



Asia-Pacific  
Economic Cooperation

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**2007/ASCC/1.2**  
Session: Gains from Trade Facilitation

1.2.3

## **Opportunities in Regional Strategies**

Purpose: Information

Submitted by: John S. Wilson  
World Bank, Washington DC



**Annual Conference of APEC Centres**  
**Melbourne, Australia**  
**18-20 April 2007**

## **Regional Integration and Trade Facilitation Priorities and Potential Gains in the Asia Pacific\***

### **Trade Costs and Facilitation in Context**

The growth of world trade over the past several decades has been one of the most important factors in economic development. Trade has been driven, in large part, by the changing nature of manufacturing production, expansion of the services sector, and increased competition. It has also been accelerated by successful multilateral trade negotiations. Negotiations at the World Trade Organization (WTO) have led to cuts in tariffs across a range of sectors, as well as some progress on non-tariff measures. As more traditional barriers fall away, trade policy has moved to focus on the more complex and intractable non-tariff barriers -- including those related to trade facilitation.

Several factors in the world trading system suggest that lowering trade costs and facilitating trade is fundamental to development – and economic integration. As noted, tariffs have been cut through successive rounds of multilateral trade talks (although distortions remain, particularly in agriculture). In addition, there are institutional dynamics driving trade policy. Most importantly, a successful conclusion to the Doha Development Agenda is critical for both WTO members and especially development prospects for the poor.

Progress at the multilateral level is increasingly difficult, although good progress has been made in regard to trade facilitation in the context of modifications to GATT rules. Moving forward on reform in a broad context, however, requires action on many platforms. Trade facilitation reform starts with domestic action but there are also incentives to act collectively. For example, accelerating cross border trade via transport networks is most effective when rules on transit are agreed to by countries in a region that can harmonize procedures across borders. Use of a standard customs form across countries can also facilitate trade. There are also significant incentives to cooperate in regional settings to remove technical and regulatory barriers to trade. In addition, technical assistance coordinated on a regional platform, along with domestic reform, likely has a potential high rate of return on the investment for all economies involved. In sum, economies moving forward in an open manner to remove obstacles to trade expansion stand to gain from lower trade costs through both domestic action and collectively.

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 border posts. It involves the exchange of services in electronic formats, access to financial services, and business mobility and regulatory transparency for the entrepreneurs that drive job creation and export growth. Trade facilitation includes, therefore, not only transport, but also rules on customs fees, services regulation, and laws on transparency, for example. Trade facilitation is a multi-faceted area. Unlike cutting tariffs or eliminating quotas, progress on trade facilitation in some areas can involve substantial costs related to improving trade related infrastructure. It is important, therefore, to examine priorities and trade-offs of differing plans to address trade facilitation. Given this context, the

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\* The findings, interpretations, and conclusions expressed here are entirely those of the author. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent. This note draws on on-going work at the World Bank in the Research Department on trade facilitation 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). It also draws on draft analysis on ASEAN and trade facilitation (Shepherd and Wilson, mimeo) and on plans for new work on “Transparency and Regulatory Reform in APEC” with the support of the Australian government. Comments welcome to [jswilson@worldbank.org](mailto:jswilson@worldbank.org).

Asia Pacific region is well placed to take the benefits of reform given the nature of remaining obstacles to trade in the region -- and the Asia Pacific Economic Cooperation (APEC) agenda represents a unique platform to advance reform and trade facilitation.

### **A Framework for Considering Trade Facilitation and Competitiveness**

A starting point for today's analysis of the link between trade facilitation and regional integration is the fact that only a small percentage of firms in most economies engage directly in export markets. Companies that do sell in international markets are often larger and more productive than those which do not.<sup>1</sup> High productivity firms with low marginal production costs are able to make a profit -- while also meeting the additional costs that go along with exporting. High cost and low productivity firms are clearly hindered from entering world markets. These firms produce for the domestic market and are not affected by the costs of exporting. Within this framework, as trade costs fall, there are a number of other effects on firms and the national economy.

