

Trade Facilitation and Economic Development: A Focus on the Asia Pacific

APEC Symposium – Beijing
September 2, 2005

John S. Wilson, Lead Economist
The World Bank



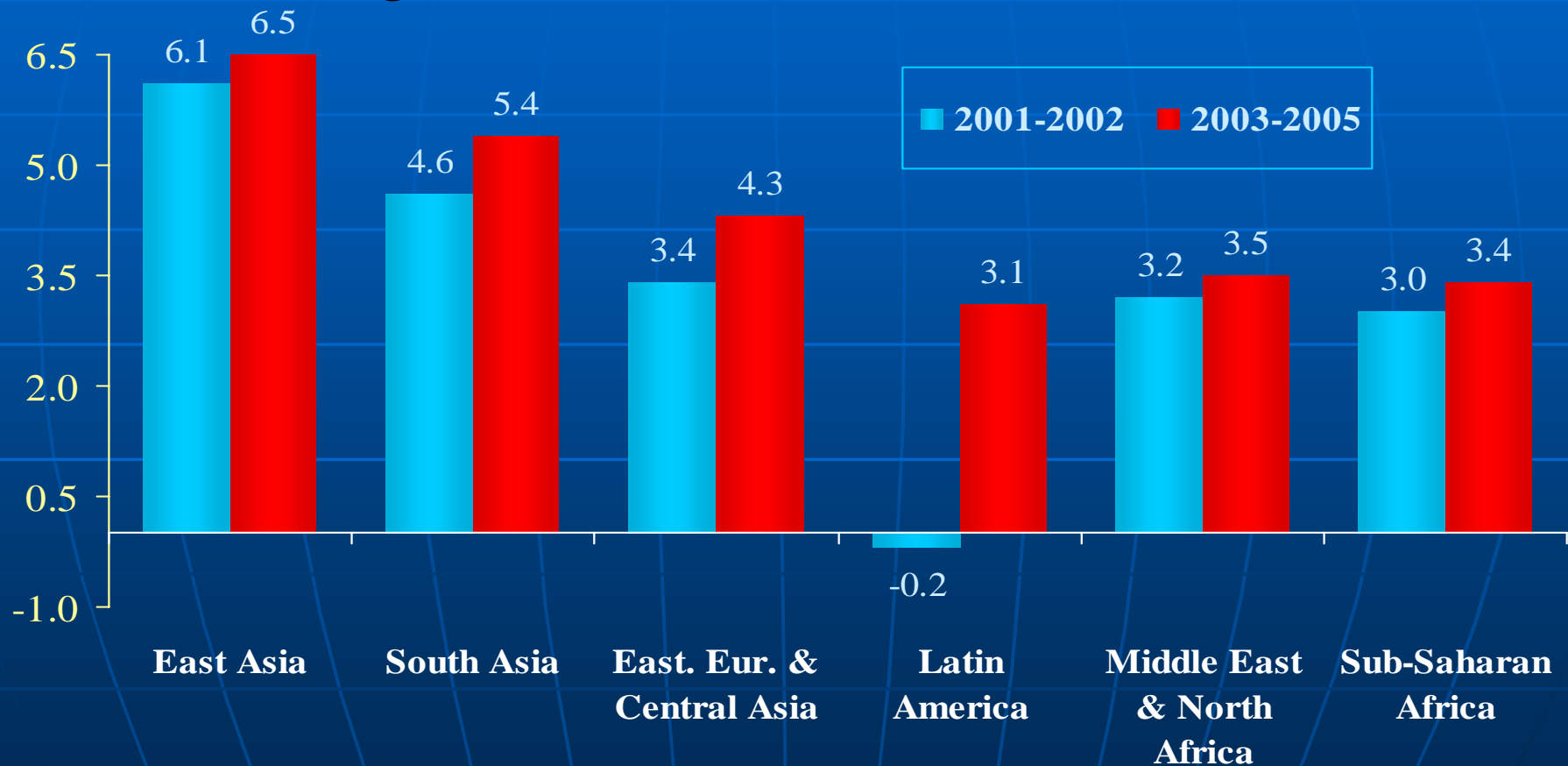
Overview

- Introduction – Trade Facilitation in Context
 - Economic Growth and Driving Forces
- Why Barriers and Trade Costs Matter
- Role of Information Technology?
 - Capacity Building and Paperless Trading

