

Trade Issue Brief

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Transparency Reform Could Raise Trade by \$148 Billion in APECⁱⁱ

The members of the Asia Pacific Economic Cooperation (APEC) are rapidly approaching the Bogor Declaration's deadline for free trade and investment for industrialized members by the year 2010. As the Group's 2007 Report on the Implementation of APEC Transparency Standards notes, the removal of barriers to trade is in large part only meaningful to the extent that such reforms are accompanied by actions to promote transparency in both at-the-border and behind-the-border procedures (APEC 2007). According to research at the World Bank, the potential intra-regional trade gains in APEC from improved transparency are important—estimated to be approximately \$148 billion, or 7.5 percent of 2004 intra-regional trade volume (Helbe, Shepherd, and Wilson 2007).

APEC has long been at the forefront of reform efforts in the area of trade facilitation. Following the success of the 2001 Shanghai Declaration in reducing trade costs and APEC member economies' renewed commitment to strive toward an additional 5 percent reduction in cross-border transactions costs by 2010, transparency issues should figure prominently in APEC's immediate trade facilitation initiatives.

The Bogor Goals in APEC

APEC leaders signed the Bogor Declaration in 1994, establishing a common goal of free trade and investment in the Asia-Pacific region by the year 2010 for industrialized countries, and by the year 2020 for developing economies. Now known as the Bogor Goals, these targets serve as the primary organizing force behind APEC's trade liberalization and facilitation work program.

In 2006, this framework led to the achievement of a 5 percent reduction in trade costs across the region. By the year 2010, APEC leaders hope to achieve an additional 5 percent reduction in trade costs. To this end, a new Trade Facilitation Action Plan has been drafted that places greater emphasis on transparency initiatives and includes a schedule of broader "business facilitation" reforms. According to the APEC Committee on Trade and Investment 2007 Annual Report, these changes are meant to reflect the fact that trade facilitation reforms are enhanced when they are complimented by domestic regulatory and procedural reforms.

Partly in response to previous research carried out by the World Bank, the new Action Plan includes actions aimed at automating customs procedures with a paperless single-window program, harmonizing tariff structures with the World Commerce Organization's HS Convention, and making all information regarding standards and conformance publicly available.

Predictability and Simplification

HSW (2007) base their analysis of the potential for increased transparency in APEC on two main touchstones for trade facilitation and transparency reform, namely, predictability and simplification. More predictable trade policy reduces uncertainty, and therefore costs, for business. In assessing the current transparency of APEC economies, the study looks at the number of tariff lines that are bound through the World Trade Organization and the overall "flatness" of tariff structures, the variability of import/export delays, the uncertainty surrounding unofficial customs payments, and the amount of favoritism in administrative decision making.

Simplifying trade policy makes it easier, and therefore less costly, for importers and exporters to identify, assess, and comply with regulation. With regard to the simplicity of trade policy, the study takes into account documentary requirements for import/export transactions, the number of border agencies with which firms must interact to complete a cross-border transaction, the extent of “hidden” trade barriers, and the occurrence of unofficial payments.

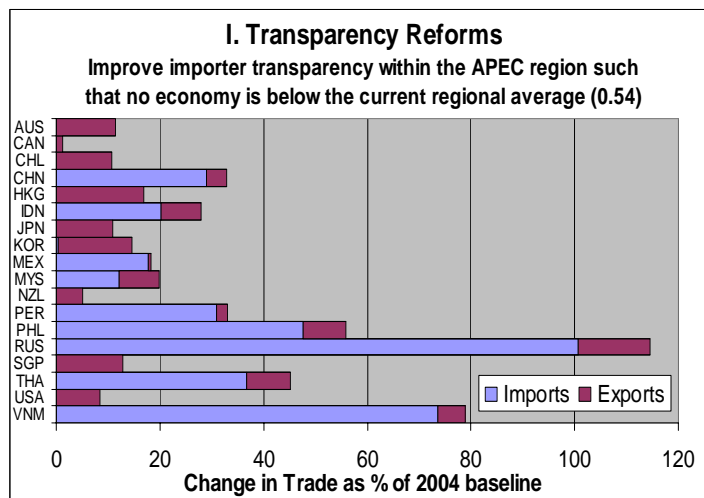
The Model

HSW (2007) utilize data on the above indicators to produce summary measures of import and export transparency for each APEC economy. They then use a standard gravity model to assess the increase in trade flows resulting from transparency reforms, controlling for gross domestic product (GDP), trade restrictiveness, and importer-exporter pair heterogeneity. Since these results measure increases in trade between APEC economies only and exclude trade in raw materials, the actual net effect on trade volumes and welfare effects for APEC economies would likely be much larger due to the non-discriminatory nature of transparency reforms.

