Customs Facilitation and Anti-Corruption (WCO Presentation)

Bryane Michael
Do Customs Trade Facilitation Programmes Help Reduce Customs-Related Corruption?

Bryane Michael, University of Hong Kong

The views in this presentation represent only those of the authors and do not reflect the views of the organisations for which they work or the World Customs Organisation. The presentation aims to be a liberal contribution to the market-place of ideas about customs work and not a judgment or consulting report about any particular customs agency.
Does TF Help Reduce Corruption?

- Supply Chain facilitation on WCO’s and its members’ agenda
- WTO, WB and other intl orgs pushing trade facilitation in 2000s
- All orgs push anti-corruption

Main Result in Brief:

Trade facilitation only helps reduce corruption if Customs Agency Directors implement “big bang” anti-corruption and efficiency-improvement programmes
How Corrupt Is My Customs Agency?

Figure 2c: Eastern Customs Services Take Bribes More Frequently Than Western Ones

Note: We have (somewhat misleadingly) scaled the ranges of bribe frequency between never paying bribes to seldom paying bribes on a five point scale between none and very high on the grounds that even a little bit of bribery still represents a serious crime. A crime committed “seldomly” still represents a serious situation. Source: BEEPS (2009).
How Much Does My Agency Lose in Import Duties Due to Corruption?

- Customs agencies lose about $2 billion in direct trade revenue
- Doesn’t include other losses which can cost a country between 4% to 40% of GDP
Customs Agencies Belong to “Clubs” with similar levels of corruption and TF

Figure 19: Grouping of Countries By Corruption-Facilitation “Convergence Club”

The classification of countries shown in the Figure results from k-means clustering of corruption frequency, level of trade facilitation, geographical region and customs efficiency.
Data show the average country scores in 2005 compared with 2009. Countries moving "up" on the graph represent countries where fewer companies reported paying bribes frequently to customs. We have suspicions about the accuracy of the 2005 data due to problems with the dataset (though data seem to support our common sense conclusions). We therefore report the data "as is" with commentary in the main text.

Sources: BEEPS (2005) and BEEPS (2009).
So What Can I Do To Improve My Customs Agency?

Yellow Countries – incremental reform maybe enough
Red countries – big bang reform required

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 but each change would partition variance away from the “green countries” (and we did not want to restrict our clustering size to two groups).

### Countries with marginal changes

- Argentina
- Armenia
- India

### Countries requiring “big bang” reforms

- Albania
- Bangladesh
- Bhutan
- Burundi
- Cambodia
- Comoros
- Georgia
- India
- Japan
- Kazakhstan
- Kyrgyzstan
- Lebanon
- Liberia
- Libya
- Macao
- Maldives
- Malta
- Mauritania
- Mozambique
- Nepal
- Nicaragua
- Pakistan
- Panama
- Peru
- Philippines
- Russian Federation
- Sierra Leone
- South Africa
- South Korea
- Sudan
- Tajikistan
- Tanzania
- Thailand
- Tunisia
- Turkey
- Ukraine
- Yemen
- Zambia
- Zimbabwe

The figure shows the countries which changed group when we reduced by 10% the frequency of customs embezzlement, increased by 10% their customs efficiency index, or increased by 10% their trade facilitation score. We specifically used the variance around four indicators (these and which countries they belonged to) in order to create clusters (k-groups). We 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 improving judgment and discretion from the researcher – allowing us to not glibly assume the likely effects of customs-related policy change. We naturally exclude the possibility that some customs agencies may be incomparable. With a big enough hand (to speak figuratively), every customs agency should be able to achieve the same corruption and efficiency scores as those recorded in the OECD.
Like What Specifically?

- Engage in Phase II work with WCO Columbus Programme
- SAFE Trade facilitation
  - WTO Valuation Agreement
  - Have a Pre-Shipmen t Inspection programme (don’t laugh)
- BUT
  - AEO programmes do not seem to have effects yet

**Figure 23b: SAFE Correlates with Less Corrupt and More Efficient Customs Services**

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. Source: based on data by WCO (2010).
Implement Big-Bang Anti-Corruption Programme

- Corrupt customs officials (and trade-policy makers) prevent TF and efficiency reforms
- Give internal affairs a bit of stats

Figure 10: Looking at Changes in Market Prices Tells us Something About Corruption in Customs

The data in the graph show the decomposition of variance (variance components) of market prices as the dependent variable and a range of market observations and data from importer surveys as fixed and random effects. To protect the confidentiality of client customs service, we do not provide data for any specific country. Instead, we looked at numerous previous charts and just created a mix of these charts in Excel, as an illustration of the method we used.

Source: Authors -- based on numerous audits and field engagements.

Figure 17a: Aint No Doubt: Customs Corruption Causes Trade Barriers

The data in the figure show the correlation between the TI Corruption Index and Regulatory Trade Barriers (as measured by the Fraser Institute). Corruption appears on the x-axis as Bjornskov hypothesizes that corruption leads to trade barriers. We show the 2008 correlation as the Fraser Institute only released these data by the time of our writing.

Sources: TI (2008) and Fraser Institute (2010) and inspired by Bjornskov (2009).
How Do I Find Corrupt Traders?

**Location**
(some Import places have prob of payment)

**Age**
Young bribe customs
More than old

**Residence**
Big City and Village
Dwellers bribe more

**Motorised**
Have a car (or 3)?
Pay a Bribe….

**Rich**
High income folk different
Than the poor…

**Victimised**
Bribe payers have been
Mugged, assaulted,
Burgled, and mal-treated.

---

**Figure 14c: Traders Bribe Customs to Save Time and Money**

Data in the Figure show the reasons why South African importers in two cities paid bribes to customs and import-affiliated staff. The percentages describe the distribution of total bribes paid to that person and the length of the bars describe the amounts paid. The amounts for avoiding the customs scanners are worrying - as these signal bad-boy contraband like drugs and weapons rather than just tax evasion.

Source: Sequeira and Djankov (2010).
Implement Big-Bang Trade Facilitation to Help with your anti-corruption programme

- Unclear relation between TF, efficiency and AC.
- Need “big push” to see clear changes.

NTBs (like regs)  
Bribery as  
Trade facilitation  
High tariffs  
Low efficiency  

Statistics so unclear because of the complex inter-relations in the variables
Conclusions: What Do We Know About (Anti-)Corruption in Customs?

- Your agency is either moving forward or back
- Moving forward for almost 50 countries means big-bang reform
  - Must “kill” the three headed Cerberus
- WCO prescriptions are effective – but probably not strong enough for “red zone” countries.