Increased growth – across regions

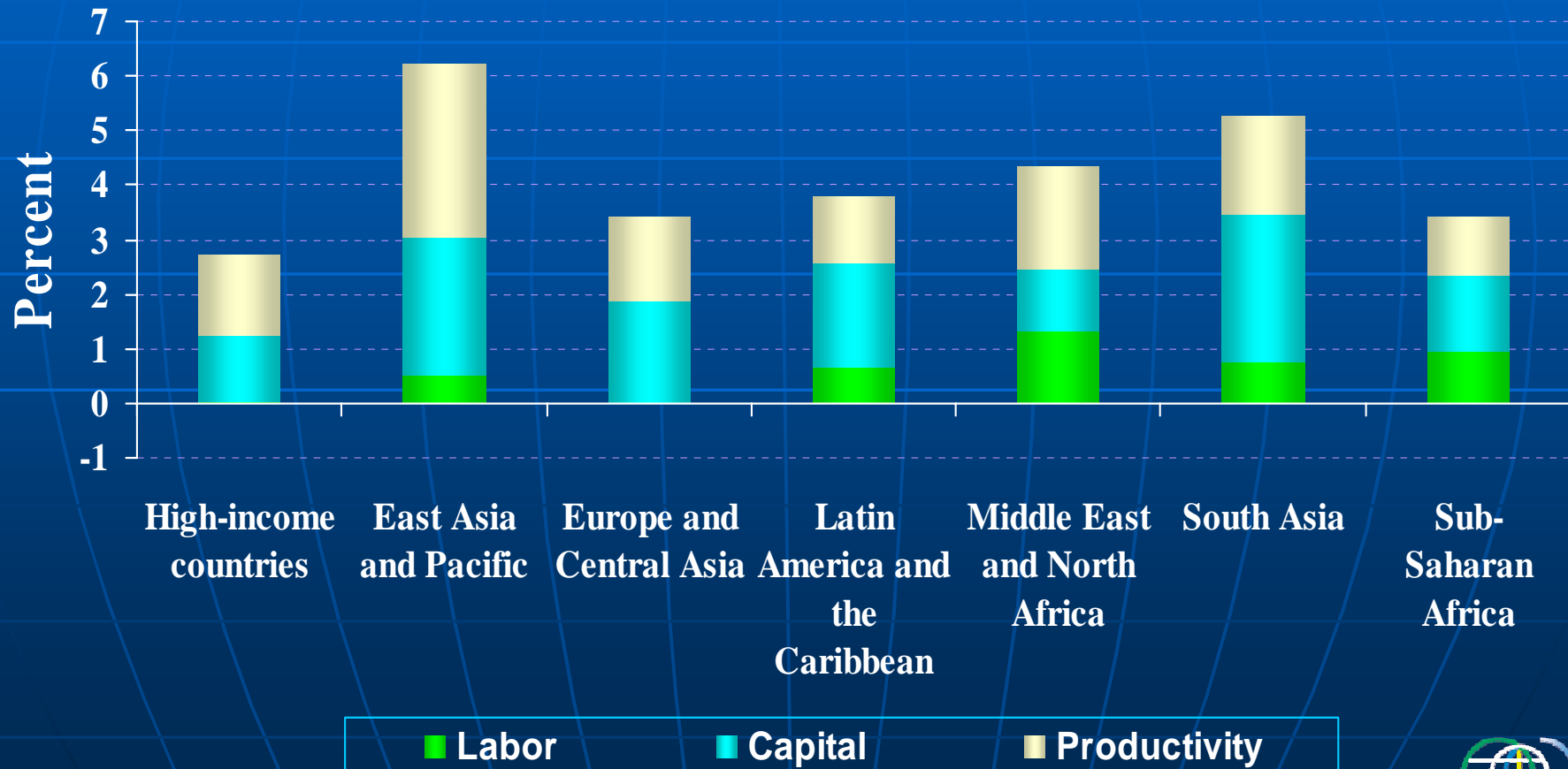
(World Bank – Global Economic Prospects Report)