The analysis covers three scenarios involving policy reforms, which are assumed to bring the particular indicators for each APEC economy up to the regional average. The first scenario assumes an improvement in the import-related transparency index for each APEC economy so that no country performs below the regional average. The second scenario assumes a reduction in the applied tariffs so that no APEC member applies a higher level of protection than the regional average for each HS chapter. The final scenario assumes a reduction in the ad valorem equivalents of non-tariff barriers so that no APEC country applies a higher level of protection than the regional average for each HS chapter.

The largest intra-regional trade impact comes from transparency reform and amounts to a 7.5 percent increase of baseline 2004 trade. By contrast, the tariff and non-tariff barrier simulations yield modest increases of 0.9 and 1.8 percent, respectively. In monetary terms, these effects equate to approximately US\$148bn, US\$18bn, and \$US35bn, respectively.

Policies aimed at increasing trade policy transparency in the APEC region would appear to have the potential



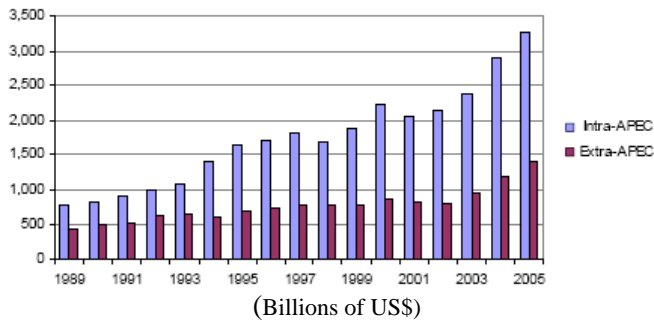
for high impact. Since the three reform scenarios considered are not mutually exclusive, transparency reforms can be seen as an effective complement—not substitute—to traditional tariff and non-tariff barrier reforms. This notion is bolstered by another study that estimates the welfare effects of increased transparency on APEC economies.

Transparency and Welfare

Abe and Wilson (AW 2008) build on the results of HSW (2007) by analyzing the GDP and welfare effects associated with increased transparency in APEC using a computable general equilibrium model. The results are presented as an estimated percentage change in GDP and an estimated standard variable income measure of the corresponding welfare improvement.

AW (2008) estimate the macroeconomic benefits of reform for each APEC member. As the authors explain, increased transparency in trade policy would bring about expansionary effects as well as efficiency improvements, as a particular economy would be able to produce more with a given amount of production factors by implementing reforms that may include, for example, automated customs procedures. Meanwhile, a reduction in trading costs might bring about an effect that resembles the removal of trade-inhibiting tariffs. The result would be increases in GDP and welfare, especially for APEC’s developing members, which currently have relatively low scores across most transparency indices.

APEC Merchandise Exports



Conclusion

These findings suggest that in moving forward, there is considerable scope for APEC to consolidate and build on progress already made in the area of transparency and trade facilitation. Within APEC's framework of regional cooperation and concerted unilateralism, it will be important for policymakers and stakeholders to develop both a set of substantive goals and concrete policy options that can be implemented considering these priority areas.

Mobilizing the financial and technical resources necessary to ensure that any such reform program is feasible and sustainable across such a diverse regional grouping will require member economies to once again demonstrate the creativity and flexibility for which APEC is noteworthy.

Further Reading

Abe, Kazutomo, and John S. Wilson. 2008. "Welfare and Income Gains with Improved Transparency in APEC: What's at Stake?" World Bank, Washington, DC. Mimeo.

APEC. 2007. "Committee on Trade and Investment Annual Report to Ministers, 2007. Singapore.

APEC. 2005. "A Mid-Term Stocktake of Progress Towards the Bogor Goals – Busan Roadmap to Bogor Goals." Singapore.

Helbe, Matthias, Ben Shepherd, and John S. Wilson. 2007. "Transparency, Trade Costs, and Regional Integration in the Asia Pacific." World Bank, Washington, DC.

necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

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ⁱ The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not