Integration and Trade Facilitation in South Asia and ECA: Contrast and Commonalities

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Overview

• Review preliminary results from:
  – Trade Facilitation review in South Asia
    • Technical Note for Annual Mtg. Discussions
  – Trade Logistics and Facilitation in ECA
    • Chapter for Flagship Report on Trade – FY05

• Outline commonalities and contrasts between the regions – knowledge gaps.
What is Trade Facilitation?

• Simplification of trade procedures through:
  
  – Lower transportation costs
  – Improved port efficiency and facilities
  – Efficient border and customs clearance regimes
  – Targeted regulatory intervention in private markets
  – Improved information technology infrastructure
Benefits from Improvements?

- Hummels: Customs clearance
  - One day equals 0.5 reduction in tariffs

- Fink, Mattoo, Neagu: Communications costs
  - 10% fall in telecom costs increase trade 8%

- Otsuki, Wilson, Sewadeh: Food safety standards –
  - EU aflatoxin standards (non-harmonized) reduce African exports - $680 million loss
Why Focus on Trade Facilitation?

- Trade Facilitation
- Trade
- Human Development
- GDP growth
Regional Integration: Engine of Reform?

• Reducing (NTB) barriers – key priority to accelerate integration into the world economy.

• Capacity building strategies should address:
  – What is the relative impact of improvement in trade facilitation compared to gains from lowering traditional trade barriers?
  – What role can regional cooperation play in advancing reform?
South Asia and ECA

• Relative performance in trade facilitation indicators – benchmarking.

• Will regional cooperation / collective action matter in lowering barriers?

• Summary – going forward
Exports from Developing Countries 1980-2002

Source: Calculated from United Nations COMTRADE data
Removing barriers in South Asia
Predicted gains based on gravity model

Source: Based on Wilson, Ostuki 2004

Note: Actual Trade implies value of trade recorded in COMTRADE data. The predicted trade represents the value of trade that is predicted by a gravity model by taking geographical distance, gross domestic product, and other relevant factors into account.
Customs Clearance Indicators (sea)

Source: Calculated from International Exhibition Logistics Associates data
ICT Infrastructure: Regional Comparison

Internet Users (per 1,000 people, 2002)

Technical Regulations and Standards
Regional Comparison

Comparing Trade Integration - South Asia

Least integrated region in the world

- **Lack of integration in global economy**
  - Exports from South Asia doubled over the past 20 years to $100 billion but average export volume for developing countries more than tripled during the same period (Newfarmer, 2004).
  - The share to the total exports from developing countries has declined due in part to slow export growth compared to other regions.

- **Extremely limited progress in regional integration**
  - Intra-regional trade as a percentage of total trade volume remains two percent since 1980 (Newfarmer, 2004).
  - Overall intra-regional trade is about 33 percent of Gross Domestic Product (GDP).
Comparing Trade Integration – ECA

EU expansion and China’s emergence

• EU members are largest trading partners for ECA – except for Ukraine, Belarus, Moldova and CA.

• Relatively more integrated than South Asia

• China reform and opening driving change.
Constraints to Progress
Similarities and Contrasts between SA and ECA

South Asia

Important Barriers:
✓ “Behind-the-Border” barriers—customs procedures, and regulations
✓ Lack of infrastructure (e.g., poor road, rail, air, and shipping links).
✓ Weak but improving institutions/partnerships at the regional level (SAARC).
✓ Inadequate management of public goods, e.g., communicable disease, environment, drugs, peace, and security.

Drawn from SA Regional presentation, World Bank Annual Meetings, 2004
Constraints to Progress
Similarities and Contrasts between SA and ECA

Europe and Central Asia

Major Barriers

✓ “Behind-the-Border” barriers—customs procedures, and regulations that must be aligned with EU standards
✓ Need to upgrade/repair infrastructure
  ✓ Some of the infrastructure have been damaged by war and conflicts
  ✓ Transport networks inherited from the Former Soviet Union need to be upgraded
✓ Limited transport links to the EU and Asia
✓ Slow liberalization of the transport sector
✓ Weak regional cooperation
✓ Corruption, smuggling, and organized crime
Examples of Barriers

South Asia

- **Delays at ports:** It takes 2 to 3 days for ports in Bangladesh to clear a vessel (RIS, 2004). It takes 30-35 days for goods shipped via container from the U.S. West coast to Pakistan.

- **Low percentage of paved road:** The percentage of paved roads in South Asia was approximately 37 percent in 1999 while it was about 86 percent in ECA (World Development Indicators, 2004).

