of a globalized economy would not have been possible without the development of customs procedures, sometimes complex to administer, which have enabled companies to take full advantage of trade policies and incentives, and without customs’ standardized commodity nomenclature and its foreign trade statistics, authorities and businesses would have missed critical information for decision-making. Customs is a more multidisciplinary administration than most and is the key actor against all forms of illegal trade flows. It is therefore involved in the response to numerous threats, as diverse as sale of counterfeit and

\textsuperscript{21} As an illustration, in 2019, RCDC support to customs capacity development represented 16742 work hours for sub-Saharan Africa and 7203 CD work hours for Latin America and the Caribbean.

\textsuperscript{22} According to a joint report by the WTO and the OECD, the volume of trade-related technical assistance and capacity building to help developing and least developed countries participate more effectively in international trade had, by the end of 2005, increased by 50 percent since the Doha Ministerial Declaration (WTO 2005).
dangerous goods, damage to the environment and biodiversity, trafficking in narcotics, and, more broadly, organized crime and terrorism.

Customs’ methods have evolved in the same way as its mission. For the processing of legal trade flows, the time has come for maximal trade facilitation and partnership with reliable companies that make it possible to free up the necessary resources for targeted control and enforcement. The technologically most advanced customs administrations have already switched to massive use of data, which feed automated risk management systems and support the strengthening of core customs processes. This is the path that all customs will have to follow.

Latent trade tensions and from 2020 the impact of the COVID-19 pandemic on the global supply chain cloud the vision of the near-term development of international trade. New technologies and the growth of electronic commerce bring uncertainty to future trade modalities. Geopolitical tensions, regional instability, state fragility, and criminal activities are still considerable problems. However, the long-term trend for international trade remains upward—especially as flows of goods and services will be essential to recovering from the COVID-19 pandemic and investing in the future, namely building toward greener, smarter, and more inclusive economies. Customs, which remains highly relevant in this momentum, will undoubtedly have to be even more flexible and responsive than it may have been in the past.

REFERENCES


See, for example, Okazaki (2017) for information on big data initiatives shared by five customs administrations: Canada Border Services Agency; Customs and Excise Department, Hong Kong, China; New Zealand Customs Service; Her Majesty’s Revenue and Customs, the United Kingdom; and US Customs and Border Protection.


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