Economic impact of trade facilitation: costs and benefits

11th Meeting of the COMCEC Trade Working Group
“Facilitating Trade: Improving Customs Risk Management Systems in the OIC Member States”

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Key topics addressed

1. The concept of trade facilitation
2. OIC countries performance in the area of trade facilitation
3. Cost of trade facilitation reforms
4. Benefits of trade facilitation reforms
5. Prioritizing trade facilitation reforms
What does trade facilitation mean?
Whole of supply chain concept

Buy

Shop

Pay

Prepare for export

Export

Transport

Prepare for import

Import

Commercial Procedures
- Establish Contract
- Order Goods
- Advise On Delivery
- Request Payment

Transport Procedures
- Establish Transport Contract
- Collect, Transport and Deliver Goods
- Provide Waybills, Goods Receipts Status reports

Regulatory Procedures
- Obtain Licences etc
- Provide Customs Declarations
- Provide Cargo Declaration
- Apply Trade Security Procedures
- Clear Goods for Export/Import

Financial Procedures
- Provide Credit Rating
- Provide Insurance
- Provide Credit
- Execute Payment
- Issue Statements

Source: UNECE
However, the TFA focuses on regulatory procedures

The WTO Trade Facilitation Agreement addresses the border regulatory activities, practices and formalities.

- Establish Contract
- Order Goods
- Advise On Delivery
- Request Payment

- Establish Transport Contract
- Collect, Transport and Deliver Goods
- Provide Waybills, Goods Receipts Status reports

- Obtain Licences etc
- Provide Customs Declarations
- Provide Cargo Declaration
- Apply Trade Security Procedures
- Clear Goods for Export/Import

Source: UNECE

WTO TFA has no definition
Trade facilitation is ...

A comprehensive and determined set of actions to reduce the time and cost of trade

Premised on inter-governmental co-operation and agreements to ensure global uniformity

A collaborative and on-going multi-agency responsibility

Better achieved through collaboration between public and private sectors
Applying trade facilitation principles

1. SIMPLIFICATION
2. STANDARDIZATION
3. HARMONIZATION
4. AUTOMATION

Should be applied to:

- Institutional framework
- Administrative processes
- Access to information
- Legislation and regulations

TRANSPARENCY IS THE BACKDROP OF ALL PRINCIPLES
How OIC countries perform in the area of trade facilitation?
How much does it cost to import and export a 20ft container?

Only border compliance and documentary compliance

Top 5 performing countries
- Exportation: $520\times1.3 = $673
- Importation: $530\times1.7 = $900

OIC average
- Exportation: $673\times12 = 6,400$
- Importation: $900\times16 = 8,700$

5 worst performing countries
- Exportation: $6,400$
- Importation: $8,700$
Counting the time and cost to import

**Time to import**
- Sub-Saharan Africa
- South Asia
- Middle East & North Africa
- OIC
- Latin America & Caribbean
- East Asia & Pacific
- Europe & Central Asia
- OECD high income

**Cost to import**
- South Asia
- Sub-Saharan Africa
- Middle East & North Africa
- OIC
- Latin America & Caribbean
- East Asia & Pacific
- Europe & Central Asia
- OECD high income
Counting the time and cost to export

**Time to export**

- **Sub-Saharan Africa**
- **Latin America & Caribbean**
- **OIC**
- **Middle East & North Africa**
- **South Asia**
- **East Asia & Pacific**
- **Europe & Central Asia**
- **OECD high income**

**Cost to export**

- **Middle East & North Africa**
- **Sub-Saharan Africa**
- **OIC**
- **Latin America & Caribbean**
- **East Asia & Pacific**
- **South Asia**
- **Europe & Central Asia**

Legend:
- **Border compliance (hours)**
- **Documentary compliance (hours)**
- **Border compliance (USD)**
- **Documentary compliance (USD)**
Strong variance in TF performance within OIC countries

**Time to import**
- Average of 3 bottom performers
- Average of 3 top performers

**Cost to import**
- Average of 3 bottom performers
- Average of 3 top performers

**Time to export**
- Average of 3 bottom performers
- Average of 3 top performers

**Cost to export**
- Average of 3 bottom performers
- Average of 3 top performers

- Border compliance (hours)
- Documentary compliance (hours)

- Border compliance (USD)
- Documentary compliance (USD)
What are the costs of trade facilitation reforms?
Types of trade facilitation costs differ

- Diagnostic and needs assessment costs
- Regulatory and legislative costs
- Institutional and organisational costs
- Human resources and training costs
- Equipment and infrastructure costs
- Awareness-raising and change management costs

Operation, maintenance, review costs
Transparency costs are relatively low

Average cost in millions US $

- Transport facilitation: 65.6
- Customs reform and modernization: 14.6
- Customs automation: 8.9
- Customs and border agencies cooperation: 6.6
- Formalities and documentation requirements: 5.4
- Release and clearance of goods: 0.27
- Transparency and predictability: 0.036

Costs of implementing trade facilitation measures related to transparency and predictability as well as to release and clearance of goods seem to be relatively low compared to other measures.

