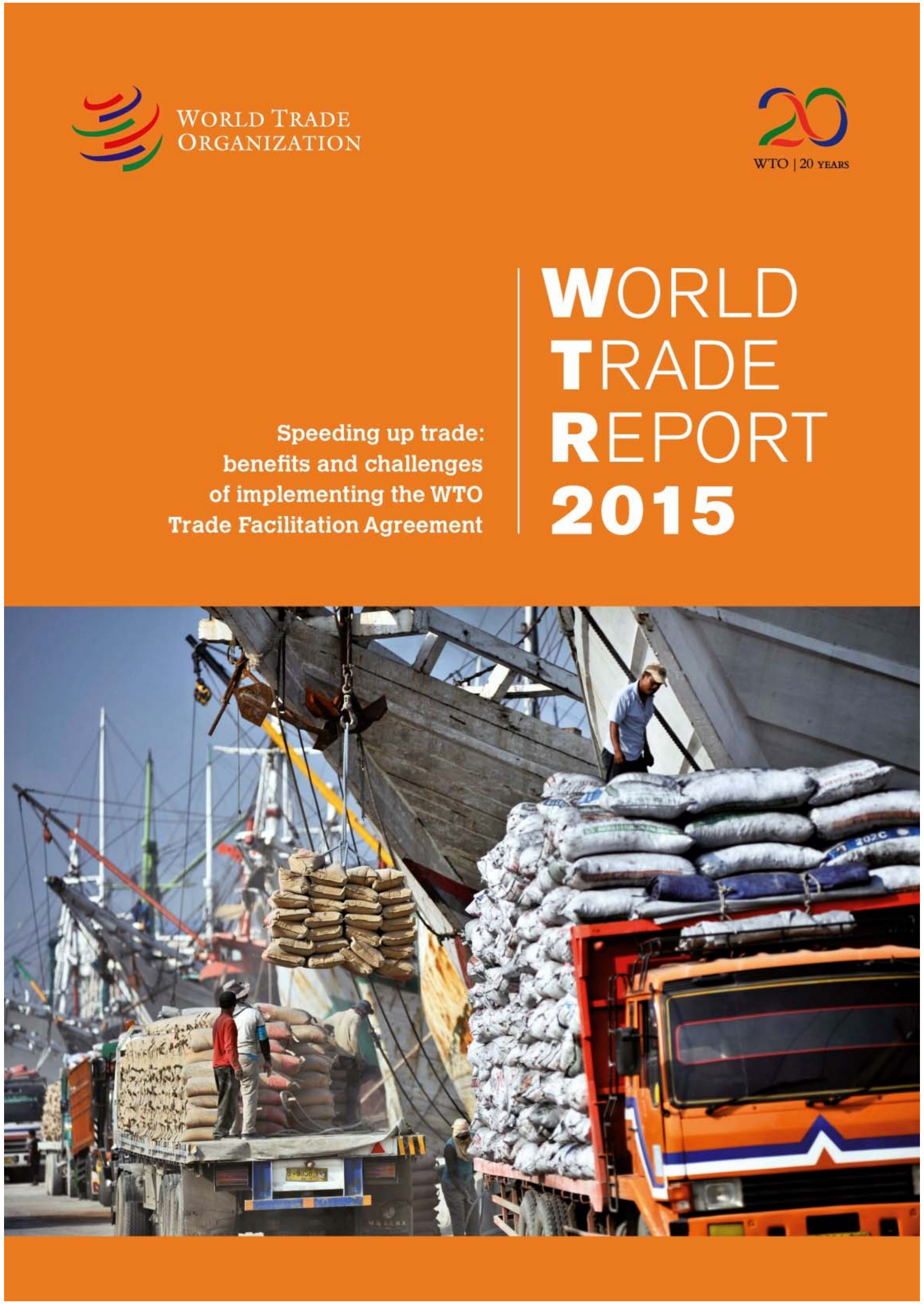

World Trade Organization

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

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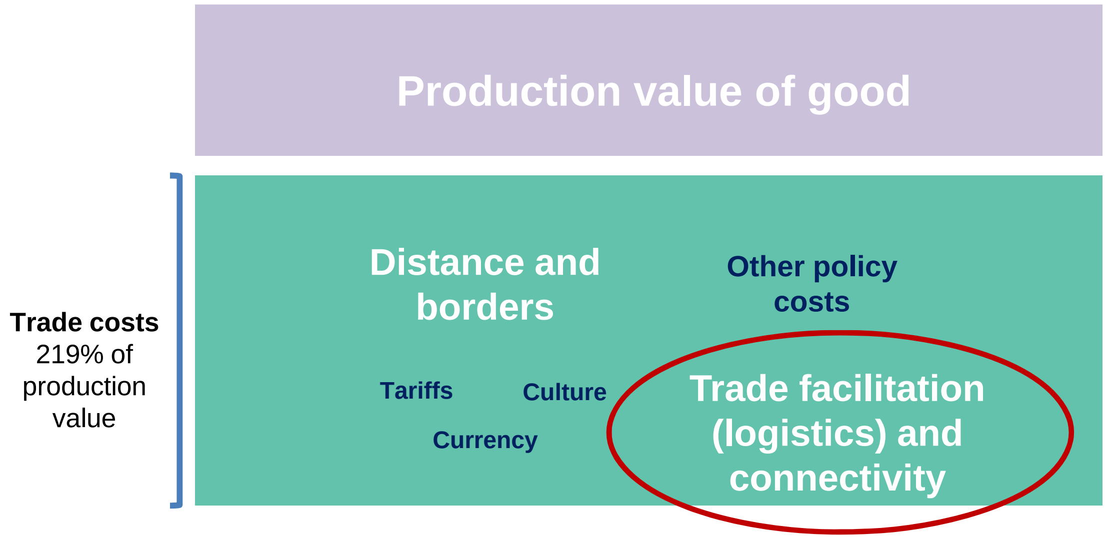
- Economics of trade facilitation
  - Why reducing trade costs matter
  - Why a multilateral agreement?
- Estimates of the benefits of implementing the TFA
  - Overall increase in trade
  - Other benefits of implementing the TFA
- Challenges of implementing the TFA

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

Trade Cost in 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

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- 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

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- 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