For example, as the costs of exporting fall, it is likely that more firms are productive enough to begin exporting. One would expect, therefore, that the propensity to export should increase as trade costs fall. Thus, less productive firms will find that it becomes profitable to start exporting. Lower export costs can therefore facilitate entry of small and medium enterprises into export markets, thereby expanding the number firms in contact with the world market. Lower trade costs; in general, promote the reallocation of resources from lower-productivity firms that exit the market to higher-productivity firms. The overall effect here is to increase the economy's level of productivity. This has important implications for future growth prospects. In addition, lower trade costs can promote export diversification. This is an important policy objective in many developing economies (Dennis and Shepherd, forthcoming).

Drawing from the above, member economies of APEC are positioned for significant potential gains from improved trade facilitation and action to lower trade costs in the region. The region is increasingly integrated, with firms investing in productivity enhancing tools to position them to enter new markets. The measures included in any reform program by member economies (both unilaterally and collectively) will necessarily cut across a number of policy areas relevant to the specific costs facing exporters. These will include infrastructure, customs services, regulatory reform, trade-related services, and governance. Policymakers and stakeholders in APEC therefore need to prioritize reforms as they are often costly and difficult to implement, and therefore they cannot all be addressed at once.

### **The Price of Standing Still**

The good news over the past several decades is that real growth in gross domestic product (GDP), productivity, and global trade has been driving forces in reducing poverty and 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 of yesterday and today. Emerging economies in East Asia grew by 8.1% in 2006 which is the fastest rate in ten years. Projections are for growth to average about 7.3% in 2007. (World Bank East Asia Update). Among the most serious threats to continued expansion and growth, however, are barriers to trade facilitation and a slowdown in progress on lowering trade costs. Problems exist with regard to transparency, the complexity of rule making, and both "behind" and at the border barriers to trade noted above.

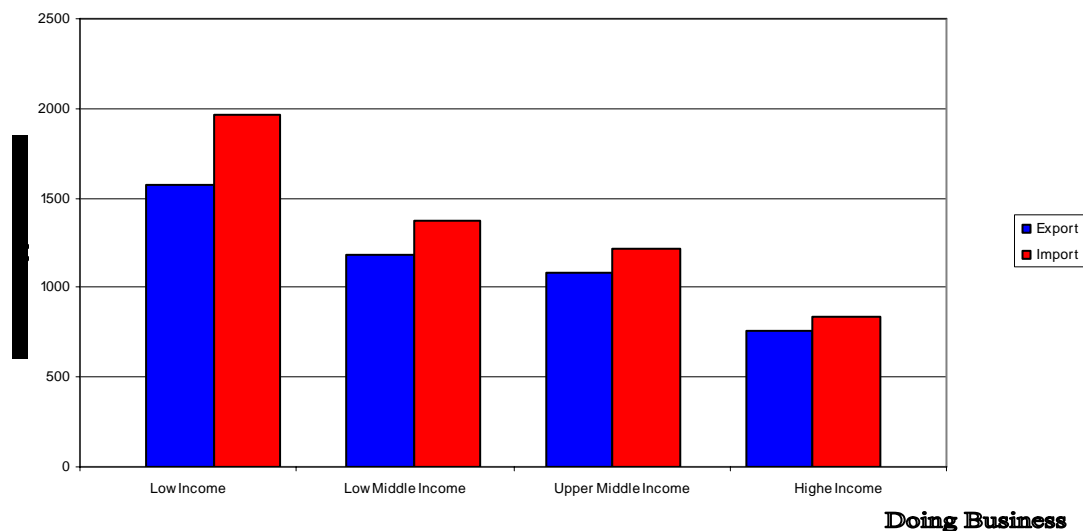
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<sup>1</sup> Bernard et al. (2007) provides a review of this literature.

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% which represents distancing a country from its trading partners by an additional 85 km (Freund, et.al. 2006) Studies reviewed by the OECD (2002) indicate that trade transactions costs amounted to as much as 2 to 15 percent of traded goods value globally.

