Monitoring and Reducing Trade Costs: Overview of Indices and Issues

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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

Specific determinants:
- Tariffs
- NTMs
- Logistics performance/trade facilitation
- Connectivity
- Investment climate
- Services barriers
- Geography
- Cultural/historical ties

Captures all trade frictions

Aggregate trade costs

Trade growth/ Productivity/ Welfare
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
Trends in aggregate trade costs in goods

Source: UNESCAP-World Bank Trade Costs Database
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?”)

- Exchange Rate
- Cost of Starting Business
- Logistics Performance
- Air Connectivity
- Shipping Connectivity
- Tariffs
- Same RTA
- Common Language
- Common Border
- Distance

Domestic/national (endogenous) Costs
Bilateral (exogenous) Costs
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

![Bar chart showing growth of exports through e-commerce by region and category.](chart.png)

- **Growth of Exports through e-commerce**
  - **0-10%**: 5 responses
  - **11-20%**: 3 responses
  - **21-30%**: 2 responses
  - **31-40%**: 1 response
  - **41-50%**: 1 response
  - **51-60%**: 1 response
  - **61-70%**: 1 response

- **Regions**: Africa, Asia, Latin America and the Caribbean, LDC, LLDC
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

- Time on harbor (hours, left axis)
- Time on dockside (days)

(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