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# BENEFITS OF TRADE FACILITATION

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# Outline

- Definition of trade facilitation and background
- Measuring the impact of trade facilitation
- Trade facilitation: multilateral and regional context
- Central Asia: landlocked region
- Trade facilitation in CAREC

# Trade facilitation (1)

- Covers all factors that smooth and facilitate the flow of trade by means of:
  - Reduced transaction costs
  - Efficient customs procedures
  - Improved port facilities and transport infrastructure
  - Improved communication
  - Harmonized standards

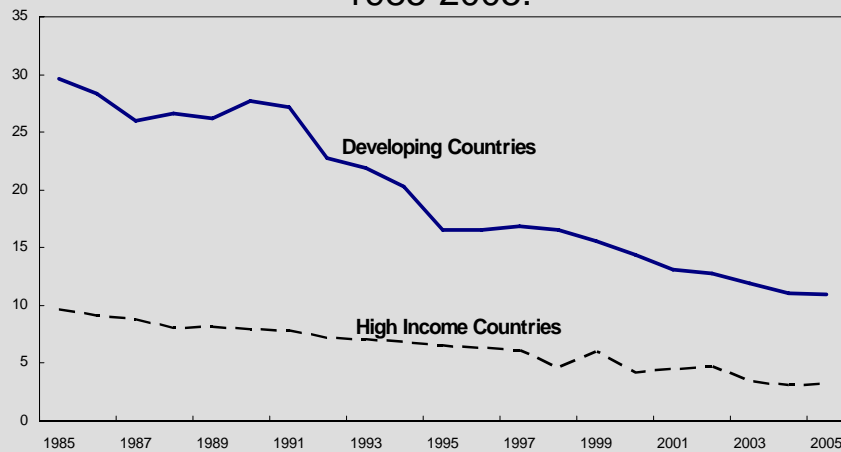
# Trade facilitation (2)

- Two broad categories:
  - Border barriers – trade regime, port efficiency, customs regulation and administration
  - Inside-the-border barriers – domestic infrastructure and regulatory environment

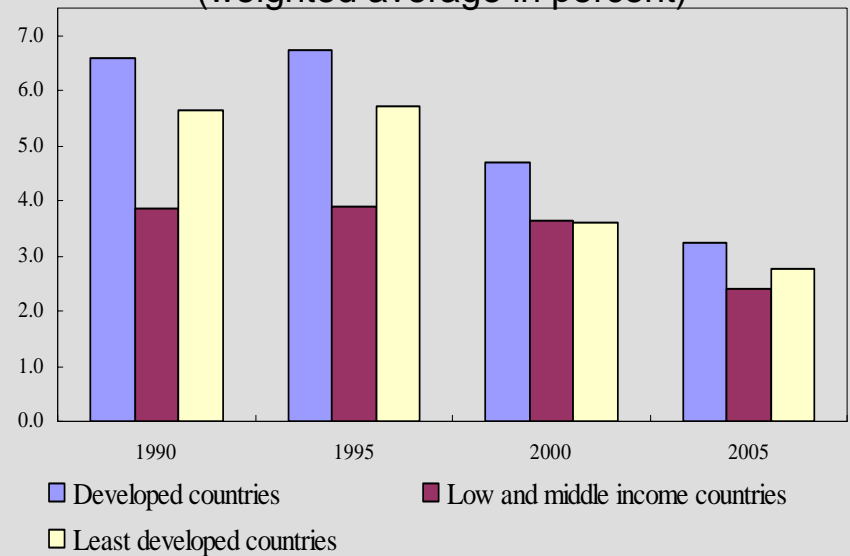
# Background (1)

- As traditional barriers declined, attention turned to other components of trade costs.

Average unweighted MFN tariffs  
1985-2005.



Applied tariff rates by country of origin, 1990-2005  
(weighted average in percent)



## Background (2)

- Missing trade phenomenon (Trefler 1995)
  - Low income countries do not trade up to their potential. Why? High transaction costs.
  - Transaction costs can be addressed through trade facilitation efforts
- In today's global economy, ability to move goods quickly and cheaply will determine whether countries can compete successfully

# Transaction costs (1)

- Majority of studies: trade facilitation related transaction costs have stronger adverse impact on trade than import tariffs
- For 168 of 216 US trading partners international shipping costs exceed paid tariffs
- Administrative and customs costs add 20% (IBRD Brazilian port study, 1997)

