

### Research Focus

#### Trade facilitation: Why it matters to APEC and what next<sup>1</sup>

John S. Wilson\*

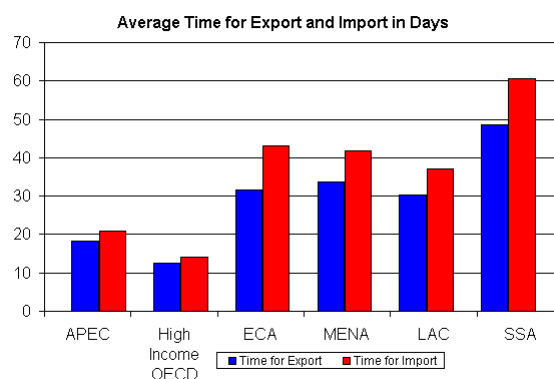
Action to reduce trade costs and facilitate business expansion is an important part of economic development. Trade facilitation involves a great deal more today than moving products across borders by truck or train. It involves the exchange of services via the Internet, rapid access to financial services and credit for firms, and fluid business mobility for the entrepreneurs that drive new job creation and export expansion. Trade facilitation includes, therefore, not only moving freight from factories to consumers but also rules governing fees for customs clearance; trade services regulation, and laws on transparency in business transactions. Given this context, there is no region better placed over the next decade to reap the benefits of reform than the Asia Pacific – and the Asia Pacific Economic Cooperation (APEC) agenda represents a unique platform to realise these goals.

#### Trade facilitation: The cost of continued barriers

The good news over the past several decades is that real growth in gross domestic product (GDP), productivity, and the engine of global trade as a driving force in reducing poverty has contributed to rising standards of living across the world. Member economies in APEC and the Asia Pacific region stand out among some of the best performers both past and present. Developing countries in East Asia and the Pacific grew by 8.2 per cent in 2005 and are projected in the World Bank East Asia Update to grow by 7.8 per cent in 2006. Among the most serious threats to continued expansion and growth, however, are barriers to trade

facilitation and a slowdown in progress to lower trade costs. This includes problems of transparency, complex rule making, and both 'behind' and at the border barriers to trade noted above.

There is an increasing body of evidence about the impact of trade facilitation on export competitiveness and growth for regions such as the Asia Pacific. A one-day delay before shipping is estimated to reduce trade by 1 per cent, which represents distancing a country from its trading partners by an additional 85 kilometres. Studies reviewed by the OECD in 2002 indicate that trade transactions costs amounted to as much as 2 to 15 per cent of the value of traded goods globally. The World Bank's *Doing Business in 2005* report also provides insight into the type of reform that APEC needs in trade facilitation. The report outlines procedural requirements for importing and exporting a standardised cargo of goods in 155 countries. While the total time taken to import was 14 days on average in OECD countries, it took 21 days for APEC members. Typical regulations in Sub-Saharan Africa required 13 documents from domestic regulatory agencies to import as compared to seven documents in OECD countries and nine documents in APEC



(Doing business (2005))

The Australia-Japan Research Centre (AJRC) is joining the US-based National Bureau of Economic Research (NBER) and other economic research institutions in Japan and Europe to sponsor a major conference in Tokyo from 15-16 September. The conference will examine current issues facing the Japanese economy alongside the experiences of other major economies. Executive Director of the AJRC, Professor Jenny Corbett, will attend the conference.

### Events

**22 September**, 24th Annual Indonesia Update Conference: *Democracy & the Promise of Good Governance* <http://rspas.anu.edu.au/economics/ip/IU06/>

**25 & 26 September**, *Fisheries Economics Training and Tuna Management Workshop for the Pacific Islands*, conference, ANU

### School seminars\*\*

**19 September**, Peter Larmour (Crawford School), *How does the concept of 'culture' help us understand corruption?*

**26 September**, John Aldrich (Duke University), *The 'electoral arithmetic' of 2004: the effect of 9/11 on the Presidential election*

