

Trade-led Development
in the Multilateral Trading System
26-28 Oct 2016
Colombo, Sri Lanka



Reducing trade costs and promoting economic diversification to enhance participation in the multilateral trading system and integrate into regional and global value chains

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Outline

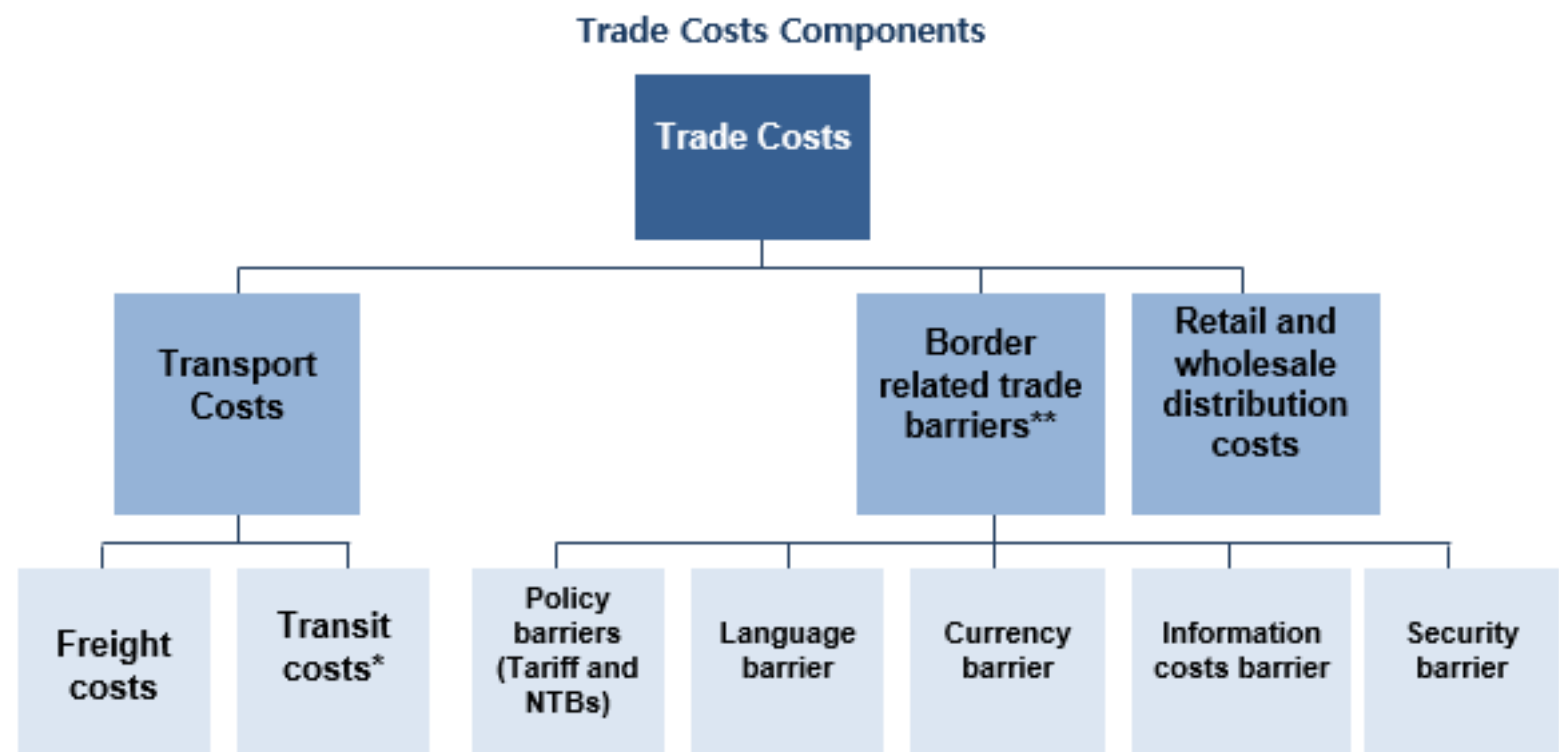
- Concept of trade costs
- Trade costs and services
- GVCs and RVCs in Asia-Pacific
- Linking trade costs and global value chains for development (and economic diversification) – measures and actions to lower trade costs



What are trade costs?

