# Monitoring and Reducing Trade Costs: Overview of Indices and Issues

CTD Aid for Trade Workshop

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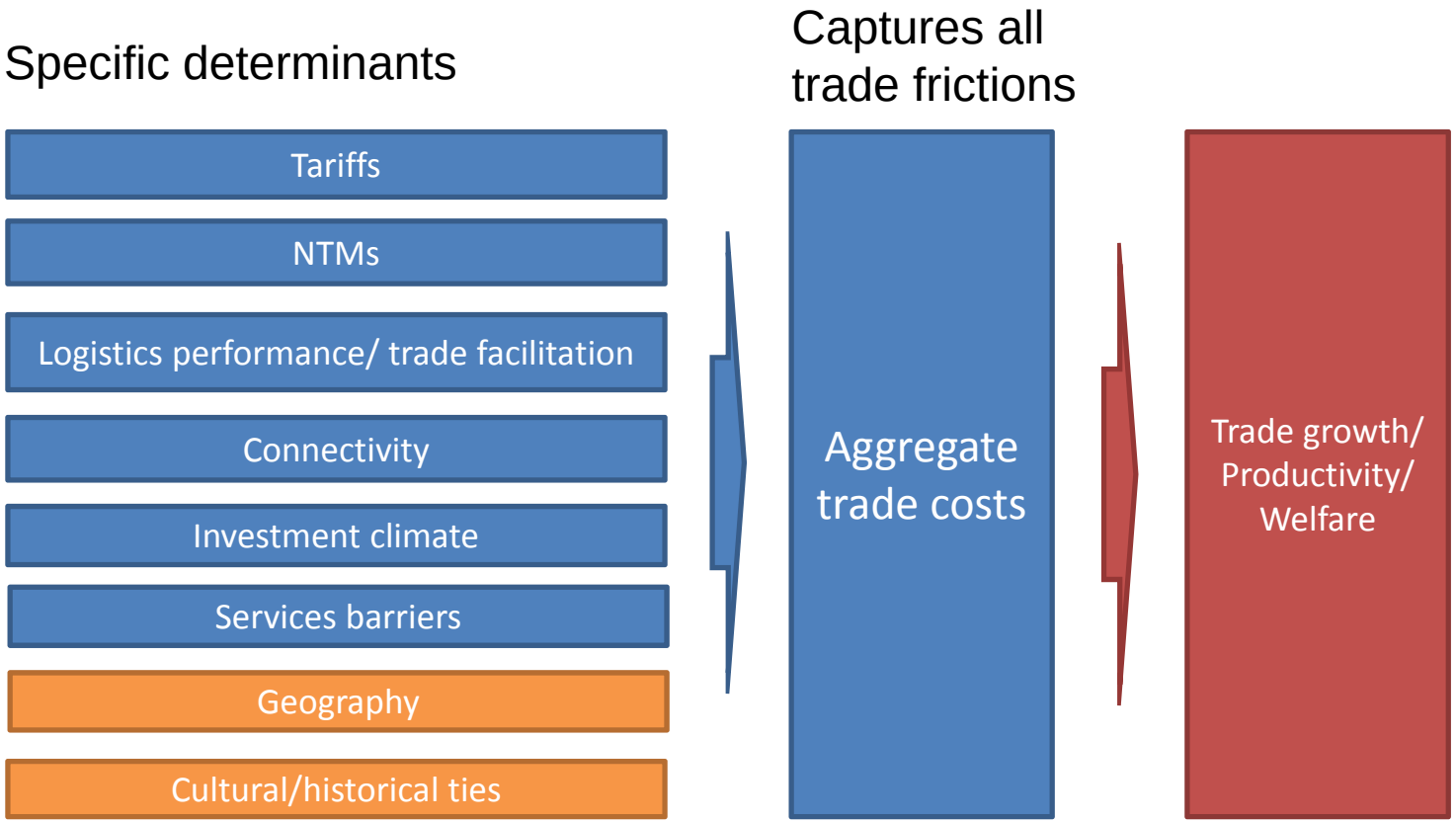
# What are trade costs?