## Transaction costs (2)

- Logistics costs account for 30% of shipment costs (Subramanian and Arnold 2001)
- Higher inventory holdings raise production costs by 20% (Gausch and Kogan 2001)
- Indian textile firms suffer 37% cost disadvantage relative to Chinese firms as a result of port inefficiencies (OECD)



# Impact of trade facilitation (1)

- Time in shipment (Hummels 2001)
  - One extra day lowers probability of exporting to US by 1.5%
- Lack of security in international exchange explains lack of trade between low-income countries (Anderson and Marcouiller 2001)

# Impact of trade facilitation (2)

## ■ Standards

- Theoretically, impact can go either way
- Comparability promotes trade (Moenius 2000)
- 10% tighter EU food standards reduce African food exports between 5 and 11 percent (Otsuki et al. 2001)

# Impact of trade facilitation (3)

## ■ Communication costs

- 10% reduction in costs increases trade by 8%  
(Fink et al. 2002)

- Impact stronger in differentiated products  
(Tang 2006)

## ■ Internet (Freund and Weinhold 2000)

- 10% increase in number of web hosts  
increases trade by 1%

# Impact of trade facilitation (4)

- Time for export (Djankov et al. 2005)
  - One extra day reduces trade by more than 1% (equivalent to 85 km in distance)
- Export signatures (Sadikov forthcoming)
  - One extra signature costs 4.2% exports (equivalent to 5% points reduction in importer's tariffs)
  - The impact is stronger in complex products

# Various datasets/surveys

## Trading Across Borders in 2006

	Documents (number)		Time (days)		Cost (US\$ per container)	
	exports	imports	exports	imports	exports	imports
Afghanistan	7	11	66	88	2500	2100
Azerbaijan	7	18	69	79	2275	2575
China	6	12	18	22	335	375
Kazakhstan	14	18	93	87	2780	2880
Kyrgyz Republic	...	18	...	127	...	3032
Mongolia	11	10	66	74	3007	3030
Tajikistan	14	10	72	44	4300	3550
Uzbekistan	10	18	44	139	2550	3970
Low income countries	9	13	43	56	1573	1961
Lower-middle income countries	8	10	29	34	1189	1370
High income countries	5	6	11	14	755	842
Austria	4	4	8	9	803	843
Singapore	5	6	6	3	382	333
Czech Republic	5	8	20	22	713	833

Source: WB, Trading Across Borders.

# Useful data/survey sources

- International Exhibition Logistics Association ([www.iela.org](http://www.iela.org))
- Global Facilitation Partnership for Trade and Transportation ([www.gfp.org](http://www.gfp.org))
- Trade Facilitation Negotiations Support Project ([www.worldbank.org](http://www.worldbank.org))

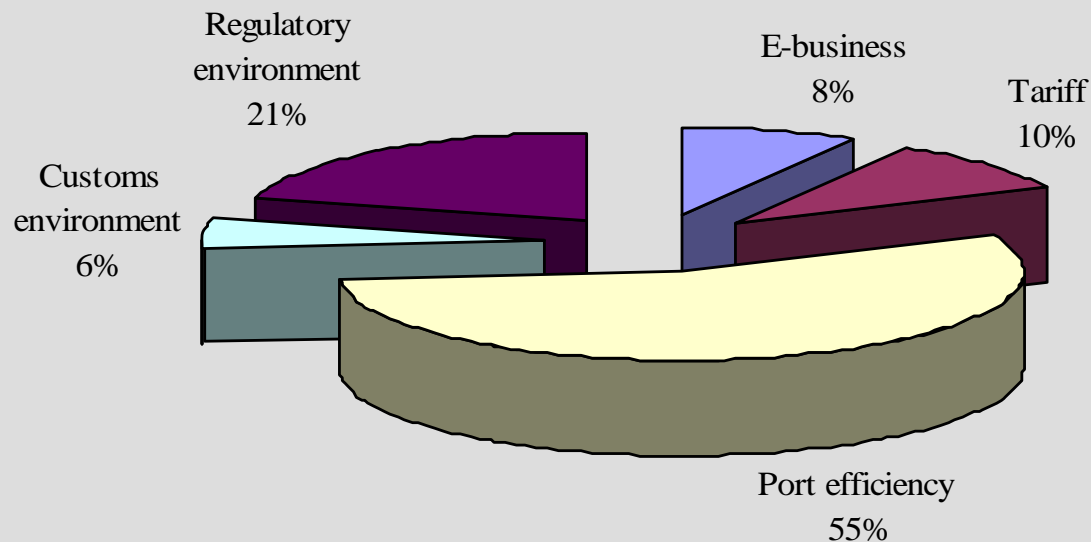
# Infrastructure is key... (1)