The World Bank's Doing Business Report (2007) documents the wide range of reform needed in developing economies to lower trade costs. The report outlines requirements for importing and exporting a standardized cargo of goods in over 155 economies. While the total cost to import (in US\$ per container) was \$842 on average in high income economies, it was \$1960 in low income economies. Typical regulations in low income economies required 13 documents from regulatory ministries. This compares to six signatures in high income economies, nine in upper middle income and ten in low middle income. On average it costs about two and a half times in expenses, more than twice as many documents and four times as many signatures to trade in a poor country as it does in rich economies.

**Costs to Export and Import**



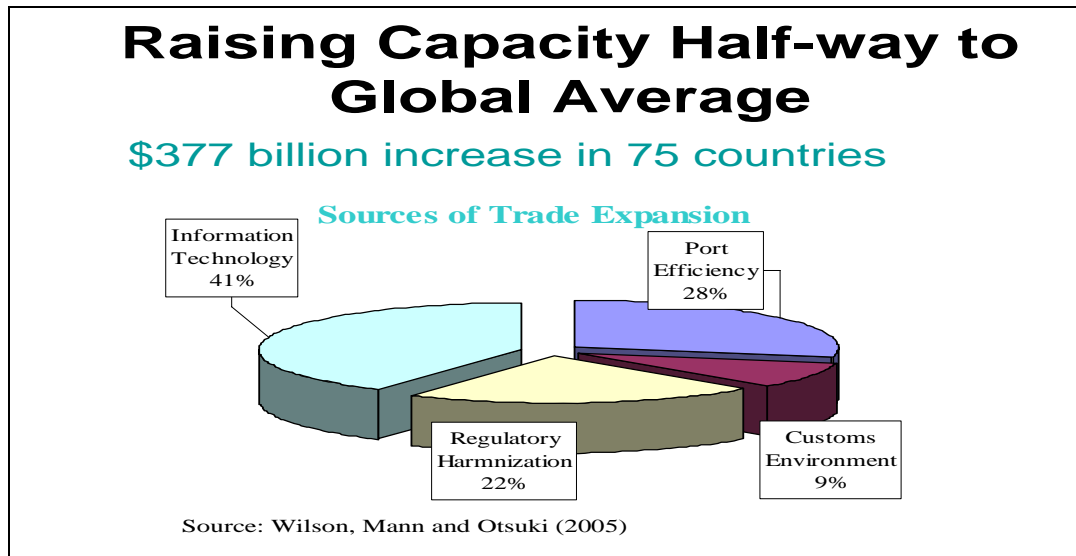
Source: Doing Business 2007, World Bank.

### **What is there to Gain from Reform?**

What about the gains to trade with an ambitious reform agenda? There are important gains to lowering trade costs and facilitating trade. There are, however, variations across economies and sectors that need to be considered (Francois et al., 2005; OECD, 2003). Several studies examine trade facilitation on the micro-level (e.g. Nomura Research Institute, 2004; OECD, 2005). In summary, the findings suggest that in some developing economies complex trade rules and documents and procedures can block firms' participation in export markets. The studies find large potential benefits from streamlining trade regulations which then reduce costs for exporting.

A study with a focus specifically on APEC economies conducted by the World Bank Research Department (Wilson, Mann, Woo, Assanie and Choi, 2002) analyzed gains from improvements in trade facilitation measures including port logistics, standards harmonization, 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 percent 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.



