Benefits of Implementing the WTO Trade Facilitation Agreement

The WTO Agreement on Trade Facilitation: From Vision to Reality — and to the Future

2 June 2017
Geneva
Economic Waste

- Inefficient trade procedures 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?

- TFA allows WTO members to internalize “spillover” effect of trade facilitation reform
  - Leads members to make greater investment in trade facilitation reform
- 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
Estimating benefits of TFA: approaches

• Employ two widely used economic methods to estimate trade benefits
  – 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)
TFA indicator and CGE scenarios

• 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 of TFA implementation using MaGE and MIRAGE* models:
  – Full implementation: Use trade costs reduction estimated by Moisé and Sorescu (2013).
  – Partial implementation: trade costs reduction are adjusted based on Category A notifications if available and out-of-sample predictions of OECD TFI scores if there are no notifications

• And pace of TFA implementation
  – Immediate, 5-year and 10-year time frames

*MaGE refers to the Macroeconometrics of the Global Economy model of CEPII (Centre d'Etudes Prospectives et d'Informations Internationales) which was used to construct the global macroeconomic baseline scenario from 2015-2030. MIRAGE refers to the Modelling International Relationships in Applied General Equilibrium model of CEPII which was used for simulating the trade effects of TFA implementation.
# Mapping the TFA to OECD TFIs

<table>
<thead>
<tr>
<th>OECD TFIs</th>
<th>Trade Facilitation Agreement article</th>
</tr>
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<tbody>
<tr>
<td>(a) Information availability</td>
<td>Article 1: Publication and availability of information</td>
</tr>
<tr>
<td>(b) Involvement of the trade community</td>
<td>Article 2: Opportunity to comment, information before the entry into force, and consultations</td>
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<tr>
<td>(c) Advance rulings</td>
<td>Article 3: Advance rulings</td>
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<tr>
<td>(d) Appeal procedures</td>
<td>Article 4: Procedures for appeal and review</td>
</tr>
<tr>
<td>(e) Fees and charges</td>
<td>Article 6: Disciplines on fees and charges imposed on or in connection with importation and exportations and penalties</td>
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<tr>
<td>(f) Formalities – documents</td>
<td>Article 10: Formalities connected with importation, exportation and transit</td>
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<tr>
<td>(g) Formalities – automation</td>
<td>Article 7: Release and clearance of goods</td>
</tr>
<tr>
<td>(h) Formalities – procedures</td>
<td>Article 10: Formalities connected with importation, exportation and transit</td>
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<tr>
<td>(i) Cooperation - Internal</td>
<td>Article 8: Border agency cooperation</td>
</tr>
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<td>(j) Cooperation – external</td>
<td>Article 8: Border agency cooperation</td>
</tr>
<tr>
<td>(l) Governance and impartiality</td>
<td>Article 5: Other measures to enhance impartiality, non-discrimination and transparency</td>
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<tr>
<td>(m) Transit fees and charges</td>
<td>Article 11: Freedom of transit</td>
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<tr>
<td>(n) Transit formalities</td>
<td>Article 11: Freedom of transit</td>
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<td>(o) Transit guarantees</td>
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<td>(p) Transit agreements and cooperation</td>
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### CGE results

**Annual addition to export and GDP, 2015-30**
*(in constant 2007 $ billions)*

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Exports</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate</td>
<td>763</td>
<td>372</td>
</tr>
<tr>
<td>5-Year</td>
<td>757</td>
<td>359</td>
</tr>
<tr>
<td>10-Year</td>
<td>749</td>
<td>345</td>
</tr>
</tbody>
</table>

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<th>Time Frame</th>
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<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate</td>
<td>1,045</td>
<td>555</td>
</tr>
<tr>
<td>5-Year</td>
<td>1,034</td>
<td>536</td>
</tr>
<tr>
<td>10-Year</td>
<td>1,019</td>
<td>511</td>
</tr>
</tbody>
</table>
CGE simulation results: developed and developing countries

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>GDP</th>
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<tbody>
<tr>
<td>Developed</td>
<td>1.80</td>
<td>0.25</td>
</tr>
<tr>
<td>Developing</td>
<td>3.50</td>
<td>0.90</td>
</tr>
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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>
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<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>
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</table>

Increase in number of products/markets

[Source: World Trade Organization]
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 suggests 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
More customs revenues and less corruption

• Worldwide revenue loss due to customs corruption is estimated to be about $2 billion per year

• Trade facilitation reduces the incidence of tariff evasion and corruption

• Explanation: TFA reduces the time spent to clear customs and increases transparency
Recent study

• Trade facilitation measures reduce the incidence of tariff evasion
  – Tariff evasion = higher tariffs lead to higher levels of “missing” imports

• The tariff evasion dampening effect of TFA operates through two sets of measures:
  1. Information availability and involvement of the trade community
  2. Advance rulings and appeal procedures

Conclusions

• Need to see speedier implementation of the TFA so as to maximize the benefits from the Agreement

• Benefits from TFA implementation goes beyond just increase in trade:
  – Export diversification for poorer countries
  – GVC integration
  – SME participation
  – FDI inflows
  – Improvement in governance
Thank you!