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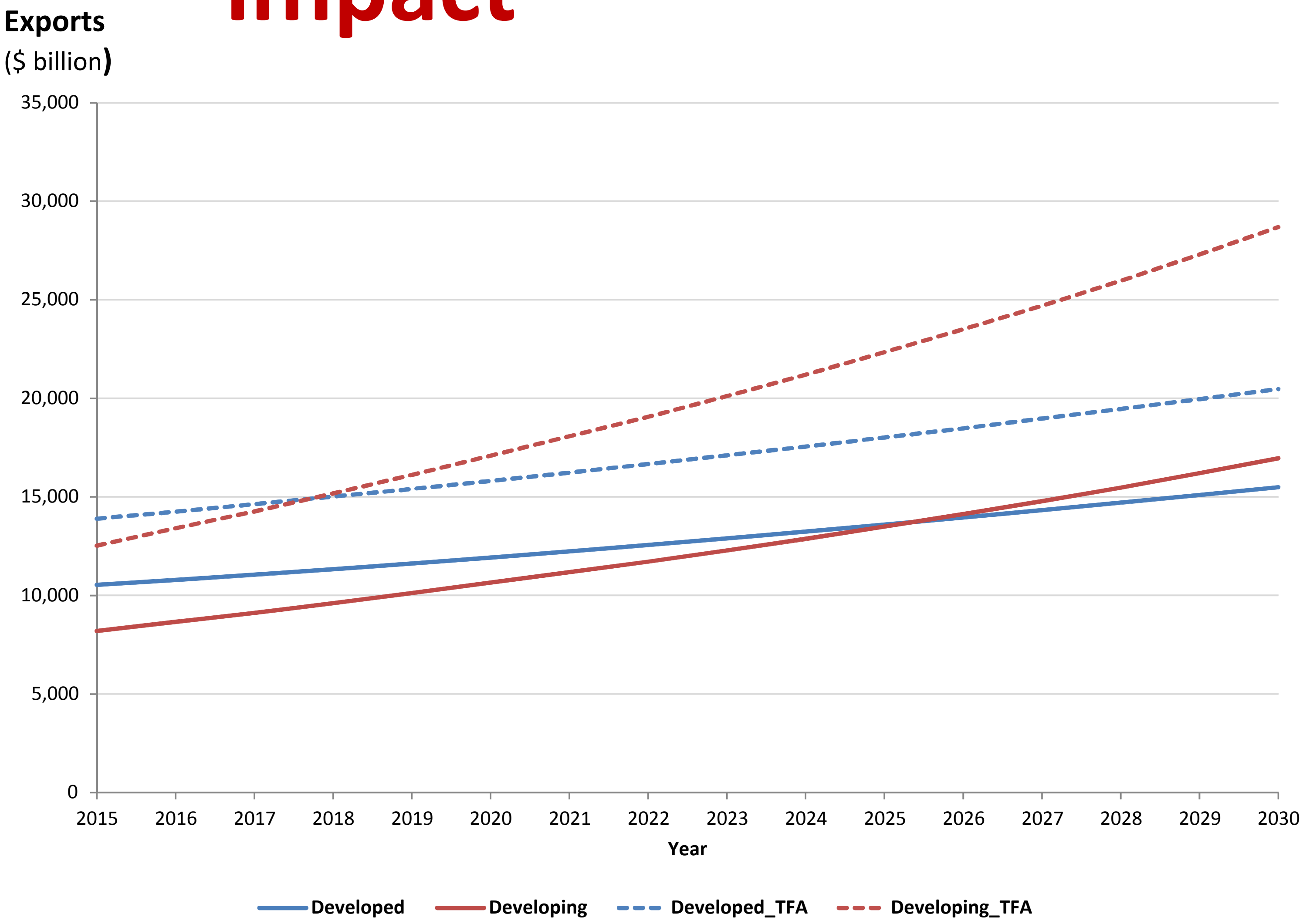
Impact of TFA Implementation

Variable	Units	Scope and pace of Implementation	
Exports	2007 constant dollars	$750 billion per annum	$1,045 billion per annum
	Addition to annual export growth, 2015-30	2.1%	2.7%
GDP	2007 constant dollars	$345 billion per annum	$555 billion per annum
	Addition to annual GDP growth, 2015-30	0.3%	0.5%

Developing country impact



Gravity model results

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Group	Partial Implementation ($ Billion)		Full Implementation ($ Billion)	
Developed	$697	10%	$1,665	26%
G20 Developing	$265	7%	$1,168	27%
LDCs	$11	13%	$47	36%
Other Developing	$159	9%	$684	31%
World	$1,133	9%	$3,565	29%

Key insights

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- 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

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- 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