All costs incurred in getting a good to a final user other than the marginal cost of producing the good itself.

That may include: transportation costs (both freight costs and time costs), policy barriers (tariffs and non-tariff barriers), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail)...



Source: Anderson and van Wincoop (2004)



How to measure?

1. Direct measures of trade cost components: international transport costs (actual shipping costs of a standard container) and other components mentioned
2. Indirect measures:
 1. inference from trade quantities (trade volumes)
 2. inference from prices
 - a) Comparing import (world) prices to domestic wholesale prices
 - b) Comparing retail prices of similar goods across countries
(convergence of prices and role of exchange rates; McDonald index)





ESCAP-WB international trade costs

- The bilateral measure of trade costs is truly comprehensive in the sense that it includes **all costs involved in trading goods internationally with another partner** (i.e. bilaterally) relative to those involved in trading goods domestically.
- *It captures trade costs in its wider sense, including not only international transport costs and tariffs but also other trade cost components discussed in Anderson and van Wincoop (2004), such as direct and indirect costs associated with differences in languages, currencies as well as cumbersome import or export procedures.*



Definition from the ESCAP-WB Trade Cost Database

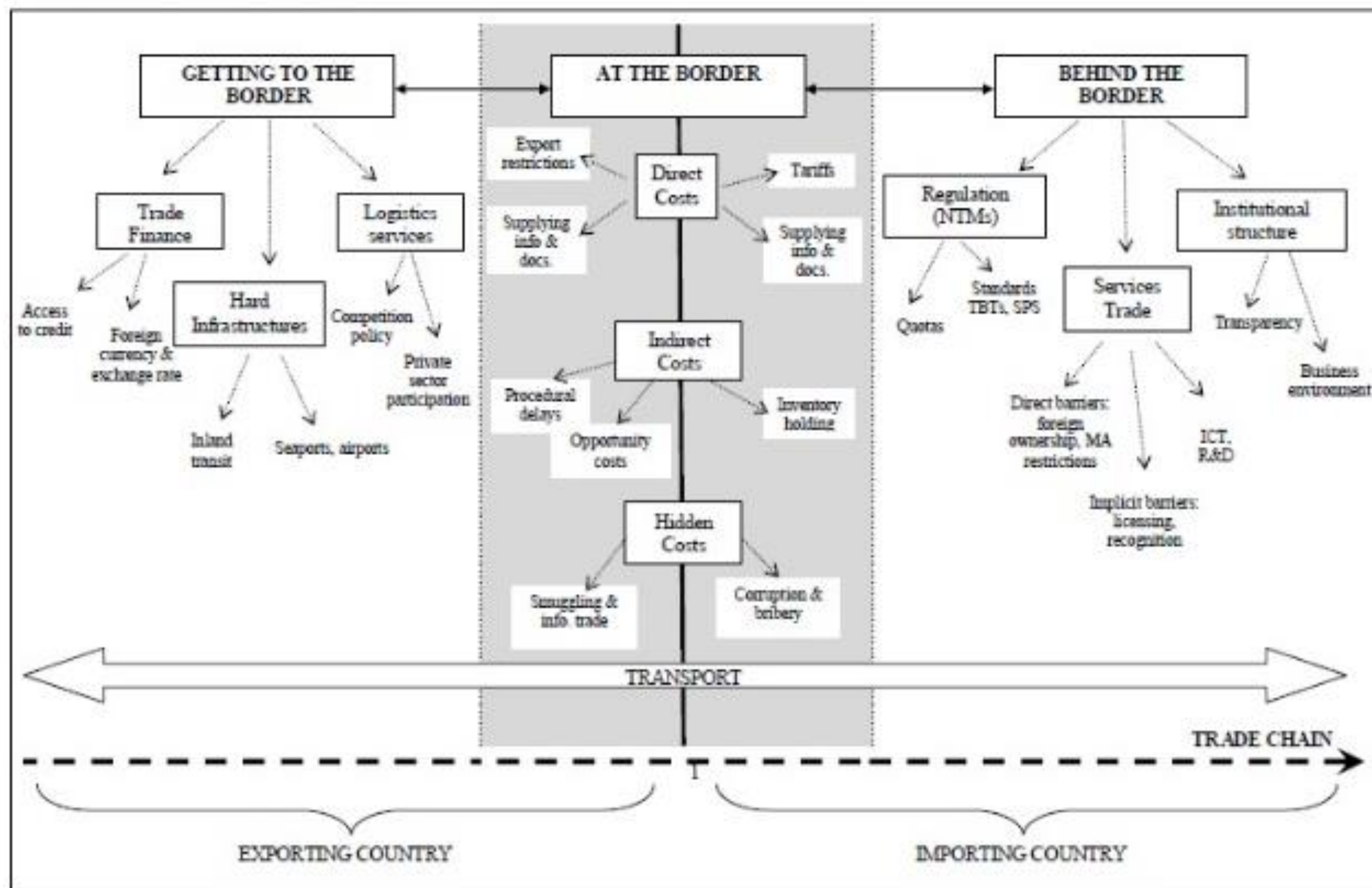
- Based on the comprehensive trade costs measure proposed by Jacks, Meissner and Novy (2009)
- Measure derived from the theory-consistent gravity equation, i.e., ratio based essentially on Bilateral Trade data and Gross Output data