- Limao and Venables 2001
  - Deterioration from median to the 75<sup>th</sup> percentile reduces trade by 28%
- Wilson et al. 2003, 2004
  - Port infrastructure is more important than other trade facilitation factors
  - Own reforms accrue much larger benefits than those in partner countries
  - South Asia, Eastern Europe, and Central Asia have the biggest potential gains

# Infrastructure is key... (2)

- Improving capacity of below average APEC members halfway to the average of all members increases intra-APEC trade by \$254 billion (21 percent).

The effect of 1 percent change of trade facilitation and tariff barrier measure on trade flow





# Trade facilitation and WTO

- Freedom of transit (GATT, Article V)
- Valuation for customs purposes (Article VII)
- Fees and formalities connected with importation and exportation (Article VIII)
- Publication and administration of trade regulations (Article X)
- Doha round includes only Articles V, VII, X.

# Trade facilitation in RTAs (1)

- Cooperation at regional level can enhance trade while lowering costs
- Can be particularly beneficial for major trading partners or landlocked countries
- Potential trade diversion as a result of improved regional trade facilitation is not welfare reducing (unlike trade diversion due to tariff preferences)

## Trade facilitation in RTAs (2)

- When imports divert from nonmember to member country due to preferential tariffs, welfare declines
  - Although consumer gains from lower tariff-inclusive price, government loses revenues that would otherwise be collected from nonmember imports
- When imports divert because of improved facilitation, there are no revenues to lose

## Trade facilitation in RTAs (3)

- A number of agreements within ASEAN have measures on trade facilitation to:
  - Harmonize tariff nomenclature
  - Standardize documentation for customs clearance
  - Set up a Single Window concept to expedite cargo clearance
- APEC countries developed APEC Trade Facilitation Action Plan

# Trade facilitation in individual countries

## Major Customs or Trade Transport Reforms in 2004

Reform	Country
Set time limits of customs	Cameroon, Colombia, Egypt, Guatemala, Jamaica, Peru, Russia
Introduced electronic filing	Fiji, Hungary
Abolished trade licenses	Germany, Pakistan, Uganda, Yemen
Introduced risk analysis for inspections	Austria, Mauritius, Timor-Leste
Stopped mandating preshipment inspection	Philippines, Rwanda
Improved port and road infrastructure	Afghanistan, China, Mauritania, United Arab Emirates
Automated trade tax payment	Iran, Panama, Spain

Source: World Bank

# Central Asia: Landlocked region (1)

- All countries but China are landlocked
- Landlocked countries face high trade costs
  - Transport and insurance costs are twice as high (Radelet and Sachs 1999)
- Being landlocked has a large negative and statistically significant impact on trade
  - A landlocked country trades 28% less than a coastal country (Carrere 2006)

## **Central Asia: Landlocked region (2)**

- Large overland distance – extra 1000 km raises costs by \$1,380 (\$190 for sea transport)
- Dependence on relations with neighbors