Increase in number of products/markets

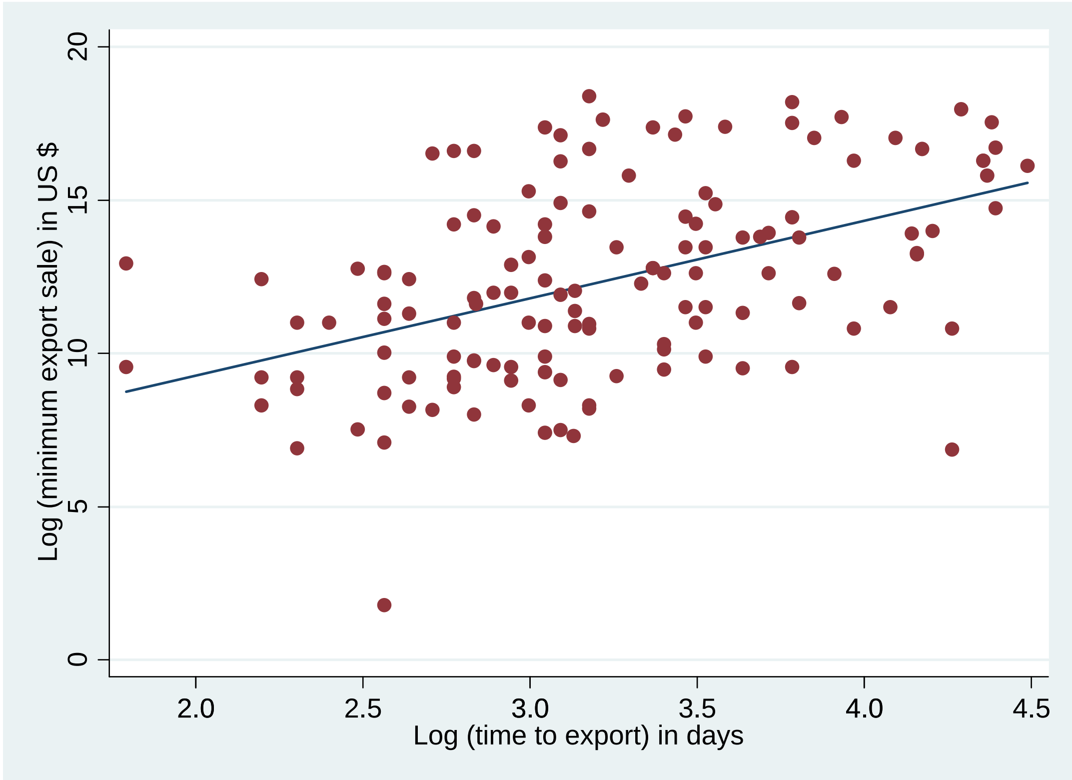
Grouping	Products	Markets
Developed economies	9.8%	19.0%
G-20 developing economies	11.6%	19.4%
LDCs	35.6%	59.3%
Other developing economies	20.0%	33.2%

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

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- 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

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- 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

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- 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

