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Trade Facilitation: What, Why, How, Where and
When?

*Philippa Dee – Crawford School of Economics and
Government*

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Philippa Dee, ANU

Christopher Findlay, University of Adelaide

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Aims and scope

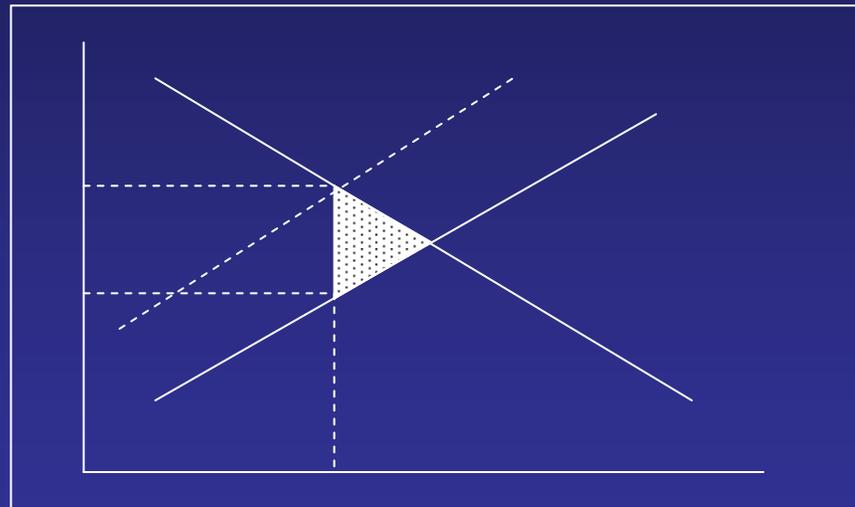
- **To break the mould of traditional papers on trade facilitation**
- **To go beyond taxonomies, to outline new methodologies by which the economic significance of trade facilitation initiatives are being measured**
- **To present some of the new empirical evidence**
- **To discuss from a theoretical and empirical perspective what the policy priorities should be for trade facilitation**
- **To discuss in what forums those priorities should be pursued**

What is trade facilitation?

- **We take a broad view**
 - Beyond administrative processes at the border
 - We focus on the *economic significance* of measures, rather than particular processes
 - Include anything that affects the time cost or money cost of delivering goods in the international trading system
 - Include the cost of infrastructures services, such as port infrastructure and transport services
- **This accords with new manufacturing business models, which focus on how to add value along the whole value chain, and impediments to that process**