### **New Analysis to Inform the Agenda: World Bank Research Department Project**

There are several steps to be taken to continue momentum in APEC toward reform and taking 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 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 new commitments to streamline customs rules? In contrast, should the agenda be widened, perhaps with a new agenda on transport services reform? How do all the very specific areas relate to each other and should some of these be transitioned out to other groups within APEC?<sup>2</sup>

The World Bank Research Department is preparing analysis, with the support of the Australian government, for APEC in 2007-2008. In doing so, it will assess the economic benefits that to be gained by improving transparency and regulatory reform in the region, including through targeted capacity building programs. The analysis and benchmarking work in the first section of the report will present a new set of indicators covering four fundamental dimensions of policy in APEC member economies: (1) good governance, (2) the quality of the general regulatory environment, (3) indicators of trade facilitation performance, and (4) transparency of trade policy. In terms of value added, this section of the report will represent the first occasion on which such a diverse set of indicators is systematically brought together for the purpose of applied trade policy analysis across APEC economies and years.

By providing transparent, quantitative baselines, such indicators can assist member economies in monitoring progress towards interrelated goals of reducing trade costs and enhancing international economic integration. They can also be invaluable in identifying areas in which further capacity building work is needed.

<sup>2</sup> Wilson, John S. "Trade Facilitation: Why it Matters to APEC and What Next", APEC Economies Newsletter, Research Focus, Australian National University, September 2006.

The first dimension of this work is designed to capture important aspects of administrative transparency in an overall sense, including the degree of public participation in decision making, adherence to the rule of law, and other factors. The second dimension will assess the regulatory environment in greater detail. It will highlight the possible connections with transparency. The third set of indicators will assess trade facilitation performance (standards and regulation, e-business usage and information technology infrastructure, port efficiency, and customs environment). Finally, the fourth dimension will examine more specifically the economic transparency of member economies' trade regimes.

Drawing on the results of the benchmarking exercise, the second part of the report will address in greater detail the substantive links between transparency, trade facilitation, and economic integration.<sup>3</sup> A standard econometric methodology will be used to assess the sensitivity of intra-APEC trade flows to improvements in transparency and the regulatory environment. Particular attention will be given to the possibility of circular causality (i.e., a virtuous cycle) between transparency and regulatory reform.

### **An Action Agenda**

The analysis outlined above can help inform the agenda on increased transparency and related reform to support APEC's commitments on a range of objectives. Benchmarks of progress can be used to motivate and help to lock-in the type of progress in capacity building and non-binding commitments which have been APEC's hallmark of success from its beginnings. New analysis in these areas can also help inform the second Trade Facilitation Action Plan in APEC this year and the agenda on regional economic integration in APEC – if regional dialogue should evolve over the long-term into talks on a Free Trade Area of the Asia Pacific.

Finally, a commitment to new data and analysis in this area can help APEC 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. APEC member economies have a great stake in the "aid for trade" discussions -- and its voice matters.

### **References:**

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Dennis, Allen, and Ben Shepherd, Forthcoming, "Barriers to Entry, Trade Costs, and Export Diversification in Developing Countries", mimeo.

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<sup>3</sup> As part of this second section of the report, we will evaluate and present information on the utility of gathering new data for new indicators not yet constructed that may be of particular interest to APEC in benchmarking progress on trade facilitation and transparency goals.

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# Trade Facilitation and Regional Strategies

John S. Wilson  
Lead Economist  
The World Bank

Annual Conference of APEC Centers

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18 – 20 April 20067



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## Overview

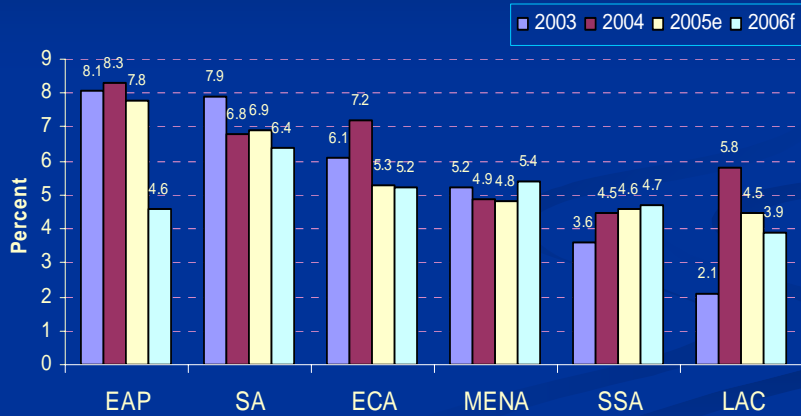
- Trade Facilitation in Context
  - Economic Growth and Driving Forces
- Why Barriers and Trade Costs Matter
- APEC's Trade Facilitation Agenda
- From Analysis to Action