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- 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

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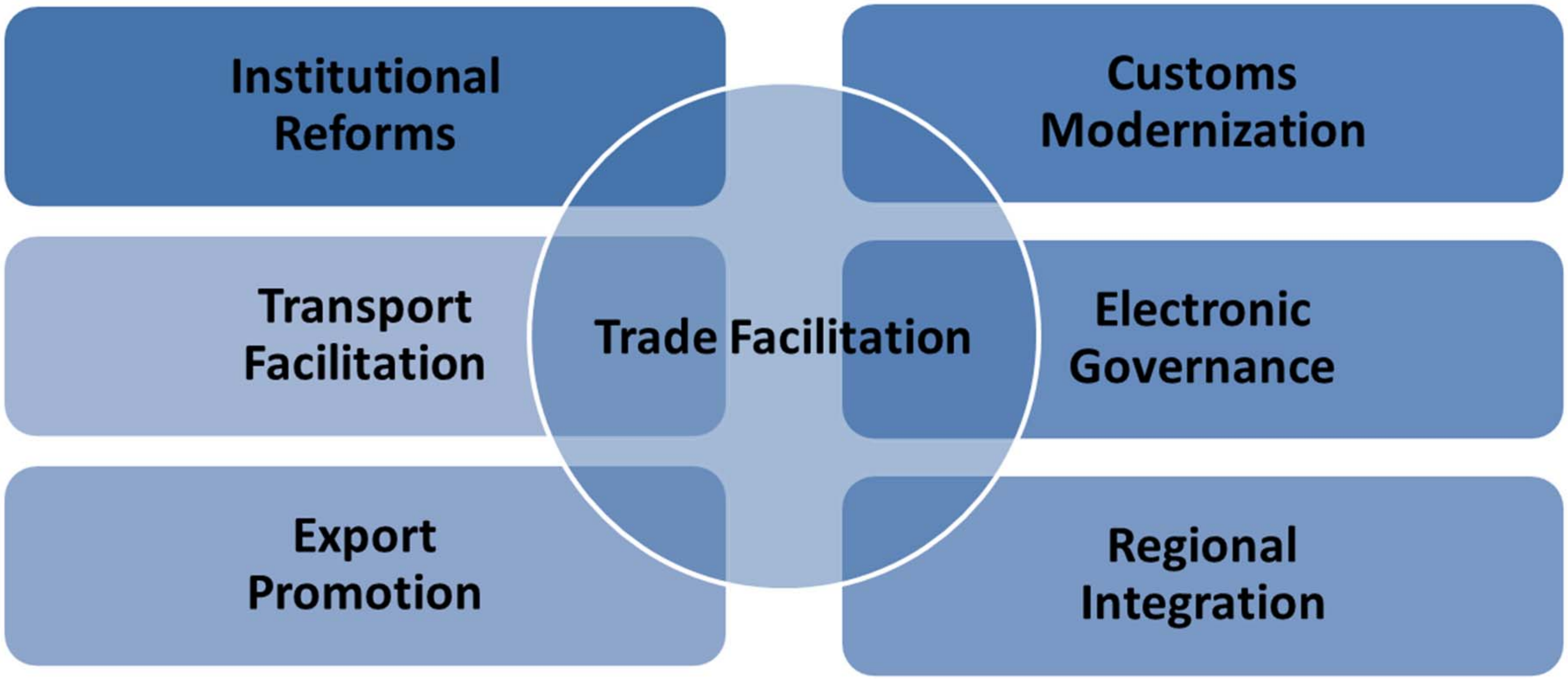
- One should not underestimate the challenge posed by implementation to resource-strapped developing and LDCs
- Data are sparse, but they suggest that costs are much smaller than the expected benefits
- Costs vary considerably by country, measure but are less than those associated with other initiatives to lower trade cost, e.g. investing in transport infrastructure