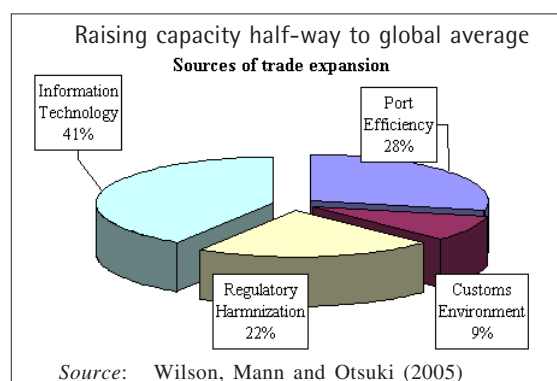
**3 October**, Peter Robinson (University of New South Wales), *Dynamic aspects of trade and wages*

\*\*Seminars are held at 12.30pm in Seminar Room 4, First Floor, Crawford Building

members (see the graph below). On average APEC members are ahead in terms of openness for international trade as compared to other groups of countries; however the sizeable difference between APEC members and high-income OECD countries remains.

### What about the gains to reform?

What about the gains to trade with an ambitious reform agenda? A 2002 World Bank study with a focus specifically on APEC countries analysed the gains from improvements in trade facilitation measures including port logistics, standards harmonisation, administrative transparency and professionalism, and e-business. Results suggest that bringing the below-average APEC members half-way up to the APEC average would result in a 10 per cent increase in intra-APEC trade, worth about US\$280 billion. The gains to APEC represent a large share of the global gain of \$377 billion. There have been several other reports, including by APEC itself, that have quantified the gains to reform with lowered trade costs in others studies, as well.



### Moving ahead and next steps

Several steps must be taken to maintain momentum in APEC toward reform and take advantage of the benefits that trade facilitation promises. First, better data, benchmarks, and analysis on the specifics of collective and individual action to lower trade transactions costs in the region are needed. APEC has provided leadership on this type of analysis worldwide and it can continue to do so – with significant credit to the APEC membership. Secondly, the agenda on trade facilitation to meet the Bogor goals also needs a fresh look and clarification. For example, should APEC goals be deepened in regard to standards and conformance, or aim for new commitments to streamline customs rules, for example? In contrast, should the agenda be widened, perhaps with a new action agenda on transport services reform? How do all the very specific work agendas on-going relate to each other and should some of these be transitioned out to other groups?

Much of the new agenda should certainly focus on the broad theme of rule of law, increased transparency, and monitoring of progress in achieving APEC's commitments both to fight corruption and ensure transparency and lower trade costs. Benchmarks of progress here are critical and would motivate and lock in the type of progress in capacity building and non-binding commitments that have been APEC's hallmark of success from its beginnings.

Finally, APEC can also do more to inform and champion capacity building and development priorities in the region on trade facilitation. It has a major interest in this issue as APEC members received on average \$5.3 billion in trade facilitation aid from 1995–2004 and its members contributed \$8.6 billion over the same period. Moreover, new analysis at the World Bank explores the effects of trade facilitation investments on global trade transaction costs and the welfare gains of trade-related aid. Preliminary results indicate that overall reduction in trade costs worldwide is about 0.3 per cent for aid targeted at trade facilitation goals. The global welfare gain with 'aid for trade facilitation' of \$15 billion returns about \$24 billion. Additional research will examine these results in regional and other contexts. In sum, APEC has a great stake in the 'aid for trade' debate – and its voice matters.

### Footnote

1 This article summarizes a seminar at the Australian National University on 9 August 2006. The findings, interpretations, and conclusions expressed here are entirely those of the author, and do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent. This article draws heavily upon 'Trade Facilitation and Economic Development', John S. Wilson, World Trade Brief 2005. The World Bank project on trade facilitation is supported through a Trust Fund of the U.K. Department for International Development and additional information is available at: [http://econ.worldbank.org/projects/trade\\_costs](http://econ.worldbank.org/projects/trade_costs)

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### Publications

*The Turning Point for China's Economic Development*, Ross Garnaut and Ligang Song (eds)

*Islands of Turmoil: elections and politics in Fiji*, Brij V. Lal

*Power and Pork: the political life of a Japanese politician*, Aurelia George Mulgan

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