- Defined, for pairs of countries, as the "tariff equivalent" of trading internationally relative to trading domestically
- Captures the effect of policy and non-policy related factors:
  - Bilateral geographical distance & intangible preferences (e.g., language);
  - Connectivity;
  - Border effects: trade facilitation, trade policy;
  - Supply constraints: investment climate for traders;
  - Productive structure.

# Sources of trade costs and its effects



# Potential sources of data for monitoring trade costs

## Aggregate trade costs

**WB/UNESCAP Database**: bilateral trade costs data for 167 countries, 1995-2012

## Specific policy determinants – some examples

**Tariffs:** WTO Tariff data, WB Overall Trade Restrictiveness Index

**Trade Remedies**: WTO Monitoring reports and WB Temporary Trade Barriers Database (30 major users of TTBs, 1990-2013)

**Services Trade:** OECD Services Trade Restrictiveness Index (42 countries, 22 sectors) and WB Services Trade Restrictions Database (103 countries, 19 sectors)

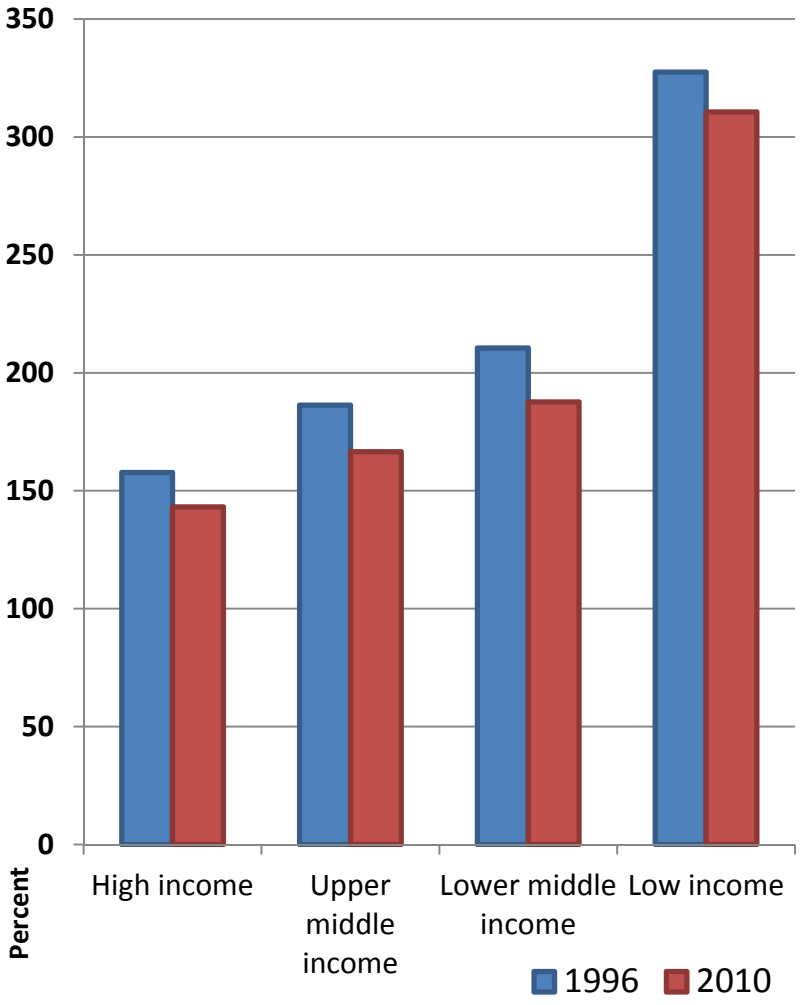
**Trade Facilitation and Logistics:** WBG Logistics Performance Index (160 countries, 6 dimensions of trade, private sector-focused, 2007-2014), OECD Trade Facilitation Indicators

**Business Climate for traders:** WBG Doing Business (189 economies, 2013-2016, e.g. Trading Across Borders, Starting a Business)