Cross-cutting costs are difficult to gauge



Most countries have already started

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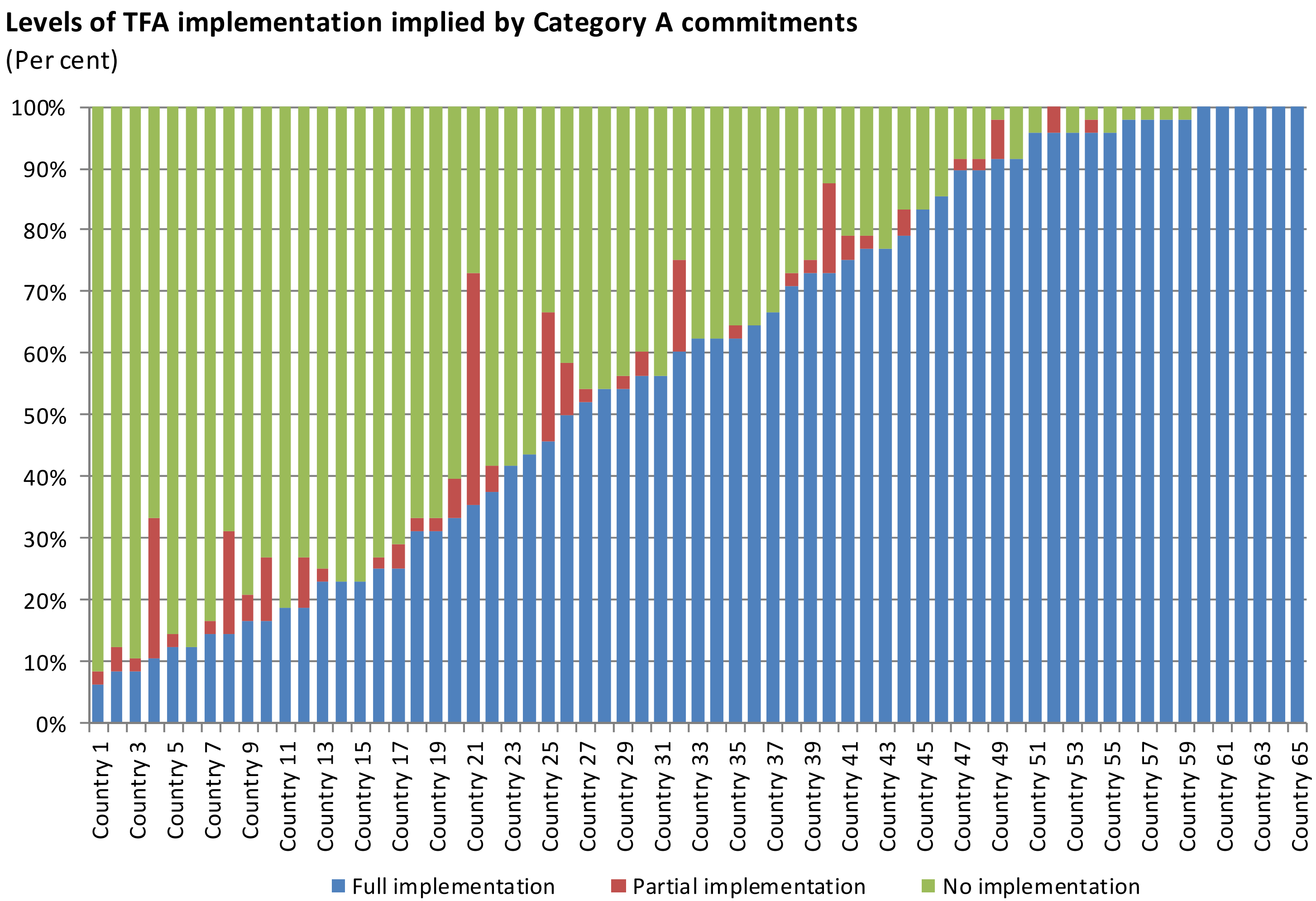