Real GDP growth, 2001-2005



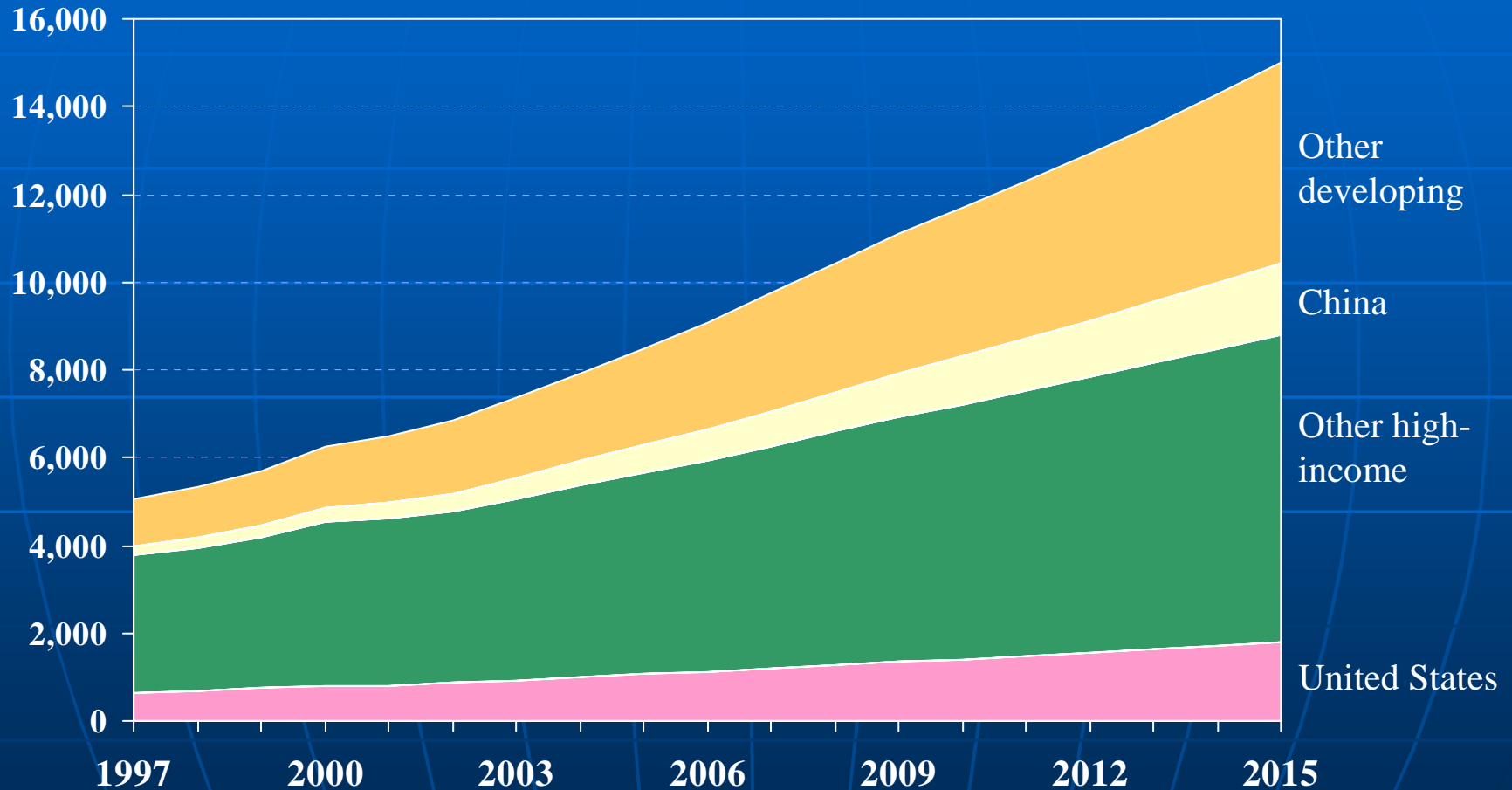
Productivity also accelerating.....

Decomposition of GDP growth 2005-2015
(Average % per annum)



World trade as a driving force.....

Merchandise exports (\$billion)



So Why Focus on Trade Facilitation?



Trade Facilitation: What is it?