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# Growth continues – across regions

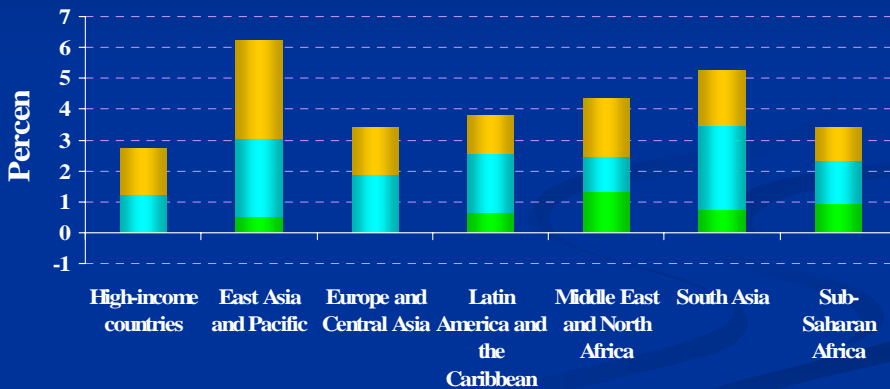
(World Bank – Global Economic Prospects Report)

## •Real GDP growth, 2003-2006



# Productivity is also accelerating.....

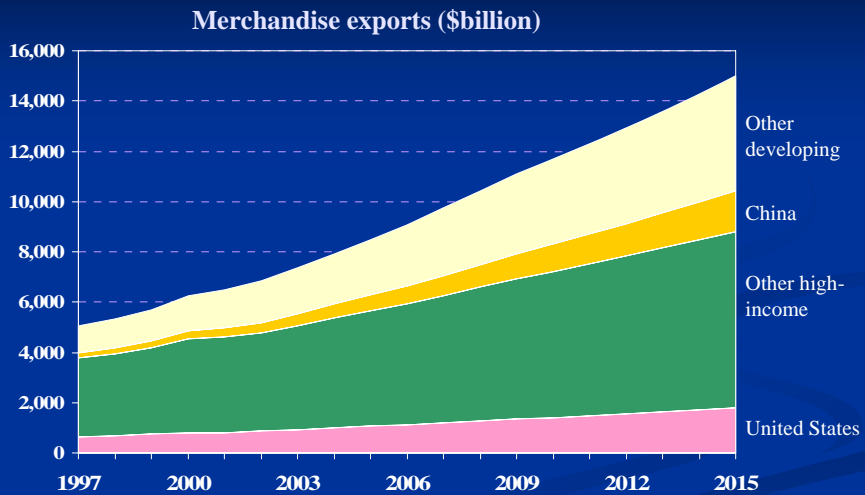
Decomposition of GDP growth 2005-2015  
(Average % per annum)



■ Labor ■ Capital ■ Productivity



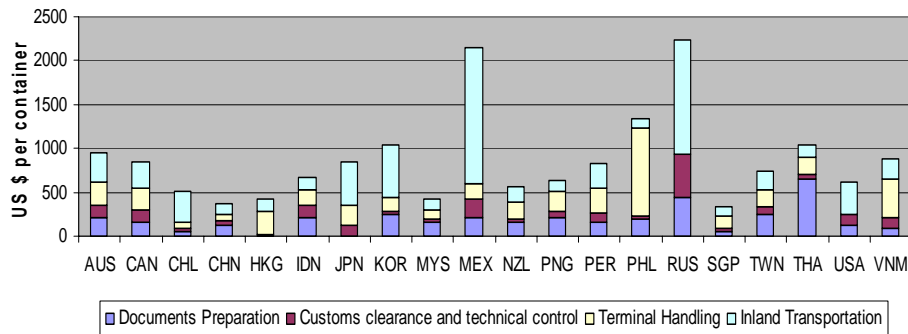
# World trade growing.....



