Launch of the World Trade Report 2015

26 October 2015
Geneva
Motivation

• Go beyond previous studies by:
  – providing a rigorous and detailed look at the impact of the Trade Facilitation Agreement (TFA)
  – ensuring one has strong confidence in results
    • To achieve this, the report employs two widely used economic methods to estimate benefits of TFA
  – looking more closely at previously unexamined benefits of TFA implementation
  – taking a hard-nosed look at implementation challenges
Outline

• Economics of trade facilitation
  – Why reducing trade costs matter
  – Why a multilateral agreement?

• Estimates of the benefits of implementing the TFA
  – Overall increase in trade
  – Other benefits of implementing the TFA

• Challenges of implementing the TFA
**Trade costs are high**

Trade costs “include all costs incurred in getting a good to a final user other than the marginal cost of producing the good itself”

- 170% ad valorem tariff equivalent for a “representative rich country”
- 219% ad valorem tariff equivalent for developing countries
Economic Waste

• Inefficient trade procedures are a big part of trade costs and impose large economic losses - “iceberg trade costs”

• Worse than tariffs even if *ad valorem* rates are the same
Why a multilateral agreement on trade facilitation?

• One can unilaterally reform trade procedures

• Coordination function:
  – Adoption of similar trade procedures
  – Matches demand for capacity building with supply of assistance from donors

• Commitment mechanism
  – Legally binding nature of commitments allow implementing governments to overcome vested interests at home
TFA implementation would reduce trade costs

- On average, TFA implementation would reduce trade costs by about 14.5%
- This is larger than eliminating all applied MFN tariffs
  - Average applied MFN tariff is less than 10%
  - Do the math!
Methodology

• Employ two widely used methods in economics
  – Computable general equilibrium (CGE) model
    • Model that takes into account the interdependence of nations, markets and the rationality of economic actors, typically households and firms
  – Gravity model
    • Econometric model that have a good track record of predicting bilateral trade flows ("workhorse" of empirical trade economics)

• Why two approaches?
  – To ensure robustness of estimates
  – Allows us to answer different questions and to compare our results to two substantial bodies of existing research on the topic

• Employ an indicator of trade facilitation that mirrors provisions of the TFA
  – Use the OECD Trade Facilitation Indicators (TFIs)

• Simulate scenarios that differ in scope and speed of implementation of TFA
## CGE Results

### Impact of TFA Implementation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Units</th>
<th>Scope and pace of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>2007 constant dollars</td>
<td>$750 billion per annum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1,045 billion per annum</td>
</tr>
<tr>
<td></td>
<td>Addition to annual export</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td>growth, 2015-30</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>2007 constant dollars</td>
<td>$345 billion per annum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$555 billion per annum</td>
</tr>
<tr>
<td></td>
<td>Addition to annual GDP</td>
<td>0.3%</td>
</tr>
<tr>
<td></td>
<td>growth, 2015-30</td>
<td></td>
</tr>
</tbody>
</table>
Developing country impact

Exports ($ billion)

Year


Developed
Developing
Developed_TFA
Developing_TFA
Gravity model results

<table>
<thead>
<tr>
<th>Group</th>
<th>Partial Implementation ($ Billion)</th>
<th>Full Implementation ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>26%</td>
</tr>
<tr>
<td>Developed</td>
<td>$697</td>
<td>$1,665</td>
</tr>
<tr>
<td>G20 Developing</td>
<td>$265</td>
<td>$1,168</td>
</tr>
<tr>
<td>LDCs</td>
<td>$11</td>
<td>$47</td>
</tr>
<tr>
<td>Other Developing</td>
<td>$159</td>
<td>$684</td>
</tr>
<tr>
<td>World</td>
<td>$1,133</td>
<td>$3,565</td>
</tr>
</tbody>
</table>
**Key insights**

- Benefits are greater for implementing countries
  - The fuller the scope of TFA provisions implemented
  - The faster the pace of implementation
- Developing countries potentially have the most to gain
Other benefits of TFA implementation

- Export diversification
- Enhanced participation of implementing countries in GVCs
- Increased participation of SMEs in international trade
- More FDI
- Greater customs collection
- Lower incidence of corruption
Export Diversification

TFA implementation reduces fixed costs of trade
- Allows firms to export products they had previously sold only in the domestic market
- Allows firms to enter markets that were too costly to enter before

