World Trade Organization

WTO | 20 years

World Trade Report 2015

Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement

Overview

The WTO Trade Facilitation Agreement (TFA), which was agreed by WTO members at the Ministerial Conference in Bali in December 2013, is the first multilateral trade agreement concluded since the establishment of the World Trade Organization in 1995.

The *2015 World Trade Report* is the first detailed study of the potential impacts of the TFA based on a full analysis of the final agreement text. The Report finds that developing countries will benefit significantly from the TFA, capturing a large part of the available gains.

The Report's findings are consistent with existing studies on the scale of potential benefits from trade facilitation, but it goes further by identifying and examining in detail a range of other benefits from the TFA. These include diversification of exports from developing countries and least-developed countries to include new products and partners, increased involvement of these countries in global value chains, expanded participation of small and medium-sized enterprises in international trade, increased foreign direct investment, greater revenue collection and reduced incidence of corruption.

The TFA is also highly innovative in the way it allows each developing and least-developed country to self-determine when and how they will implement the provisions of the Agreement, and what capacity building support they will require in order to do so. To ensure that developing and least-developed countries receive the support they need to implement the Agreement, the Trade Facilitation Agreement Facility was launched in 2014 by WTO Director-General Roberto Azevêdo.

"While the estimates of overall trade expansion from TFA implementation provided in the Report are in line with previous results, these estimates also strongly indicate that the benefits of the TFA can be substantially larger, particularly for developing countries and LDCs, depending on the scope and pace of implementation. The more extensive and speedier the implementation of the TFA, the greater will be the gains. Implementation of the Trade Facilitation Agreement could have a bigger impact on international trade than the elimination of all remaining tariffs. We need to see far speedier ratification of the Agreement than we have seen so far so that we can quickly turn to the task of implementation.

Roberto Azevêdo
WTO Director-General

Key facts and findings

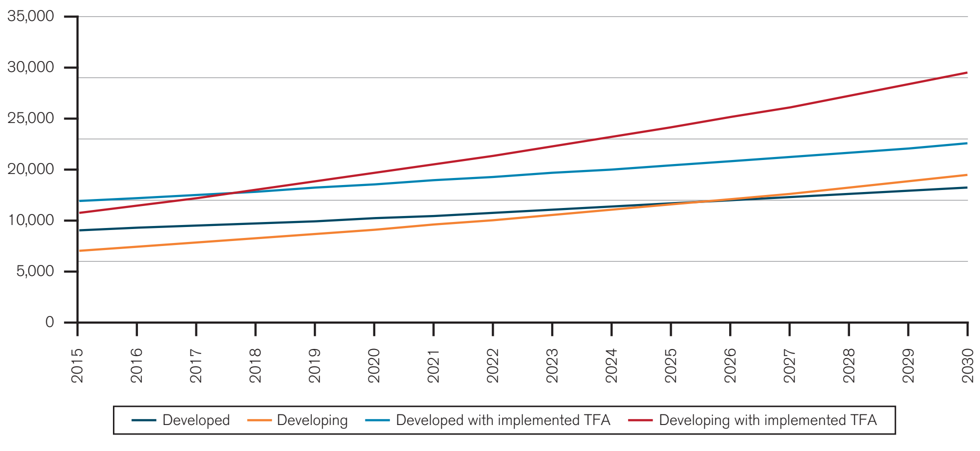
The TFA breaks new ground

- Despite large reductions in tariffs and other trade barriers since the creation of the WTO, trade costs remain high, particularly in developing countries where they are equivalent to applying a 219 per cent ad-valorem tariff on international trade.
- The TFA has enormous potential for reducing trade costs and times, particularly in developing and least-developed countries (LDCs). In order to make implementation practicable, the TFA takes an innovative, tailor-made approach to providing assistance and support to developing and least-developed countries in implementing the TFA, relating the extent and timing of implementation to the capacities of those members.
- Incorporating trade facilitation in a multilateral agreement creates additional benefits compared to what can be achieved unilaterally. It provides greater legal certainty, helps reforming governments marshal support from domestic constituents, helps assist in the adoption of similar trade procedures, and coordinates the provision of donor support for capacity-constrained developing countries.

The economic benefits of the TFA are large, particularly for developing and least developed countries

- Full implementation of the TFA will reduce trade costs by an average of 14.3 per cent. Computable general equilibrium (CGE) simulations predict export gains from the TFA of between $750 billion and over $1 trillion dollars per annum, depending on the implementation time-frame and coverage.
- Over the 2015-30 horizon, implementation of the TFA will add around 2.7 per cent per year to world export growth and more than half a per cent per year to world GDP growth. Developing countries in particular stand to gain from swift and full implementation of the TFA, as both exports and GDP are expected to increase more in developing countries than in developed ones (see Figure 1).
- Results from gravity model estimation suggest that the trade gains from the TFA could be even larger, with increases in global exports of between $1.1 trillion and $3.6 trillion depending on the extent to which the provisions of the TFA are implemented, again with developing countries capturing a large part of the benefits.

Figure 1: Projected exports 2015-30, by country group (billion constant 2007 US$)



Source: Fontagné *et al.* (2015).

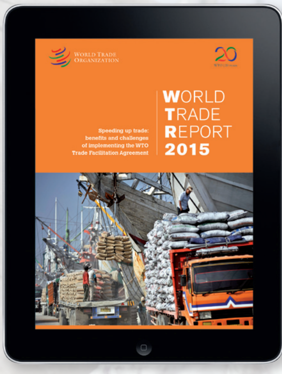
- In addition to boosting world trade and output, the TFA should provide significant export diversification gains, with developing countries and LDCs in particular increasing the number of products exported per destination as well as the number of markets per product. By improving timeliness and predictability in the delivery of intermediate goods, the TFA should increase the opportunity for implementing developing countries to participate in global value chains.
- There is statistical evidence to show that, with trade facilitation reform, micro, small and medium-sized firms are more likely to export and to increase their export shares than large firms.
- Developing countries and LDCs implementing the TFA should attract more foreign direct investment while improving their revenue collection and reducing the incidence of corruption.

Overcoming the challenge of implementing the TFA

- Trade facilitation is a high priority for countries and LDCs, according to surveys of WTO members. However, the cost of implementing trade facilitation is difficult to quantify due to a lack of systematic data collection. Available data suggests that costs vary considerably depending on the type of trade facilitation measures considered and country specific circumstances. Trade facilitation reforms are, on average, less costly than other initiatives to reduce trade costs, such as customs modernization, and upgrades of transport infrastructure.
- Strong political will at the highest levels and commitment to the process of trade facilitation are the most important success factors of any trade facilitation reform. Other key success factors include cooperation and coordination between ministries and border management agencies, private sector stakeholder participation, and adequate financial, human and material resources.
- The Trade Facilitation Agreement Facility will play a vital role in matching demands for capacity-building from developing countries and LDCs with the supply of capacity building and assistance from donors.
- Efforts to monitor the progress of the TFA after it comes into force should include evaluations of both implementation costs and economic impacts.

Available as an app

The *World Trade Report 2015* will soon be available as an app. This will comprise the full text of the Report plus the underlying data for all charts and tables contained in the Report. It will also contain a video and photos of the launch event. The app will be available for downloading onto your iPad/Android tablet or mobile phone.



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