Most and least challenging measures

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- 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.

Trade Facilitation Agreement Facility

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- 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

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- 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

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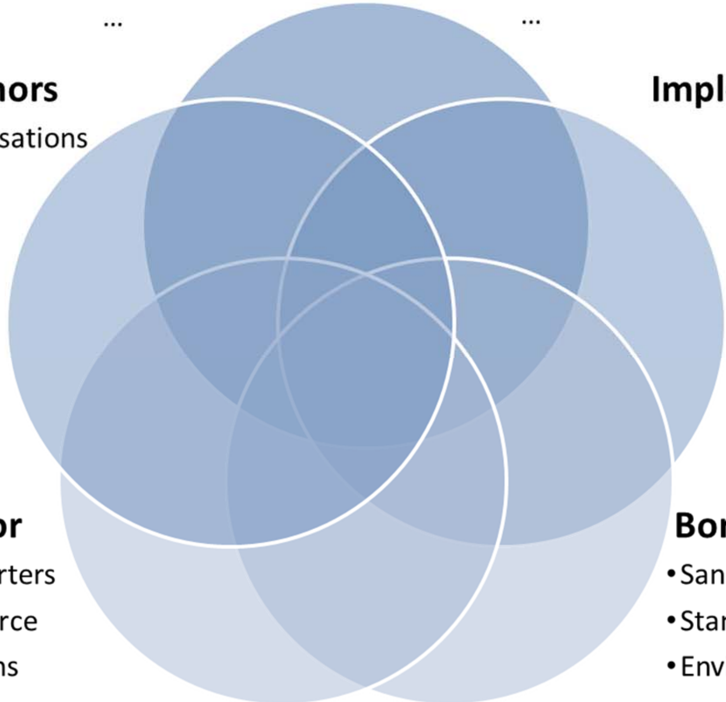

Policy making entities

- Ministry of Trade
- Ministry of Foreign Affairs

...

- Ministry of Transport
- Ministry of Finance

...

External donors

- International organisations
- Regional banks
- Donor countries

...

Implementing agencies

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

...

Private sector

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

...

Border-control agencies

- Sanitary and phytosanitary
- Standards
- Environment

...

Conclusions

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- 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).

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Thank you!