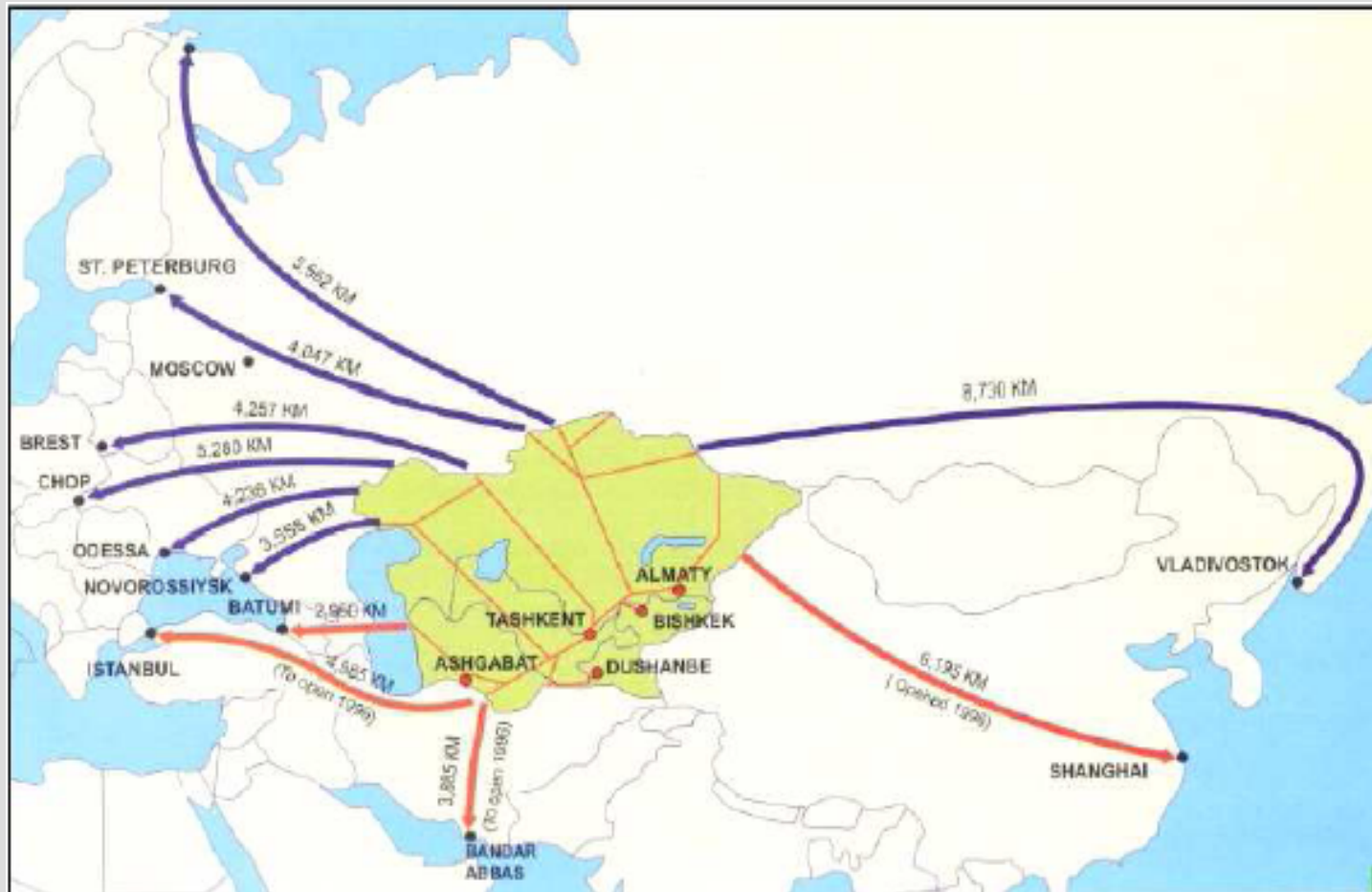
# Central Asia: Landlocked region (3)

- Many borders to cross
  - Delays and variability in transit times
  - Customs procedures
  - Evidence (using state-province trade data)
    - Pre-9/11: U.S.-Can. border reduces trade strongly
    - Engel and Rogers (1994): based on CPI data, U.S.-Can. border is equivalent to 4000 km in distance
    - McCallum (1995)
    - Anderson and van Wincoop (2001) – U.S.-Canada border reduces trade by 44 percent; for other industrialized countries – 29 percent.



# Central Asia: Landlocked region (4)

## Transit Links of Central Asia



Source: World Bank

## Central Asia: Landlocked region (5)

- Infrastructure of transit countries is extremely important (Crigoriou 2007)
  - Improvement in transit countries' infrastructure to the level of the top 25<sup>th</sup> percentile among all landlocked countries would raise a Central Asian country's exports by 52%
  - Similar change in domestic infrastructure would yield only 6.5% increase in exports

# CAREC: Trade facilitation

- Coordinate trade facilitation measures
- Cooperate on establishing and strengthening routes to major markets
- Cooperation allows to exploit economies of scale, which translates into lower transaction costs

# Trade facilitation priorities in CAREC (UNESCAP)

- Harmonize national policies, simplifying regulations and administrative procedures
  - Customs; standardization
- Reinforce existing and establish new transport facilitation bodies
- Adopt legislation related to electronic commerce, electronic document exchange

# Trade facilitation priorities in CAREC: Transit trade (1)

- General principles:
  - Enhance regional and international cooperation on transit of goods
  - Simplify border crossing procedures and reduce clearance times
  - Participate jointly in transport infrastructure projects
  - Seek alternative routes to diversify transit corridors