→ “*objective*” *measure of costs*

- Captures all *additional costs involved in trading goods bilaterally relative to those involved in trading goods domestically.*

It includes:

- International shipping and logistics costs
 - Tariff and non-tariff costs, including indirect and direct costs associated with trade procedures and regulations
 - Costs from differences in language, culture, currencies...
- For technical material see <http://artnet.unescap.org/db/usernote-2016.pdf>



Source: Moï se and Le Bris (2015, p. 12)

What is the trade cost situation in Asia-Pacific?

- Trade costs often much higher in developing than developed economies
- Some progress in sub-regional integration, but often very high trade costs between Asia-Pacific sub-regions
- Trade costs in developing countries falling slower than in developed economies

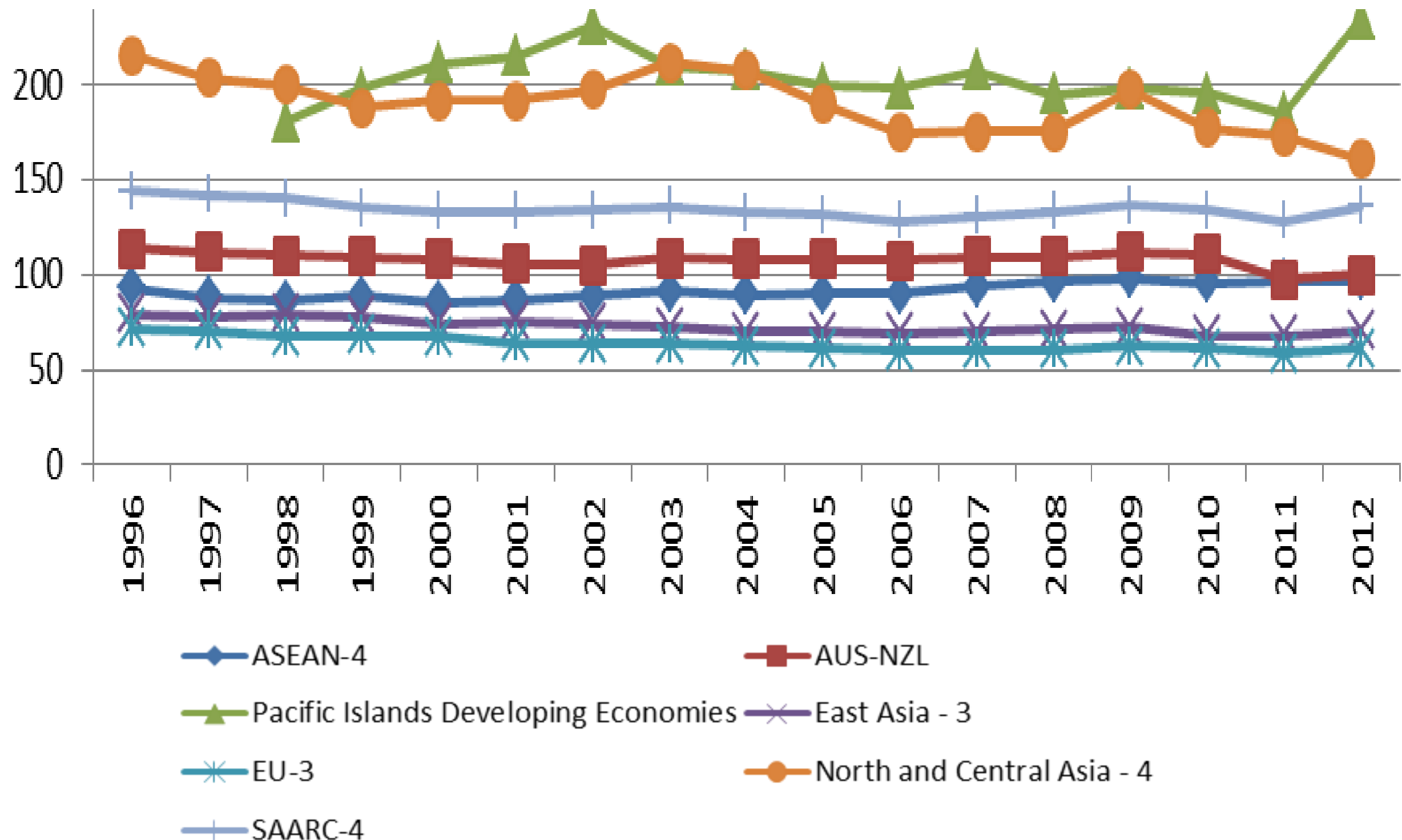
Intra- and Extra- Regional Trade Costs in Asia-Pacific (excluding tariff costs)