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Products</th>
<th>Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed economies</td>
<td>9.8%</td>
<td>19.0%</td>
</tr>
<tr>
<td>G-20 developing economies</td>
<td>11.6%</td>
<td>19.4%</td>
</tr>
<tr>
<td>LDCs</td>
<td>35.6%</td>
<td>59.3%</td>
</tr>
<tr>
<td>Other developing economies</td>
<td>20.0%</td>
<td>33.2%</td>
</tr>
</tbody>
</table>
Expansion of GVCs in implementing members

• Timeliness and predictability in delivery time matters for trade in GVCs

• Delays in delivery increase the costs of holding stocks, impede rapid responses to changes in customers’ orders

• CGE results of TFA implementation:
  – exports in sectors where GVCs are known to be prominent, e.g. electronics and textiles and clothing, would increase at an additional average rate of almost 1 per cent per annum compared to “non-GVC” sectors
More SMEs participate in trade

• Trade facilitation can promote the entry of SMEs into export markets.
• Smaller firms are more likely to export and can increase their export shares more than large firms.
Increased inward FDI

• Available economic literature supports the argument that improved trade facilitation increases inward FDI:
  – Foreign investors are likely to see trade facilitation as a proxy for a country's investment climate
  – There are empirical studies showing that countries with inefficient trade procedures receive less FDI
• Estimates in the report suggest that this link between trade facilitation and FDI is stronger for small economies
More customs revenues and less corruption

• Speeds up the flow of trade
  – As a consequence, TFA implementation can generate more customs collections (which makes up a big part of government revenues in LDCs)

• Reducing the time spent to clear customs and increasing transparency can reduce corruption
  – The longer it takes to clear customs procedures, the greater the likelihood of fraudulent practices at the border
Implementation challenges

• Implementation is a priority for developing and least developed countries
• Uncertainty about benefits and costs could be a barrier to ratification
• A high degree of political commitment is crucial, cannot be taken for granted
• By reducing uncertainty this report should support ratification and implementation
Implementation of TFA linked to capacity

• Innovative S&D provisions allow members to tailor implementation to their circumstances
• Three categories of commitments:
  – A: Those implemented immediately upon entry into force
  – B: Those implemented after a transition period
  – C: Those requiring implementation capacity, assistance
• TFA provides for capacity-building support to ensure that category C commitments come to fruition
Costs of TF reforms

• One should not underestimate the challenge posed by implementation to resource-strapped developing and LDCs

• Data are sparse, but they suggest that costs are much smaller than the expected benefits

• Costs vary considerably by country, measure but are less than those associated with other initiatives to lower trade cost, e.g. investing in transport infrastructure
Cross-cutting costs are difficult to gauge
Most countries have already started

Levels of TFA implementation implied by Category A commitments
(Per cent)
Most and least challenging measures

• In AFT questionnaires, countries report that they expect border agency cooperation to be the most difficult to implement, comment before entry into force the easiest.

• Available data on TF reforms indicate that costs of transparency/predictability are relatively low, formalities and documentation (including single widows) relatively high.
The Trade Facilitation Agreement Facility will act as clearing-house for information and matchmaker of last resort between bilateral, multi-lateral aid donors and developing/LDC partners.

Aid-for-Trade commitments and disbursements related to trade facilitation have been growing and are expected to continue to expand.
Country experiences of successful reforms

• Past TF reforms provide valuable lessons for implementation. Keys to success include:
  – National ownership, especially political will and commitment at the highest level
  – Stakeholder participation, particularly among private sector entities
  – Financial and material resource mobilization
  – Sequencing of measures (phased approach)
  – Transparency and monitoring (communication)
Key stakeholders in trade facilitation

Policy making entities
- Ministry of Trade
- Ministry of Foreign Affairs
- Ministry of Transport
- Ministry of Finance

External donors
- International organisations
- Regional banks
- Donor countries

Private sector
- Exporters and importers
- Chamber of commerce
- Business associations
- Foreign investors
- Consumers
- Civil society

Implementing agencies
- Customs
- Port authority
- Airport authority
- Board patrol
- Coast guard
- Post offices

Border-control agencies
- Sanitary and phytosanitary
- Standards
- Environment
Conclusions

• Need to see more rapid ratification of the TFA so the agreement comes into force
• Monitoring efforts will be key going forward, and should extend to both implementation costs and economic outcomes
• There is scope for continued cooperation with other international agencies and regional development banks (World Bank, IMF, OECD, UNCTAD, and World Customs Organization, among others).
Thank you!