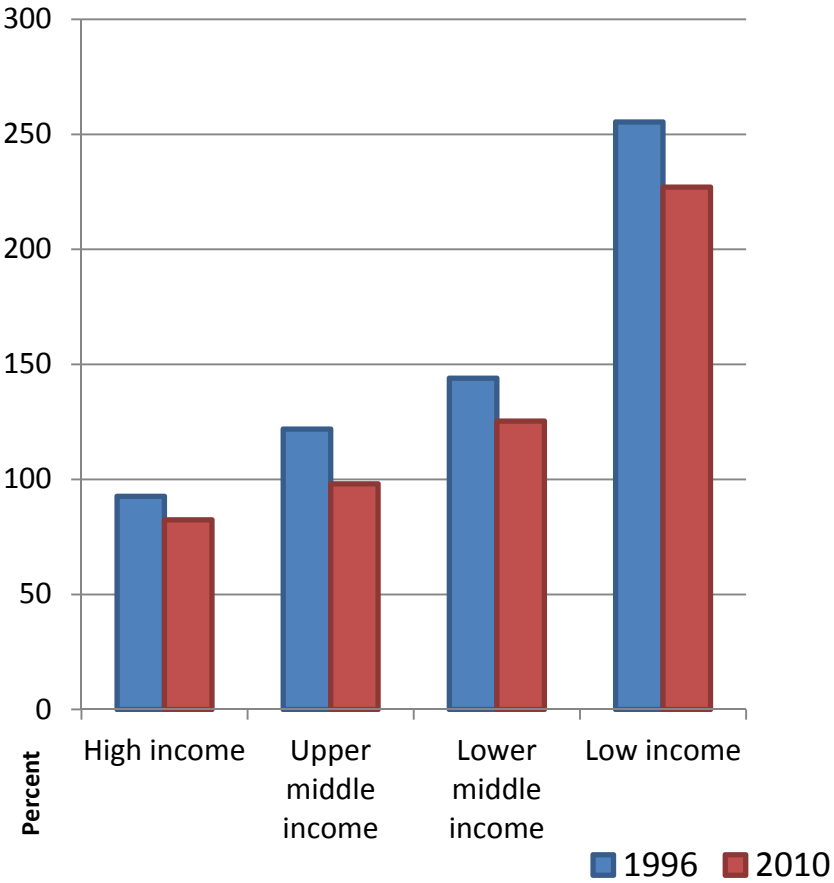
**Connectivity**: UNCTAD Liner Shipping Connectivity Index