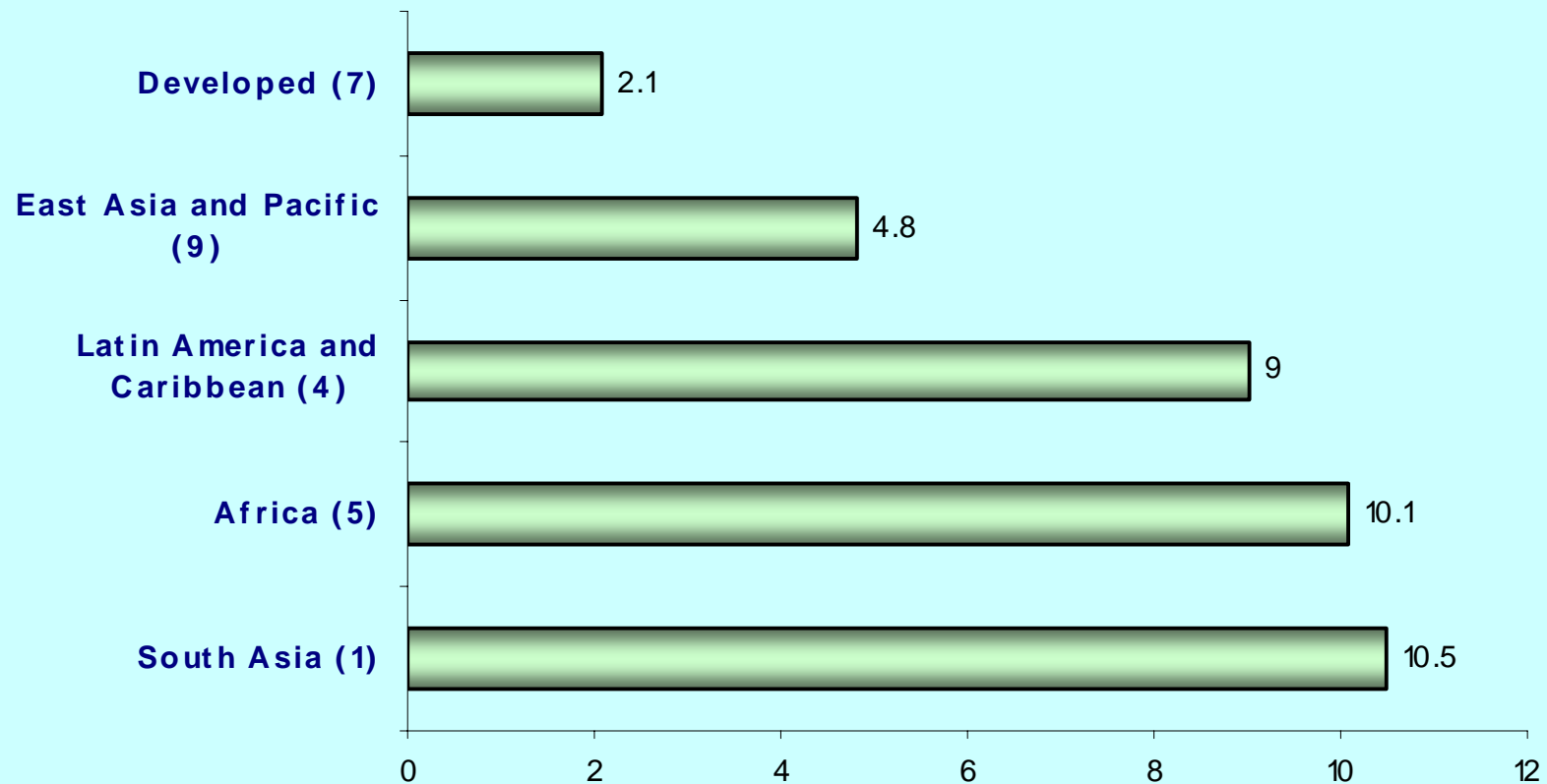
- Simplification of procedures through:
 - Reduced transport costs
 - Improved ports facilities
 - Efficient and transparent customs procedures
 - Transparent and harmonized regulations
 - *Improved communication/information technologies*

Trade Facilitation Barriers Matter.....

- Logistics account for 33 % of shipment costs (Subramanian and Arnold, 2001)
- Higher inventory raises costs of production by 20% (Gausch and Kogan, 2001)

Border clearance takes longer in developing countries than in the OECD.....

Average days required for customs clearance for sea cargo, by region



Source: International Exhibition Logistics Associates (<http://www.iela.org>), Global Economic Prospects, 2004, The World Bank, Chapter 5.

Gains from Reducing Costs?

- Hummels: Customs clearance
 - One less day equals 0.5 reduction in tariffs
- Freund and Weinhold: E-commerce
 - 10 % increase web-hosts increase trade 1%
- Fink, Mattoo, Neagu: Communications costs
 - 10 % fall in telecom costs increase trade 8%

UNCTAD (2001) & APEC (1999)

Define trade facilitation as:

- International transport sector: cost reduction
- Import prices
- **Results for trade and GDP gains**
 - UNCTAD: 1% cost reduction yields \$3.3 billion in Asia
 - APEC: 1% (ICs) 2% (LDCs) lower import prices = 3.3 % increase in exports

Wilson, Mann, Otsuki (2004)

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

Measuring Trade Facilitation: A New Approach

- Data Sources – 75 countries:
 - World Economic Forum
 - Global Competitiveness Yearbook
 - Kaufmann, Kraay and Zoido-Lobaton (2002) (KKZ)
- Data Analysis:

Raw data are indexed to the average in every category to ensure comparability

Policy Relevance?