- **High Transport Costs:** The average transport costs on the Kolkata-Petrapole route between Bangladesh and India is Rs2543 which is about 40 percent higher than other highways (Das and Pohit, 2004).

- **The lack of integrated transit access:** Foreign trucks are not permitted to enter Bangladesh. Goods moving between India and Pakistan often must be transshipped through a third country.

- **Poor Border-Crossing Facilities:** Some border crossings do not even have customs facilities (Subramanian and Arnold, 2001).

- **Complex Customs Procedure:** At the India-Bangladesh border, a consignment needs at least 22 documentations, more than 55 signatures, and minimum 116 copies for the final approval (RIS, 2004).
Examples of Barriers

ECA

✓ Geographical disadvantage in Central Asia: The shortest route to the sea from parts of Central Asia could exceed 4000 km (World Bank, 2004a).

✓ Closed borders in the South Caucasus: If the peace agreement were made between Armenia and Azerbaijan and borders were re-opened, the total transportation savings for Armenia would amount to 6.4-8.4 million dollars (Polyakov, 2001).

✓ A lack of extended rail or road network to Asia and Europe from the CIS countries: The railway networks inherited from the FSU connects the CIS countries with Russia, leaving the links with other regions (Asia and Europe) under-developed. (e.g. 62 percent of export by rail and roads from the Central Asian republics goes to Russia-Belarus, 11 percent to Central Asian countries.)

✓ Slow Liberalization of the Transport Sector in EU8: Rail Liberalization Index 2004 classifies EU8 countries either “delayed” or “pending-departure” in terms of the degree of market liberalization.

✓ Corruption: At the border crossing points between Belarus and Lithuania in Medininku and Salcininku, unofficial payments “are required up to USD 500 per transit and shipments under TIR-transit are sometimes stopped and even confiscated for undisclosed reason” (World Bank, Trade and Transport Facilitation Audit of the Baltic States (TTFBS): On a Fast Track to Economic Development, 2004).
Measuring the Impact of Trade Facilitation

South Asia
• Upgrading infrastructure and improving trade facilitation (ports, customs, regulation, and trade services) halfway to East Asia’s average.

ECA
• Upgrading infrastructure and improving trade facilitation (ports, customs, regulation, and trade services) halfway to the EU average.
Benchmarking Trade Facilitation

Four Concepts of TF Embodied in Four Indicators
1. Port Logistics (air and sea)
2. Customs Environment
3. Regulatory Environment
4. E-business usage (proxy for services infrastructures)

Creating Country-Specific indicators
– Consistency-- Country-specific information on a consistent basis from multiple sources for each indicator
– Multiple sources for each indicators reduces dependence on any one source
Data Sources

- World Economic Forum Global Competitiveness Report (GCR)
- IMD Lausanne, World Competitiveness Yearbook (WCY)
- Kaufmann, Kraay and Zoido-Lobaton (2002) (KKZ)
EU Candidates and New members
Benchmarks and Performance Indicators

Source: Based on Wilson, Luo, and Broadman 2004
Notes: Data on regulatory environment and service-sector infrastructure are not available for Pakistan.
“Ports” – the quality of infrastructure of maritime and air ports.
“Customs” – administrative efficiency and transparency of customs.
“Regulations” – domestic regulatory environment.
“Services” – domestic service infrastructure.

John S. Wilson, PRAL Seminar
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South Asia Region
Benchmarks and Performance Indicators


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Potential Gains in Intra-regional Trade
South Asia (half-way to EAP average)

South Asia’s intra-regional trade could rise by $ 2.6 billion

Source: Calculated from Wilson and Otsuki (2004)
Potential Gains in Intra-regional Trade
EU Candidates

EU Candidates’ trade gain could rise by $3 billion

Source: Calculated from Wilson, Luo, and Broadman (2004)
Potential Gains in Trade with the Rest of the World South Asia

South Asia’s trade gain mainly from IT infrastructure and port efficiency.

$36 billion potential gain to trade

Potential Gains in Trade with the Rest of the World (EU Candidates)

EU candidates gain most in IT infrastructure. Other 3 indicators increase trade gains equally in EU candidate countries.

Potential Gains in Trade with the Rest of the World from Trade Facilitation

New EU Members

New EU members’ trade gain would rise most by IT infrastructure and by port efficiency.

Conclusions

• Non-tariff barriers – rising in importance
• Regional integration with removing trade logistics barriers can expand trade opportunities.
• South Asia – SAFTA and SAARC present real opportunities.
• ECA – Complex and heterogenous
• Data gaps need to be addressed
References


References


Thank You

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– www.worldbank.org/trade
– www.worldbank.org/transport