# Aggregate trade costs in goods by income group

Source: UNESCAP-World Bank Trade Costs Database

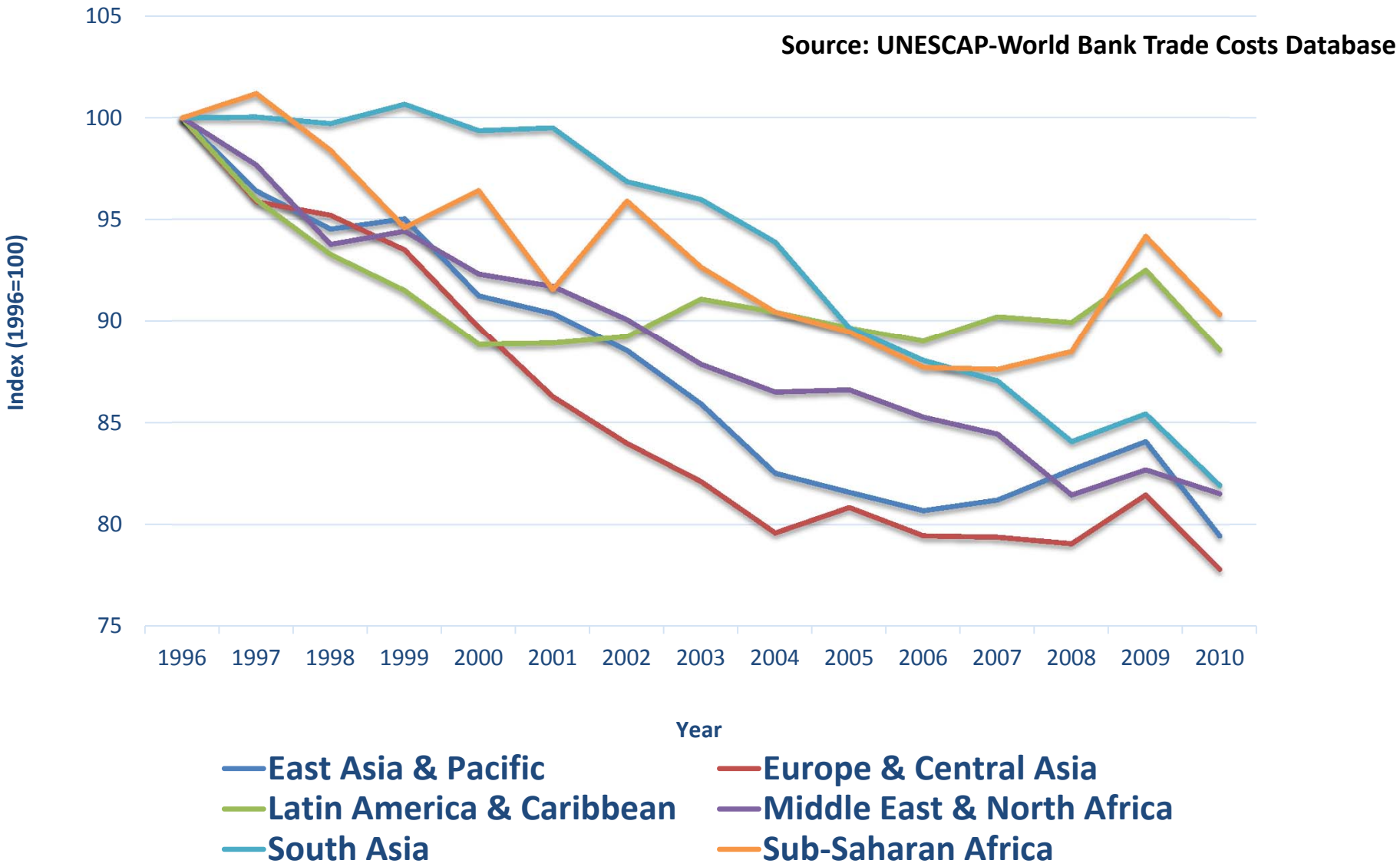



Agriculture




Manufacturing

# Trends in aggregate trade costs in goods



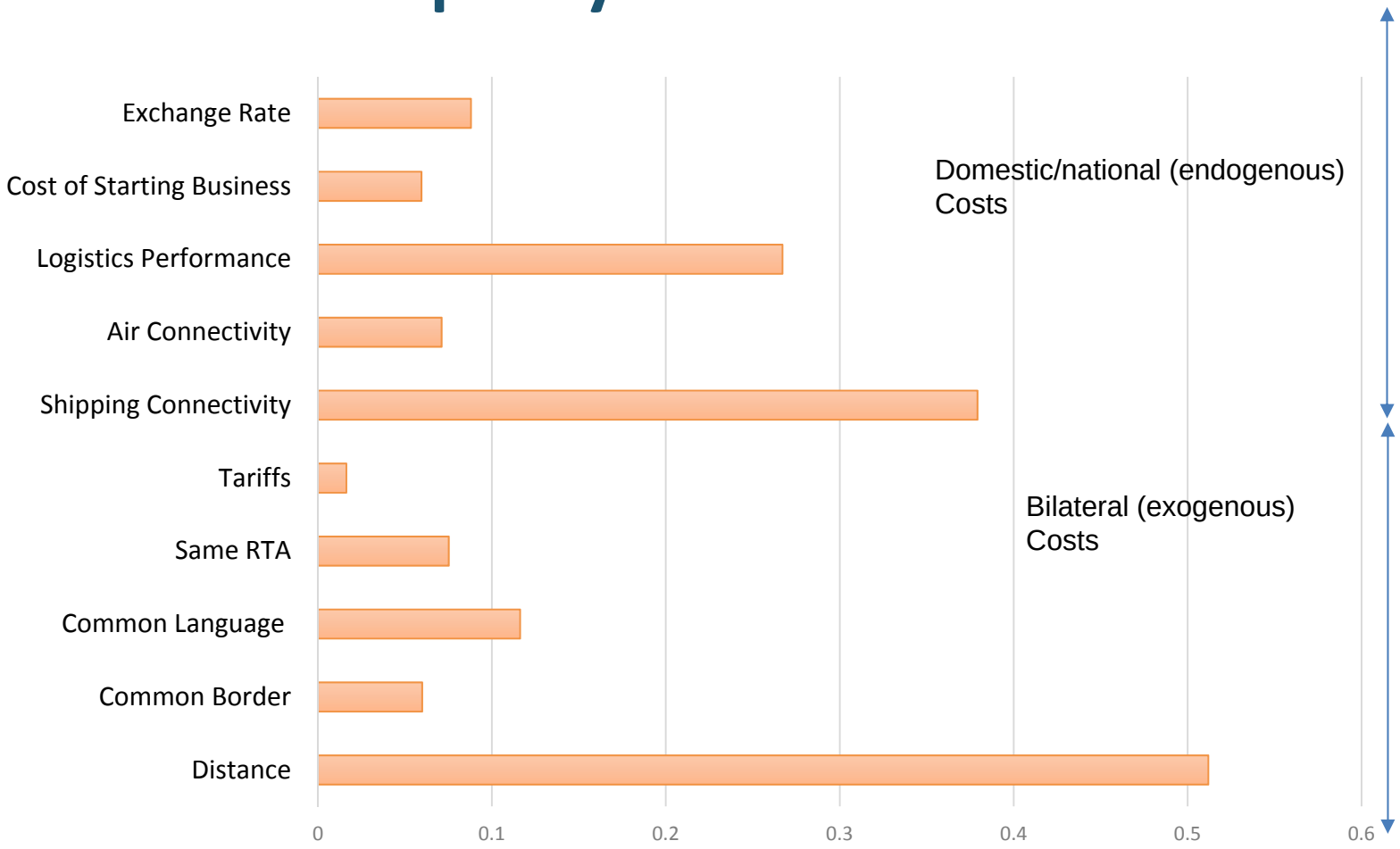
# Trade costs in services

- Information on trade policy for services remains limited and so are estimates of services trade costs
- Two major initiatives to address this gap in our information:
  - OECD Services Trade Restrictiveness Index: covers 44 countries and 22 sectors
  - World Bank/WTO  Services Trade Restrictions Database: covers 103 countries, 5 major services sectors, and relevant modes of supply

# Some broad patterns

- Restrictiveness varies greatly across regions and across sectors
- Restrictions on entry, ownership, and operations remain common
- Market access is often unpredictable because the allocation of new licenses remains opaque and highly discretionary
- Professional and transportation services are among the most protected industries
- Retail, telecommunications, and finance tend to be more open

# Relationship between trade costs and specific policy variables




ELASTICITY OF TRADE COSTS (I.E. "TO WHAT EXTENT ARE TRADE COSTS AFFECTED BY ITEMS ON VERTICAL AXIS?")