# Trade facilitation priorities in CAREC: Transit trade (2)

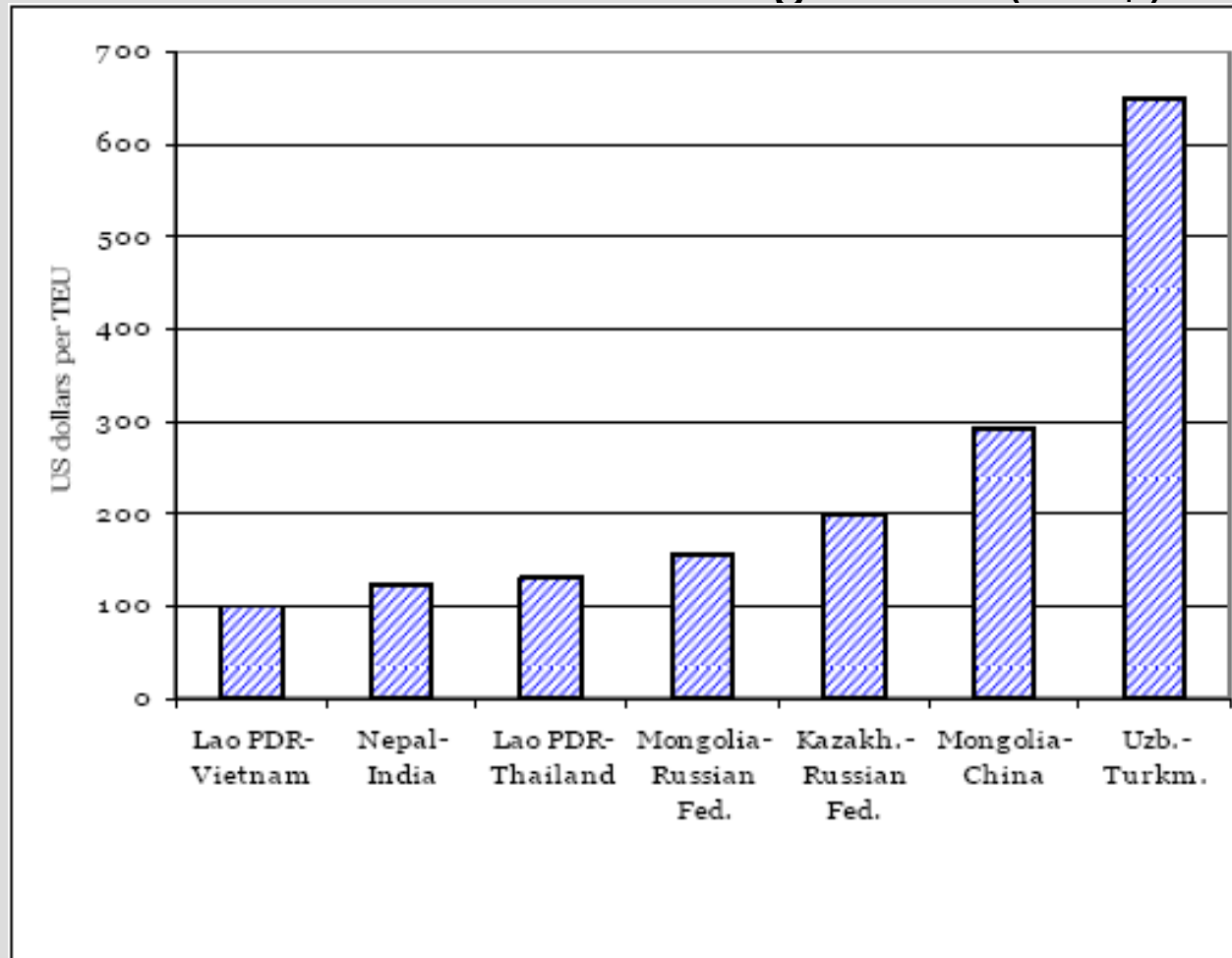
- Regional transit agreement
  - Use Kazakhstan-Kyrgyz Republic transit agreement as a starting point
- Simplified regional transit system
  - Develop a regional guarantee system
  - Harmonize transit legislations
  - Assure mutual recognition of transit documents

# Trade facilitation priorities in CAREC: Customs

- Single Window concept
- Joint customs control/One stop inspection
  - Pilot project (Kazakhstan and Kyrgyz Republic)
- Other measures
  - Risk management techniques
  - Pre-arrival clearance
  - Post-clearance audit

# Border crossing (1)

Selected Border Crossing Costs (US\$)