## Challenges to the Good News Story?



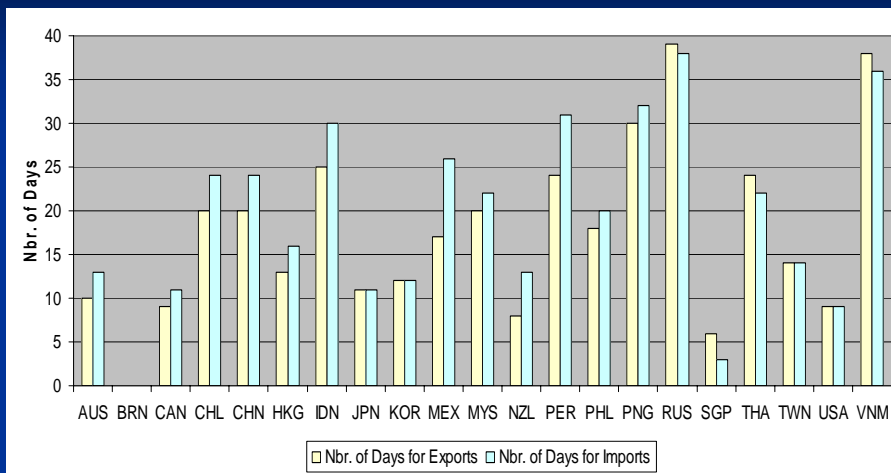
# The Cost of Importing in APEC



Source: "Transparency and Regulation in APEC," World Bank, forthcoming – Doing Business data.

- Terminal Handling - Inland Transport largest shares
- Substantial variation in APEC

# Border Clearance Time in APEC



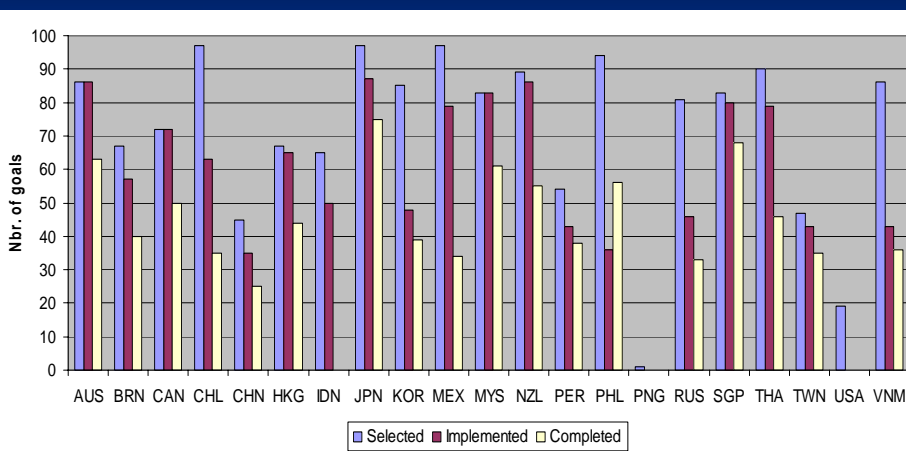
Source: Doing Business data, World Bank



# Trade Facilitation in APEC

- 2002 Trade Facilitation Action Plan
- 97 measures:
  - 60 customs
  - 20 business mobility
  - 6 standards
  - 11 electronic commerce
- Progress documented in Individual Action Plan

# Ambition, Progress, and Achievements in Trade Facilitation in APEC



Source: "Transparency and Regulation in APEC, World Bank, forthcoming, based on APEC Individual Action Plans (2004)

## Benefits to Reform: Wilson, Mann, Otsuki (2004)

- Building on APEC Trade Ministers Report in 2002

Evaluate reform in:

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

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## Estimating the Gains to Reform

- Data Sources – 75 countries:

- World Economic Forum
- Global Competitiveness Yearbook
- Kaufmann, Kraay and Zoido-Lobaton (2002) (KKZ)

- Objective:

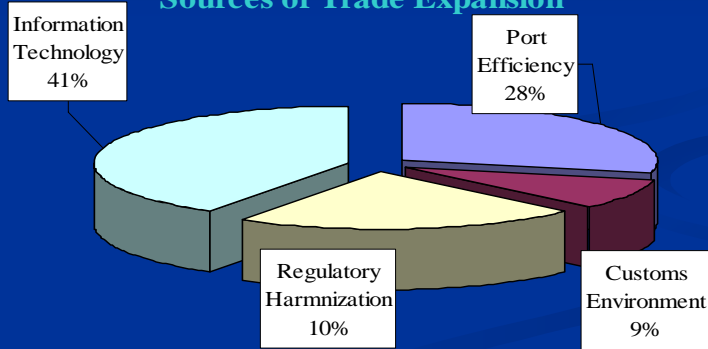
- Inform priority action in capacity building.

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# Raising Capacity Half-way to Global Average

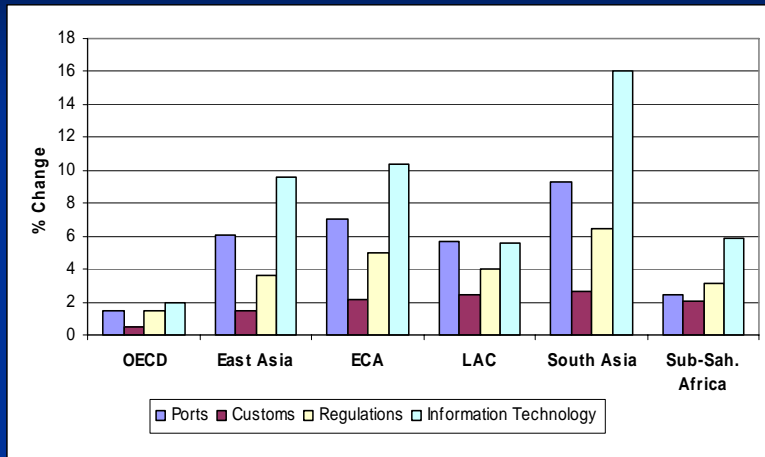
\$377 billion increase in 75 countries

## Sources of Trade Expansion



Source: Wilson, Mann and Otsuki (2004)

# Trade Gain from Reform by Region



Source: Wilson, Mann and Otsuki (2004)

## What About Capacity Building Aid?

- How effective is development aid (regulatory reform, transparency, infrastructure upgrades, etc. ) in lowering trade costs?
- APEC members receive on average (1995-2004) TF aid totaling:
  - \$5.3bn including China (35% world total)
  - \$3.4bn excluding China (22% world total)
- APEC members contributed on average (1995-2004) TF aid totaling \$8.6bn (56% world total)

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## Conclusions.....

- Large potential gains in Asia-Pacific region from trade facilitation.....common theme is better transparency and regulatory policies.
- Gains are driven by raising capacity and reform in several areas.....but country priorities differ.
- Regional action in binding agreements matter.
- APEC has a role in “aid for trade facilitation” and development priorities.

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## Recommendations - Next Steps

- New “roadmap” on core priorities to cut trade costs with more transparent regulatory systems.
  - How to reach 2010 goals?
  - Coordinated analysis and data needed to inform priorities.
  
- World Bank Research report for APEC 2007
  - Transparency, regulatory reform, and trade in broad context.
  - Global Trust Fund Project at the Bank established.

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## Thank You

John S. Wilson  
Lead Economist  
The World Bank

[jswilson@worldbank.org](mailto:jswilson@worldbank.org)

[http://econ.worldbank.org/projects/trade\\_costs](http://econ.worldbank.org/projects/trade_costs)

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