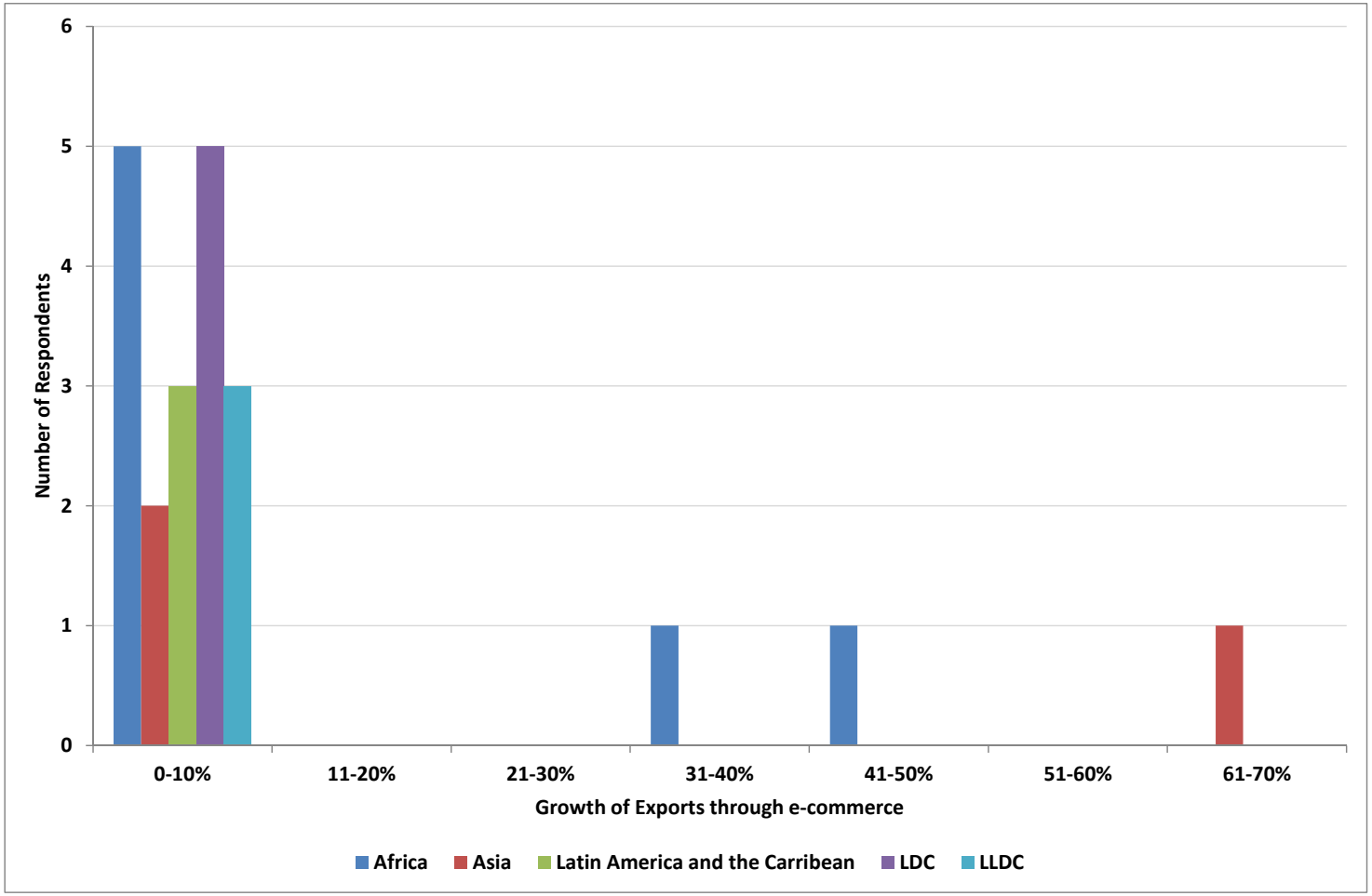
# Example of policy measure that would significantly reduce trade costs: TFA

- On average, TFA implementation would reduce trade costs by about 14.3%
- The range of trade cost reduction would be between 9.6% and 23.1% with countries in Africa and LDCs expected to see the biggest reduction
- This would be larger than eliminating all applied MFN tariffs (current average of 9%)

# Example of initiative that would significantly reduce trade costs: e-commerce

- Wider use of e-commerce has the effect of reducing “distance” between countries
  - Search cost is reduced
- Comparison of cross-border e-commerce transactions with offline cross-border trade suggests impact of distance is reduced by a third
- Addressing the digital divide will give developing countries better opportunities to trade