- Objective

Identify Specific Trade Facilitation Areas with Highest Potential Returns

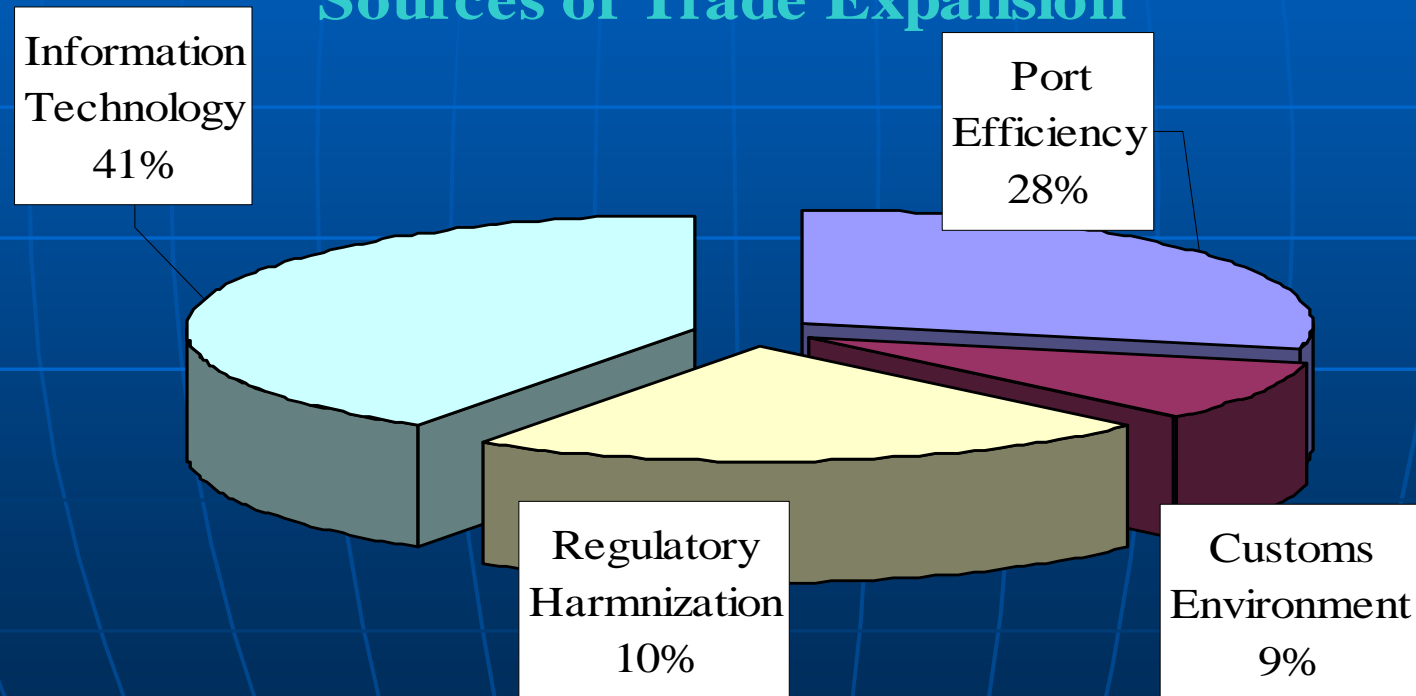
- Methodology

Measure an Increase in Trade from Bringing Trailing Members Half Way to Global Average