(Sub-)Regions	ASEAN-4	East Asia-3	North & Central Asia-4	Pacific Islands-2	South Asia SAARC-4	AU-NZ	EU-3
ASEAN-4	76% (9%)						
East Asia-3	75% (5%)	51% (-5%)					
North & Central Asia-4	351% (9%)	177% (-7%)	121 (9%)				
Pacific Islands -2	175% (-11%)	174% (-9%)	368% (34%)	133% (-10%)			
South Asia SAARC-4	128% (2%)	125% (-0%)	282% (13%)	317% (2%)	114% (10%)		
AU-NZ	101% (4%)	89% (-3%)	338% (-5%)	73% (-22%)	142% (-1%)	54% (1%)	
EU-3	108% (2%)	85% (-4%)	152% (-8%)	211% (-6%)	114% (3%)	109% (0%)	43% (-4%)
USA	85% (11%)	63% (-0%)	180% (2%)	163% (-11)	109% (6%)	100% (4%)	67% (0%)

Source: ESCAP-World Bank International Trade Cost Database (September, 2015) – avg. 2008-2013

Note: Numbers in parenthesis show % change in trade costs since 2002-2007

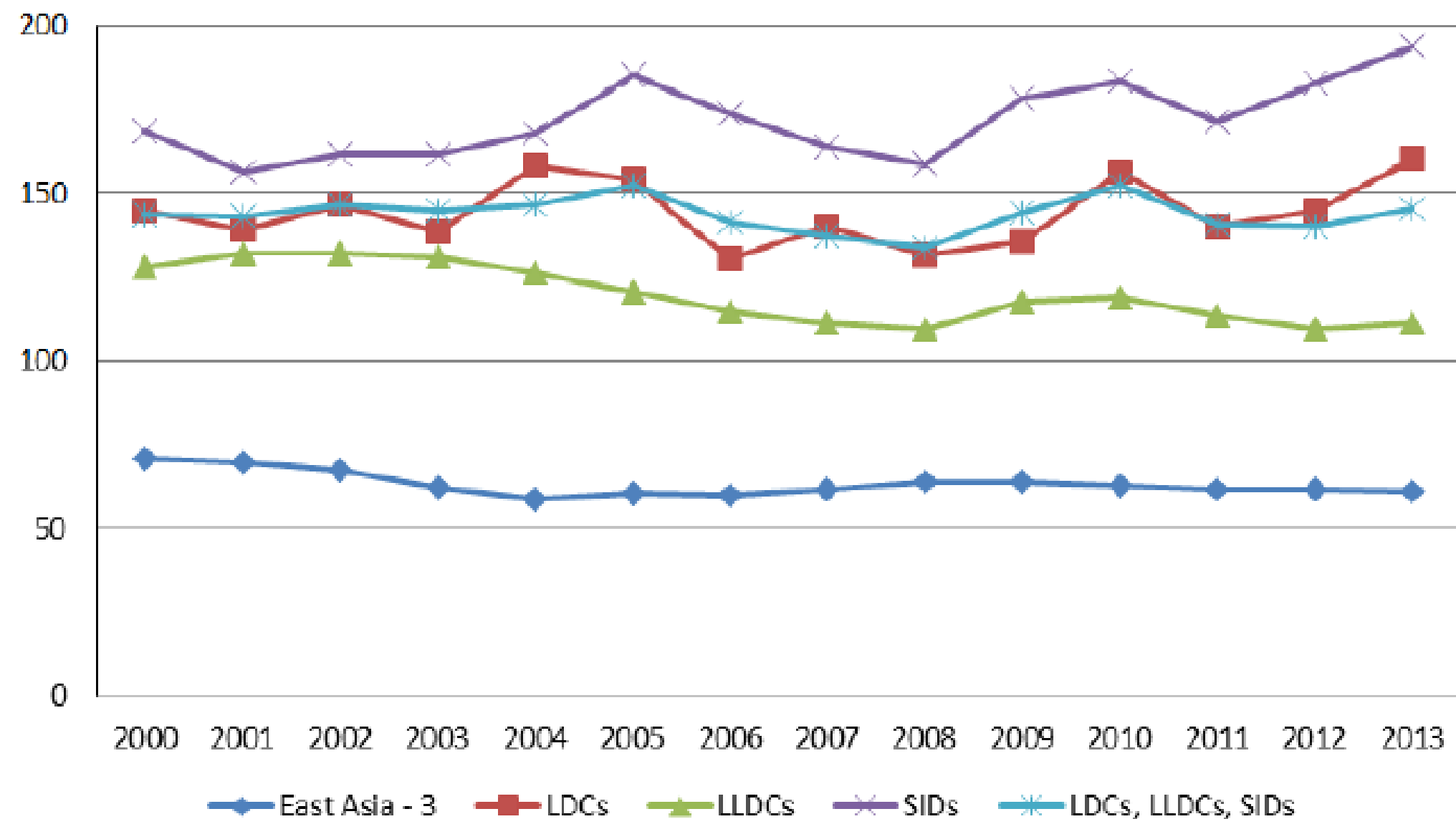
Average trade costs of ESCAP sub-regions with key developed countries*



Source: ESCAP-World Bank Trade Cost Database, updated June 2015. Available from <http://artnet.unescap.org/databases.html#first>

*Germany, Japan and USA

Figure 4.2 Trade Cost of Asia-Pacific countries with special needs and their top 5 trading partners, 2000-2013



Source: ESCAP-World Bank Trade Cost Database (accessed June 2016)

Notes: Trade costs shown are tariff equivalents calculated as trade-weighted average trade costs of countries in each



Trade costs in services*

- Services represent two-thirds of economic activity but trade in services is less than 5% of GDP (as opposed to 20% for goods).
- Services are less “non-tradable” than in the past.
- Trade costs should explain why services are less traded.
- **Definition of trade costs: the full range of costs a firm confronts when it decides to sell its services overseas.**