# Opportunities from e-commerce

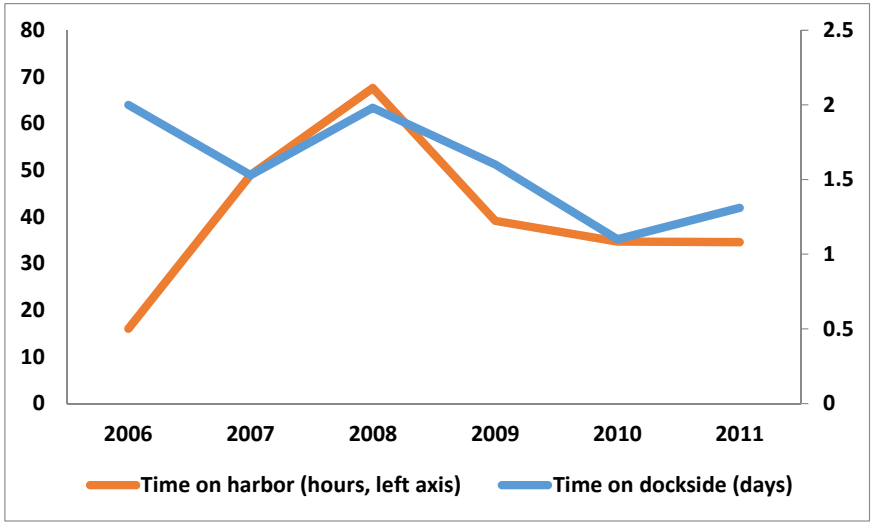


# Aid for Trade success: Benin

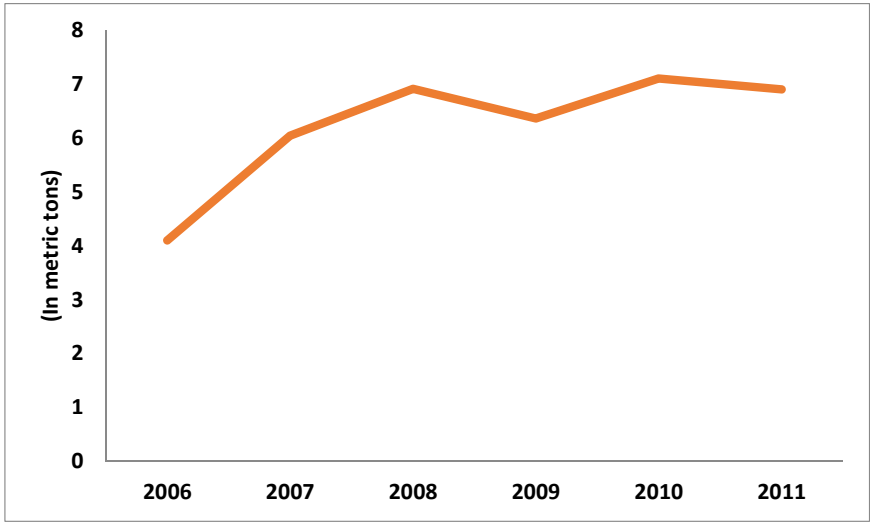
- Study looks at how foreign assistance could catalyse significant improvements in trade facilitation
- More than 60% of Millennium Challenge Account (MCA) funds went to improve port operations and infrastructure in Cotonou
- Granger causality test run by the authors appears to establish a relationship between foreign assistance and the reduction in the time taken to process import containers and the increase in imports
- Goods traffic through the port of Cotonou increased by nearly 14%

# Aid for Trade success: Benin

Time of ships in the harbour and dockside




Volume of goods at the CPA



# Aid for trade success: Morocco

- Morocco is among the top 10 recipients of AfT with the largest share of aid (51% in the period 2002–2013) received going towards transport-related Improvements
- Morocco has developed a plan of action which is often used as example at the regional level and could serve as a model for others countries
- Among Morocco's key achievements is the single window
- Efforts are now being made to extend it — currently limited to the port of Casablanca, which manages 80% of Morocco's trade — to other areas
- AFT targeted to identified needs, can help lower trade costs in Morocco

# Looking forward

- Continue to improve on the methodology for estimating trade costs
- Isolate the contribution of various policy measures, particularly NTMs, to trade costs
- Obtain sectoral estimates of trade costs
- Obtain estimates of trade costs by:
  - Income group
  - Consumer/producer
  - Offline versus online trade