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

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

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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’

- NTBs
  - Price comparisons
  - Antimonde
    - Gravity model
      - $Y = \text{trade vol.}$
      - $Z = \text{size, dist.}$
    - Other
      - $Y = P, C, \Pi, Q, prod$
      - $Z = \text{industry characteristics}$
How to get a quantitative measure of the NTB?

- Simple frequency counts (e.g., UNCTAD measures of NTBs)
- Simple ordinal indexes (e.g., 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
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
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)
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
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)
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 verus new entrant, not domestic verus 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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