F. Conclusions

Although traditional trade barriers such as tariffs have come down, and innovations in transportation and communications technology have shrunk the distance between nations, trade costs remain high, particularly in developing countries. High trade costs isolate developing countries from world markets, limiting their trade opportunities and impeding growth. High trade costs also appear to disproportionately affect small and medium-sized enterprises (SMEs), time-sensitive products and goods produced in global value chains. Trade procedures that are more cumbersome than necessary and delay the movement, release and clearance of goods constitute a significant part of these trade costs.

Trade facilitation is intended to relieve these bottlenecks at the border. The WTO's Trade Facilitation Agreement (TFA) represents an important milestone by creating a multilateral framework for reducing trade costs. While changes in trade procedures can be implemented unilaterally, a multilateral agreement on trade facilitation brings added value. It provides greater legal certainty to the changes in measures. It helps reforming governments to marshal support from domestic constituents. Finally, it helps with the adoption of similar or compatible approaches to trade procedures and coordinates the provision of donor support for capacity-constrained developing countries.

Full implementation of the TFA has the potential to reduce trade costs by an average of 14.3 per cent. The computable general equilibrium (CGE) estimates see the TFA increasing global exports by between US$ 750 billion and US$ 1 trillion, depending on the speed and extent of implementation. The faster and more extensive the implementation, the greater the gains. TFA implementation has ramifications for the future trajectory of the global economy as well. This report estimates that over the 2015-30 horizon, implementation of the TFA could add up to 2.7 per cent a year to world export growth, and more than half a per cent a year to world GDP growth.

The simulations using the gravity model provide higher estimates of the potential global export expansion arising from TFA implementation. They range from US$ 1.1 trillion to US$ 3.6 trillion depending on the extent to which the provisions of the TFA are implemented. Like the CGE simulation results, they show that the more fully the TFA is implemented, the greater are the gains for members.

Developing countries capture a big share of the trade and GDP expansion. The gravity model suggests that their exports can increase by as much as US$ 1.9 trillion (making up more than 53 per cent of the global trade expansion). LDCs are likely to see an increase in their exports of 36 per cent, much more than developed or developing economies. The CGE simulation result also shows that the TFA has the potential to add almost 0.9 per cent annually to economic growth in developing countries compared to a quarter of a per cent annually to economic growth in developed countries.

Furthermore, by implementing the TFA, developing countries will be able to diversify their exports, entering new markets and selling a wider array of products. Diversification reduces the risk posed to developing countries of a downturn in a specific export market or product. This report estimates that, if the TFA is fully implemented, developing countries will increase the number of new products exported by as much as 20 per cent, with LDCs likely to see a much bigger increase of 36 per cent. It envisages developing countries entering an additional 39 per cent, and LDCs a further 60 per cent, of foreign markets.

Many developing countries have used participation in global value chains to expand their trade, improve access to technology and increase productivity. Timeliness and predictability in the delivery of intermediate goods are essential to the successful management of global value chains. The TFA will reduce both delays and variability in delivery time, which should increase the opportunity for implementing developing countries to participate in global value chains.

SMEs suffer more from administrative burdens than large enterprises, particularly in developing countries. For instance, exports by SMEs are more sensitive to delays at the border than exports by large firms. Since the TFA will reduce delays at the border, it increases the opportunity for SMEs to become more integrated in international trade. Using data from the World Bank's Enterprise Survey which covers nearly 130 developing countries, this report finds statistical evidence to show that implementation of the TFA will increase the probability of SMEs exporting and, compared to large firms, will see a far greater rise in the share of their sales that go into the export market.

The TFA will help developing countries attract more foreign direct investment (FDI). Companies making foreign investment decisions typically take the efficiency of trade procedures into account. Implementation of the TFA could be interpreted by foreign investors as a signal of improvement in the overall investment climate, which would induce inward FDI flows even in those sectors in the domestic economy that are not highly dependent on trade. This report has found a positive and statistically significant link between trade facilitation and inward FDI flows using a dataset covering 141 countries over a 10-year period (2004-13).

Many LDCs are dependent on customs duties and other taxes collected at the border for their revenues, which can constitute up to 45 per cent of LDCs' government revenues. Inefficient trade procedures reduce the volume of goods passing through customs and result in foregone revenues, which, in the cases of a number of African countries, are equivalent to 5 per cent of their GDP. Furthermore, there is evidence to show that the likelihood of engaging in fraudulent practices at the border is higher the longer the time needed to clear goods. By simplifying trade procedures and reducing the time to move goods across borders, the TFA will increase the volume of goods flowing through customs, reduce the scope for corruption and increase the amount of revenue collected.

Given the magnitudes of estimated trade gains, the benefits of the TFA are likely to far outweigh the cost of implementation. Nevertheless, implementation still poses a challenge to resource-strapped developing countries. The TFA itself provides a vital part of the solution, as its special and differential treatment provisions give developing countries ample scope for differentiated undertakings that depend on their level of capacity. The availability of international donor assistance helps governments in developing countries develop their capacity to implement the TFA and also to shore up domestic support for implementation. This cannot be emphasized enough, as the biggest factors for success identified from country cases of successful reform are national ownership of the process, political will and commitment at the highest level. The WTO is uniquely placed to match demands for capacity building from developing countries with the supply of capacity building assistance from bilateral, regional and multilateral donors.

Beyond these quantifiable economic benefits, there are systemic effects that augur well for the global trading system and the multilateral rules that underpin it. The TFA is the first multilateral agreement successfully negotiated at the WTO since its foundation two decades ago. This illustrates that global rule-making is able to effectively address impediments to commerce that concerns today's businesses.

Finally, it is vital to monitor the implementation of the TFA to gauge its progress, identify problems, and assess how well the special and differential treatment provisions of the Agreement are working. Monitoring implementation of the TFA should include evaluation of economic outcomes so as to provide a better picture of how the TFA is working to reduce trade costs and increase trade. The WTO, together with other international organizations and regional development banks, should invest more resources in the collection of data, particularly on implementation costs, improvement of existing indicators and analytic tools and development of new ones so as to better monitor and evaluate the implementation of the TFA.