Source: ITC calculations based on WTO, World Trade Report 2015.
Costs of particular measures could vary significantly

<table>
<thead>
<tr>
<th>Measure</th>
<th>Average cost in millions US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-stop border post</td>
<td>6</td>
</tr>
<tr>
<td>Single Window</td>
<td>5</td>
</tr>
<tr>
<td>Risk management</td>
<td>1</td>
</tr>
<tr>
<td>Pre-arrival processing</td>
<td>0.4</td>
</tr>
<tr>
<td>Post-clearance audit controls</td>
<td>0.4</td>
</tr>
<tr>
<td>Automized economic operators</td>
<td>0.5</td>
</tr>
<tr>
<td>Publication</td>
<td>0.25</td>
</tr>
<tr>
<td>Websites and enquiry points</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Source: ITC calculations based on WTO, World Trade Report 2015
Question: Are these costs expenditure or investment?

**Expenditure** - the total amount of money that a government, organization, or person spends during a particular period of time.

**Investment** - expenditure on the asset/system that will generate income or appreciate in the future.
What is the return on TF reforms investments?
Implementation of the TFA will reduce trade costs in all regions

Estimated reductions in ad valorem tariff equivalent trade costs due to TFA implementation (%)

- Africa: 17%
- LAC: 16%
- Commonwealth: 14%
- Middle East: 14%
- Asia: 14%
- Europe: 12%
- North America: 11%

Source: WTO Secretariat calculations, WTO World Trade Report 2015
And for countries at all development stages, with a premium for LDCs

Estimated reductions in ad valorem tariff equivalent trade costs due to FTA implementation by level of development (%)

- Least-developed: 17%
- Other developing: 15%
- G-20 developing: 13%
- Developed: 11%
Most studies estimate that implementation of the TFA will lead to export and GDP growth…

<table>
<thead>
<tr>
<th></th>
<th>WTO</th>
<th>ICC</th>
<th>OECD</th>
<th>Other¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export growth</td>
<td>+750 to 1,000 billions $</td>
<td>1,000 billions $</td>
<td>NA</td>
<td>1,000 to 1,500 billions $</td>
</tr>
<tr>
<td>GDP growth</td>
<td>+0.35 to 0.55 % growth</td>
<td>+960 billions $</td>
<td>+40 billions $</td>
<td>+0.50 % growth</td>
</tr>
</tbody>
</table>

¹Ferrantino and Tsigas (2013), Hufbauer and Schott (2013); World Trade Report 2015
...for developed as well as developing countries in all possible scenarios

<table>
<thead>
<tr>
<th>Level of Development</th>
<th>Full</th>
<th>Liberal</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Least-developed</td>
<td></td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Other developing</td>
<td></td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>G-20 developing</td>
<td></td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Developed</td>
<td></td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Estimated increase in export under various TFA scenarios by level of development (billions $ increase)

WTO Secretariat calculations, WTO World Trade Report 2015
Overall, trade facilitation has a larger effect than removing tariffs

TF reforms could increase GDP up to 6x more than removing tariffs

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Increase in GDP (trillion US$, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambitious</td>
<td>2.6</td>
</tr>
<tr>
<td>Modest</td>
<td>1.5</td>
</tr>
<tr>
<td>Tariffs removal</td>
<td>0.4</td>
</tr>
</tbody>
</table>

TF reforms could increase trade up to 40% more than removing tariffs

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Increase in trade (trillion US$, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambitious</td>
<td>+40%</td>
</tr>
<tr>
<td>Modest</td>
<td>14.5%</td>
</tr>
<tr>
<td>Tariffs removal</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

Source: Enabling Trade Report 2013, World Economic Forum
TFA implementation leads to diversification of exported products and export destinations

Increases in # of products by destination (% change)

- Least-developed: 36%
- Other developing: 20%
- G-20 developing: 12%
- Developed: 10%

Increases in # of destinations by product (% change)

- Least-developed: 59%
- Other developing: 33%
- G-20 developing: 19%
- Developed: 19%