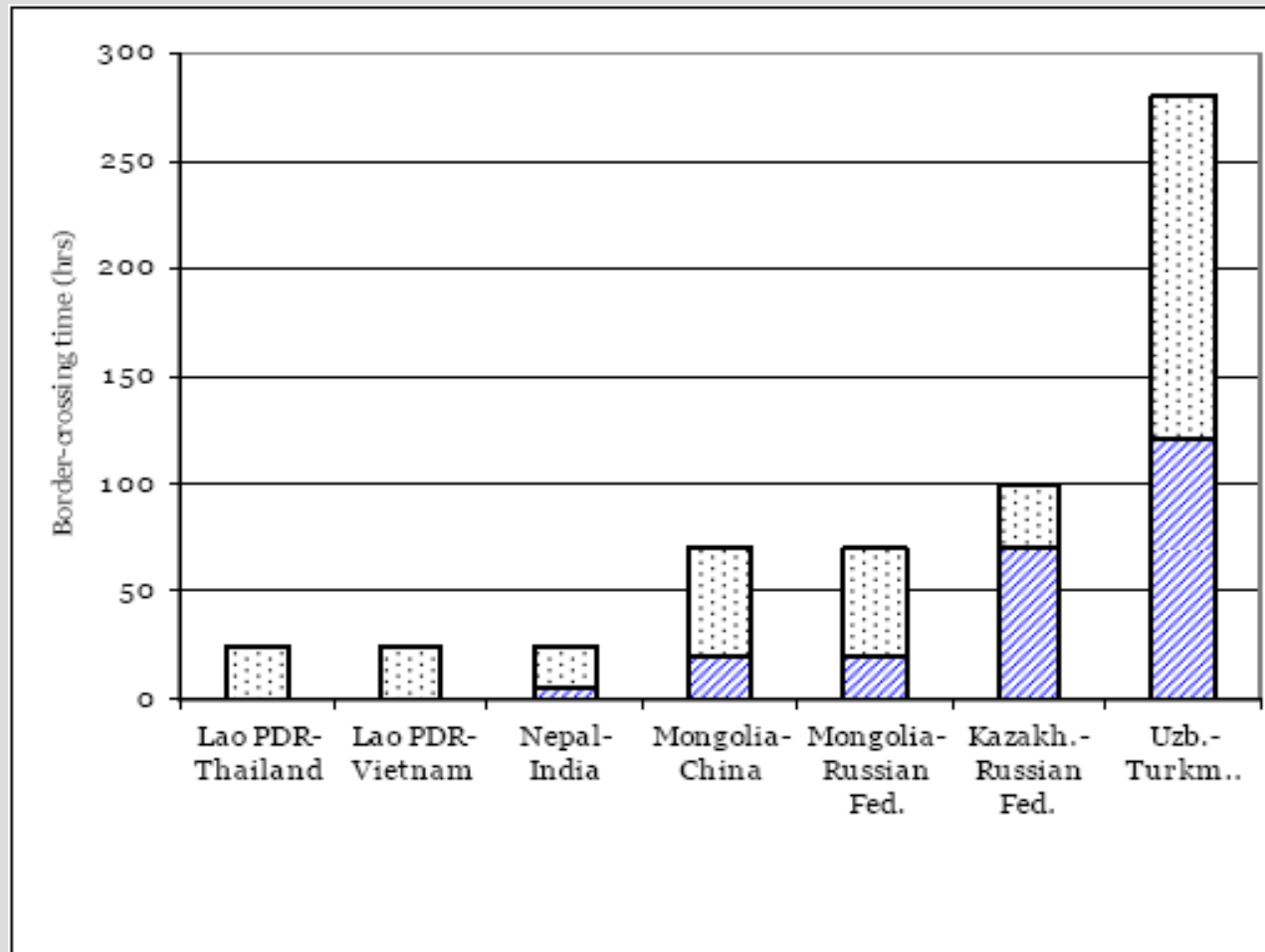


Source: UNESCAP 2003



# Border crossing (2)

Selected Border Crossing Times (hours)



Source: UNESCAP 2003

# Trade facilitation in Central Asia: Critical constraints (1)

- Countries need to be aware of constraints
  - Geographical:
    - Landlocked
    - Mountainous terrain
  - Financial:
    - Developing countries with limited resources

# Trade facilitation in Central Asia: Critical constraints (2)

- Trade facilitation efforts are costly
  - Customs reforms are typically successful and frequently yield higher revenues, along with improved passage of goods
  - Large infrastructure projects have high risks and need careful viability assessment