Raising Capacity Half-way to Global Average

\$377 billion increase in 75 countries

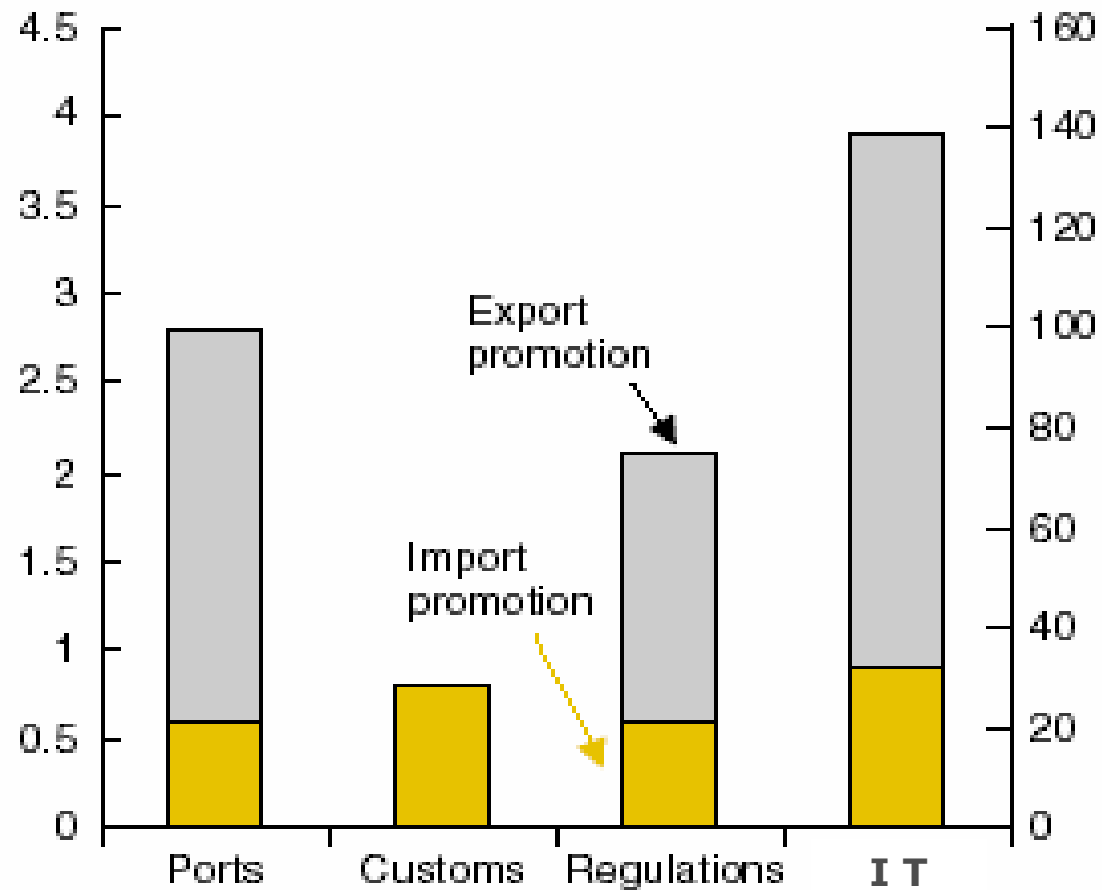
Sources of Trade Expansion



Source: Wilson, Mann and Otsuki (2004)