Source: WTO Secretariat calculations, WTO World Trade Report 2015
TF performance determines a country’s participation in GVCs

Key factors associated with a country’s participation in GVCs

<table>
<thead>
<tr>
<th>Factor</th>
<th>Barriers to Investment</th>
<th>Trading across Borders</th>
<th>Product Market Regulations</th>
<th>Trade Enabling (rank)</th>
<th>Logistics Performance</th>
<th>Doing Business (rank)</th>
<th>Barriers to Entrepreneurship</th>
<th>Barriers Services Mode 4</th>
<th>Barriers Services Mode 3</th>
</tr>
</thead>
</table>

Source: ECIPE occasional paper no. 01/2015, Positioning on the Global Value Chain Map: Where do You Want to Be?

Cross-border performance has more impact than the overall Doing Business ranking
Put differently: trade costs are a key decision criteria used by MNC when relocating in GVCs

Private view on the main barriers in connecting firms to value chains (% answers)

Source: OECD/WTO Questionnaire 2013, www.a4trade.org
Data link: http://dx.doi.org/10.1787/888932853834
https://www.wto.org/english/res_e/booksp_e/a4trade13_e.pdf
Choosing Manufacturing Location
Comparing the costs of different routes

Sewing Italian shirts in Tanzania or Malaysia and delivery in South Africa

<table>
<thead>
<tr>
<th>Route</th>
<th>Product value</th>
<th>Sea freight costs¹ to Labuan or Dar Es Salaam</th>
<th>National Import costs</th>
<th>Transformation costs²</th>
<th>National Export costs</th>
<th>Sea freight costs to Durban</th>
<th>Total product cost in South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia route</td>
<td>$5,000</td>
<td>$1,800</td>
<td>$2,500</td>
<td>$2,000</td>
<td>$1,710</td>
<td>$1,400</td>
<td>$11,807</td>
</tr>
<tr>
<td>Tanzania route</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Documentary compliance, border compliance and transport
² National Import costs, National Export costs and Sea freight costs to Durban.
How to prioritize reforms based on their expected ROI?
Countries can seldom implement all their TF obligations simultaneously

Key challenges of a parallel implementation strategy

- Limited financial resources
- Lack of political and administrative will
- Lack of human resources and absorption capacity
- Resistance to change

Need for “reform sequencing plans that accord with country priorities, available resources and local implementation capacities”

“Parallel implementation strategy can be overly demanding in cases where resources are scarce”

World Bank

UNCTAD
Criterion to prioritize TF reforms: expected impacts of TFA measure implementation

1. Expected impacts

For traders:
- Reduced time and cost of trade transactions
- Increased predictability of the cross-border environment
- Increased fairness of the trade environment

For Government:
- Accurate and improved revenue yield
- More efficient resource deployment
- Increased trader compliance
- Improved integrity and transparency
- Enhanced supply chain security
Criterion to prioritize TF reforms: expected implementation complexity

- Financial resources required for the implementation
- Number of implementing agencies
- Number of staff impacted by the measure
- Level of capacity building required
- Expected resistance to change
- Political will required for implementation
Framework for priority setting

Prioritization matrix for the implementation of the TFA

- **High**
  - **Quick Wins**
  - **Strategic**
- **Low**
  - **Medium Return**
  - **Low return**

- **Expected impact**
- **Implementation complexity**
ITC’s integrated TF programme applied across regions

Supporting trade facilitation reforms from business perspective

- Planning the implementation of TFA obligations
- Improving inter-agency coordination and SME involvement in PPD
- Enhancing transparency and access to information
- Improving efficiency of cross-border procedures
- Building SMEs ability to cross borders
ITC unique technical assistance offer for TFA implementation

Promoting business perspective in diagnosis, design and implementation of trade facilitation reforms

A comprehensive offer beyond legal compliance: “whole of the supply chain” approach, quality for trade – SPS, TBT - and logistics services

Leveraging our unique trade support institution network for supporting NTFC work and to ensure country ownership for sustainable impacts

Innovative use of ICT for trade facilitation, including Trade Facilitation Portal, Enquiry points, Digitization of Certificate of Origin
ITC unique technical assistance offer for TFA implementation (con’d)

• Promoting **regionally coordinated TF reforms** for deepening regional integration

• Regional TF policies help SMEs to participate in **regional value chains**

• **6 steps methodology** for regional TF Roadmap
How to request ITC support?

An official letter

Arancha Gonzales
Executive Director
International Trade Centre
Geneva

An email

Mohammad Saeed
Senior Adviser Trade Facilitation
saeed@intracen.org
Thank you for your attention