A key distinction

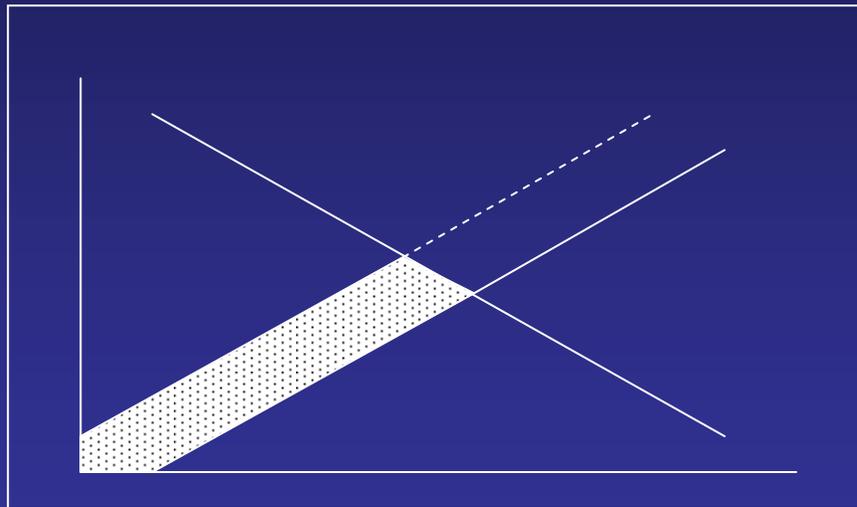
- **Some measures create rents ...**



- **eg quantity controls, quotas, barriers to entry**

A key distinction

- ... and some raise real resource costs



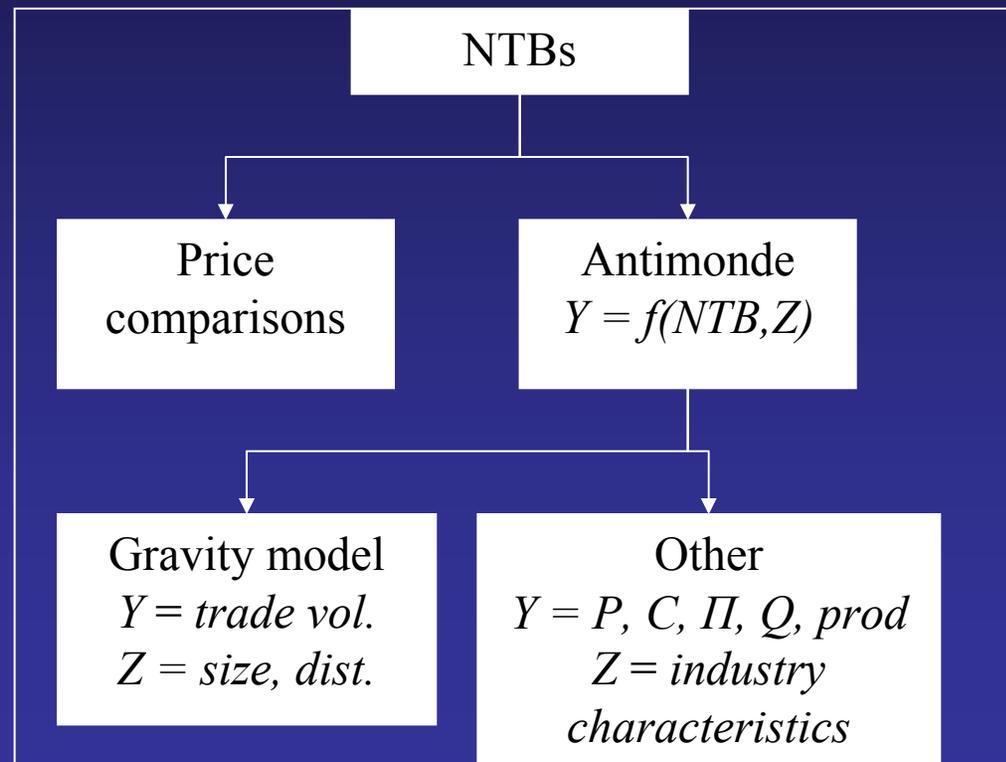
- eg cargo inspections, admin and compliance costs

Why the distinction matters

- **The distinction is crucial for establishing policy priorities**
 - Rectangle gains exceed triangle gains
- **The distinction also matters for policy forums**
 - Preferential liberalisation of rent-creating measures is subject to the danger of trade diversion
 - Preferential liberalisation of cost-escalating measures is not
- **Theory and empirical evidence can both provide guidance**

Measurement methodologies

- The 'family tree'



How to get a quantitative measure of the NTB?

- Simple frequency counts (eg UNCTAD measures of NTBs)
- Simple ordinal indexes (eg from Global Competitiveness Report)
- Weighted indexes
 - weights based on judgement
 - weights based on factor analysis
- There are debates about all these measures
- But the various drawbacks are second order
- it is the subsequent econometrics that establishes economic significance
- Econometrics is also being used to decompose price comparison measures

Results – infrastructure and trade

- Improving port efficiency from the 25th to the 75th percentile reduces shipping costs by 12% (Clark, Dollar and Micco 2004)
- 10% saving in exporting time increases exports by 4%, or each additional day of delay reduces trade by 1% (Djankov, Freund and Pham 2006)
- Trade flows may be more sensitive to upgrades in infrastructure than to reductions in tariff barriers (Shephard and Wilson 2006)
- Can calculate the counterfactual for each country individually: $Y=f(NTB,Z)$ can be used to compute $Y'=f(0,Z)$ for each observation

Results – ROOs, standards, services trade barriers

- Restrictive product-specific ROOs reduce trade, so does high levels of sectoral selectivity in ROOs (Estevadeordal and Suominen 2005)
- The EU's proposed Directive on Services could more than halve the burden of non-tariff regulatory measures on accountancy, IT services and wholesale and retail trade (eg from 23% to 8% in accounting – Copenhagen Economics 2005)
- Barriers to trade in banking services could raise the price of banking services by 30% in Korea, Singapore and Thailand (Kalirajan et al. 2000)

Policy priorities (I)

- **These depend**
 - on the height of the barriers at the border and behind it
 - on whether the barriers inflate markups or raise costs
- **Empirical evidence on the latter is limited**
 - sometimes argued by assertion
- **Modelling is starting to take the distinction seriously**
- **It suggests reform of behind-the-border, non-discriminatory restrictions on competition would provide gains to East Asia that**
 - exceed a moderately successful Doha Round
 - greatly exceed an ASEAN+3 preferential trade agreement
- **This is because such restrictions are mainly cost-escalating**

Policy priorities (II)

- **The priority should be on measures that raise real resource costs**
 - Trade facilitation sometimes *defined* in those terms
- **Particular measures may have both effects**
- **Available evidence suggests that cost-raising restrictions are:**
 - behind-the-border
 - indirect
 - often associated with infrastructure (ports, electricity generation) and distribution chains (wholesale and retail trade)

Policy forums (I)

- **Theory and modelling suggests there is little case for reciprocity when reforming measures that raise costs**
 - No rents, so no redistribution effects that need to be offset
 - Behind-the-border, so no terms of trade effects that need to be offset
- **The greatest gains come from a country's own trade facilitation efforts (Wilson, Mann and Otsuki 2005)**
- **Behind-the-border restrictions often there to protect incumbents**
 - The political economy is incumbent versus new entrant, not domestic versus foreign
- **This debate best managed domestically, away from the international arena**

Policy forums (II)

- **Preferential trade agreements unlikely to be helpful**
 - These tend to be preferential, even when they don't need to be
 - They target measures that discriminate against foreign suppliers
 - These barriers are often entry restrictions, so create rents rather than raise costs
 - Gains from PTAs tend to be trivial (at best), or simply redistribute monopoly rents to foreign suppliers (at worst)
- **Promoting competition (including in infrastructure) may require governments to *do* something rather than *remove* something**
 - eg institute access regime for essential infrastructure
- **Main game must be unilateral**
 - Regional and multilateral forums can help with transparency, sharing experience, etc

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