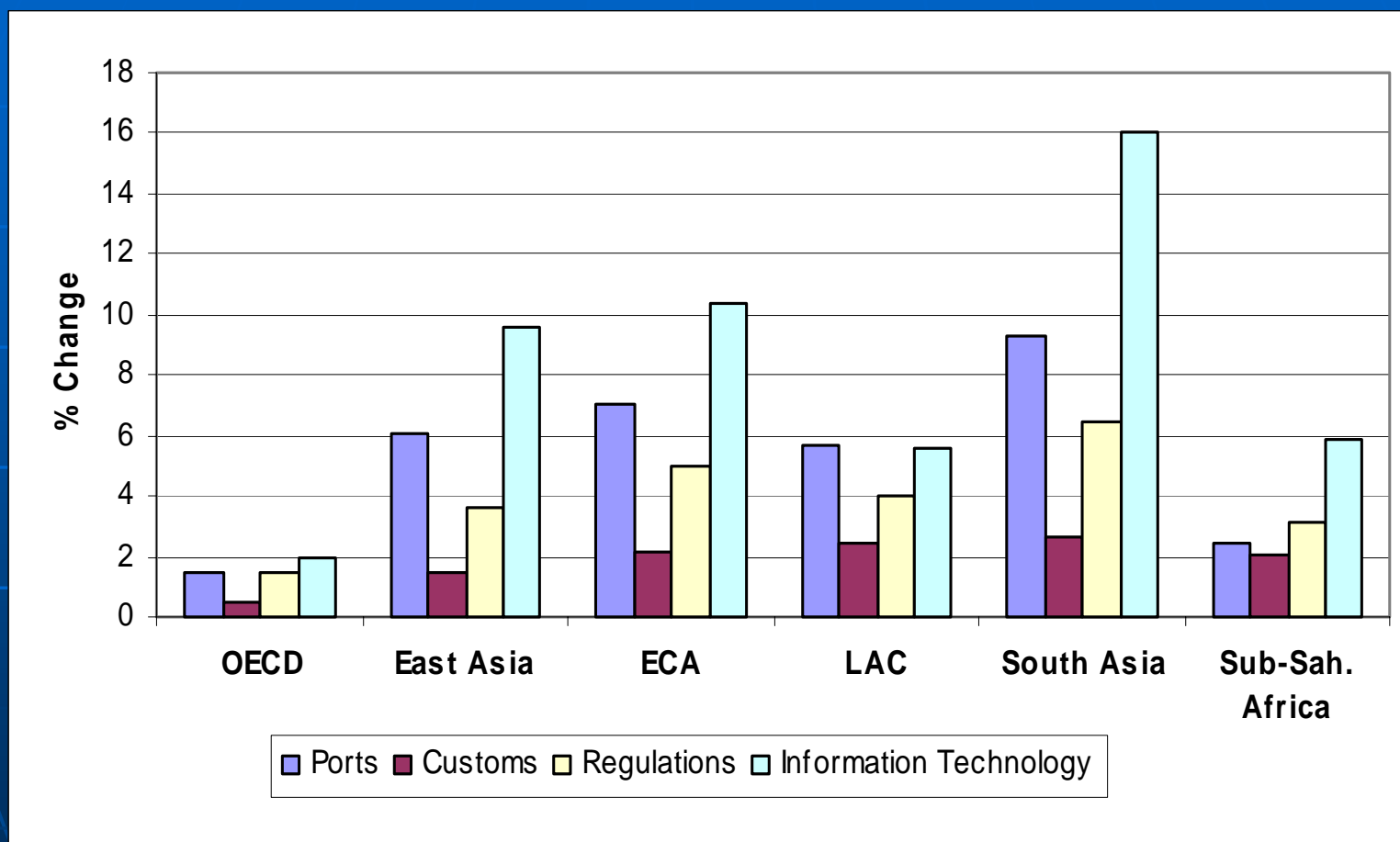
Gains from Import *and* Export Growth

Trade gains from raising handling capacity in 75 below-average countries halfway to the global average (percent change and dollar gain)



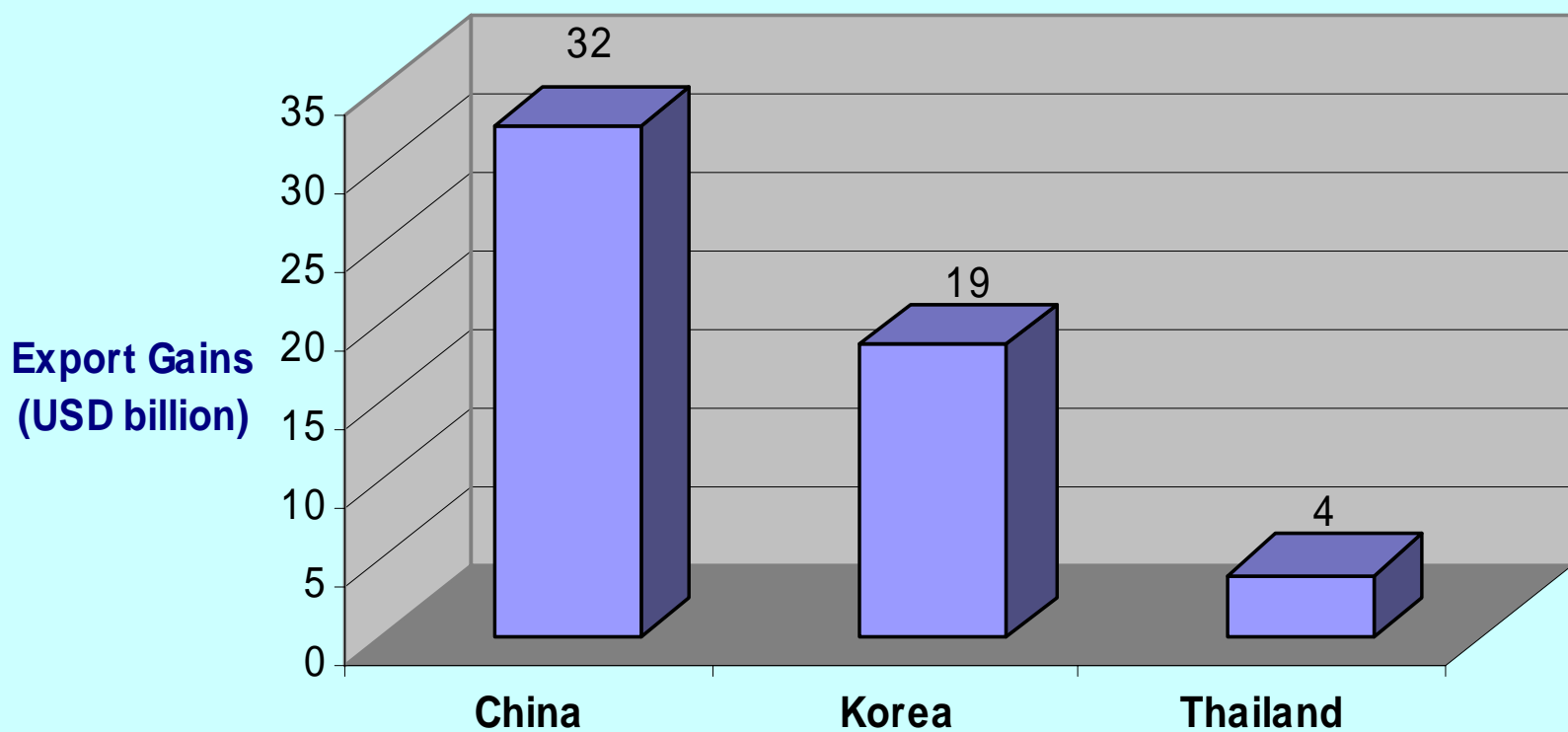
Source: Wilson, Mann and Otsuki (2004)

Trade Gain from Reform by Region



Source: Wilson, Mann and Otsuki (2004)

Export Expansion from Trade Facilitation: Half-way to Global Average

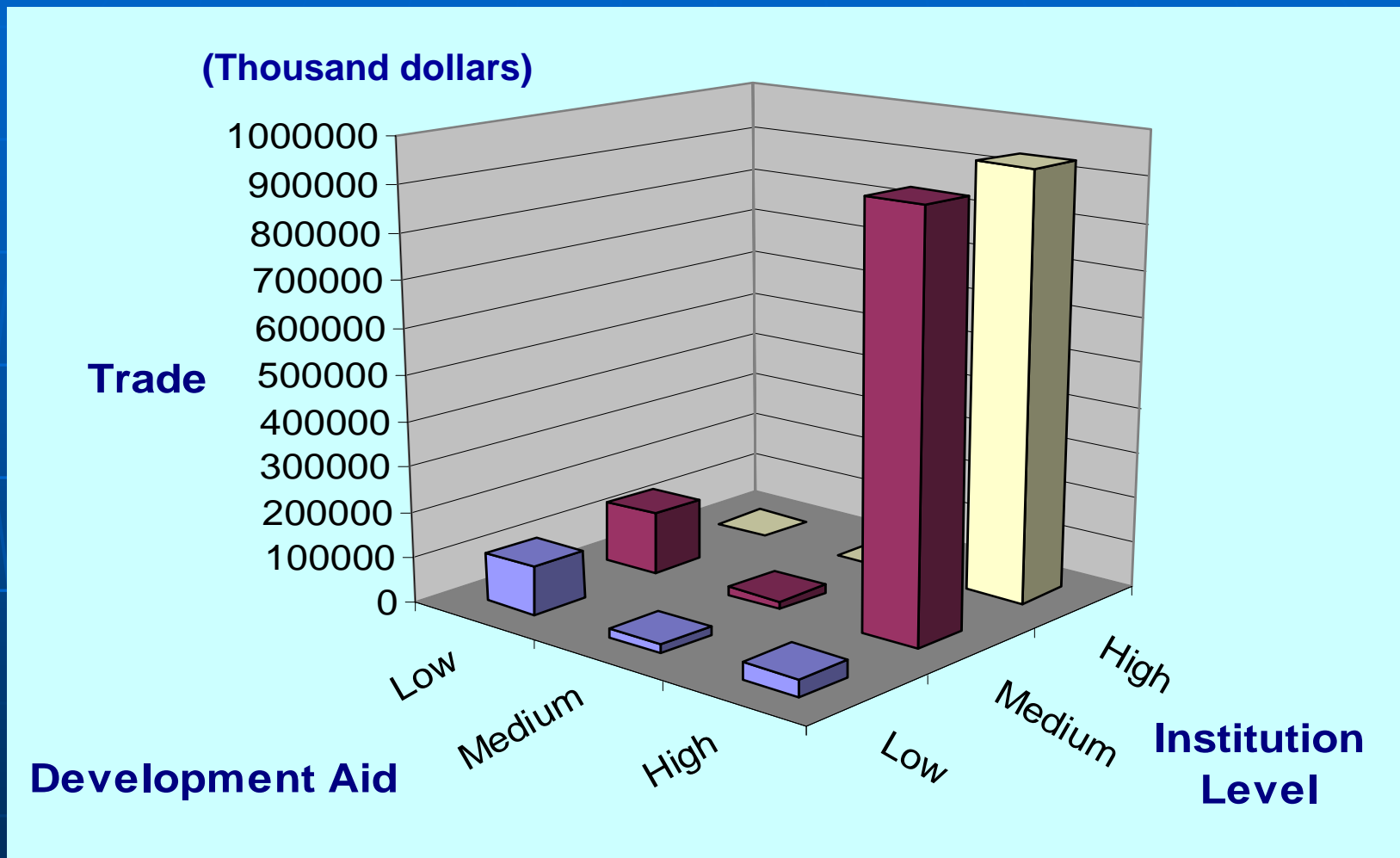


Source: Wilson, Mann and Otsuki (2004)

But When Does Aid Work.....?

- New Bank research. Interaction between trade, institutional capacity, development assistance.
- Trade variable is created by an average of four TF indicators used in WMO.
- Development aid variable (the amount of TF projects in each country (2001-03) normalized by GDP.
- Medium or high level of institutional capacity **combined** with amount of development aid has strong positive impact on trade.

Trade, Development Aid, and Institutional Capacity



Source: Wilson, Suzuki (2005) mimeo

Conclusions.....

- Trade Facilitation – more than transport.
- Improved capacity in IT and regulation increases trade.
- This suggests high priority for paperless trading.....
- Collective action matters.....including progress in APEC agenda.

Thank You

John S. Wilson
Lead Economist
The World Bank

jswilson@worldbank.org