* Mirodout, 2010

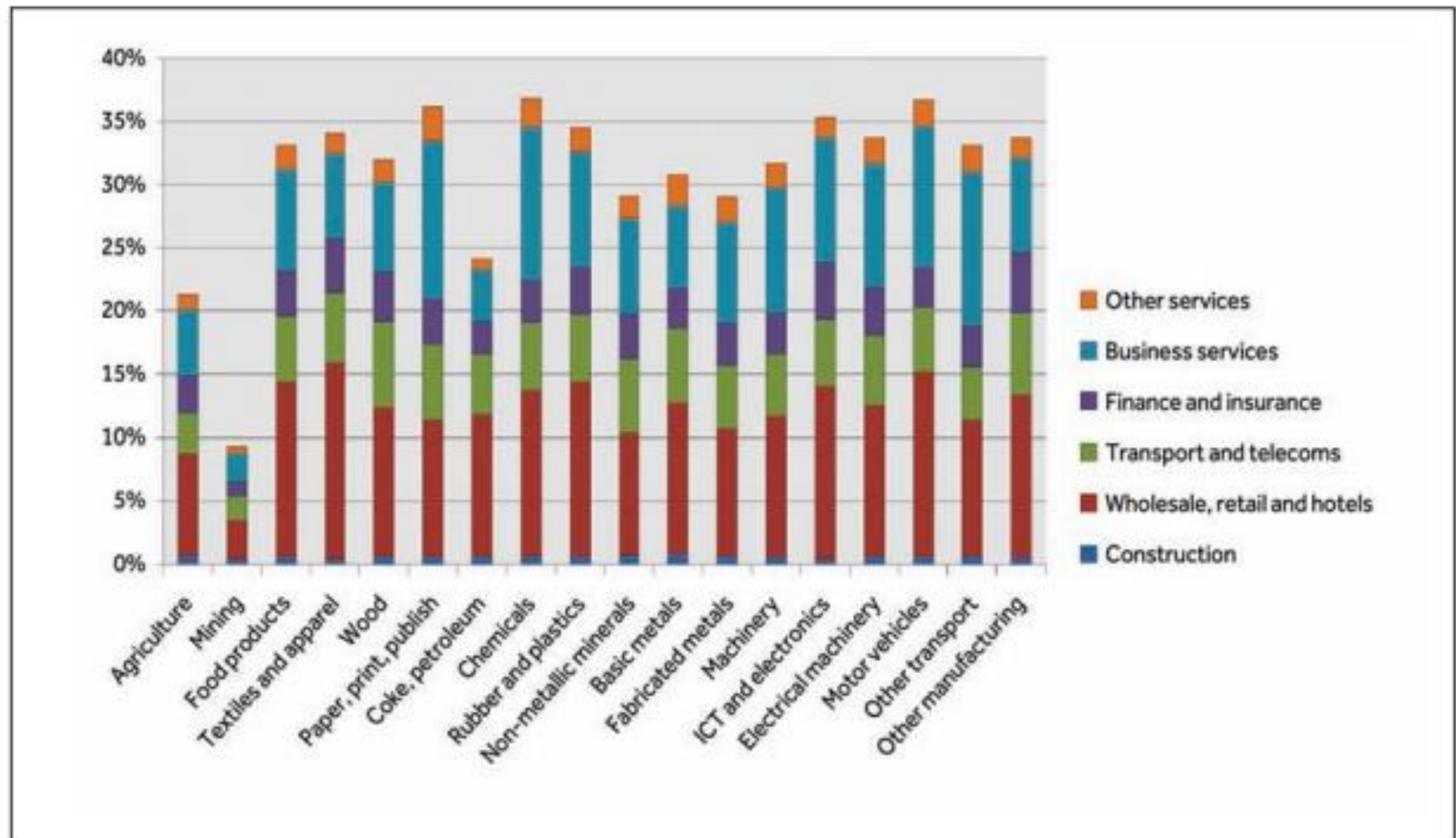


Results of measuring trade costs in services:

- ▶ Strong evidence that trade costs in services are much higher than in goods: two or three times higher.
- ▶ Trade costs in services have remained stable over the last decade.
 - ▶ Lack of services trade liberalization?
 - ▶ China's experience and results for RTAs suggest that trade policies can reduce trade costs.
- ▶ Services sectors facing lower trade costs tend to be more productive and have higher productivity growth.



Why are services so important?



Main suppliers of services used in industrial exports in AP

Figure 8.6. Intraregional imports of services inputs in industrial exports of Asia and the Pacific, by source, 2000 and 2009



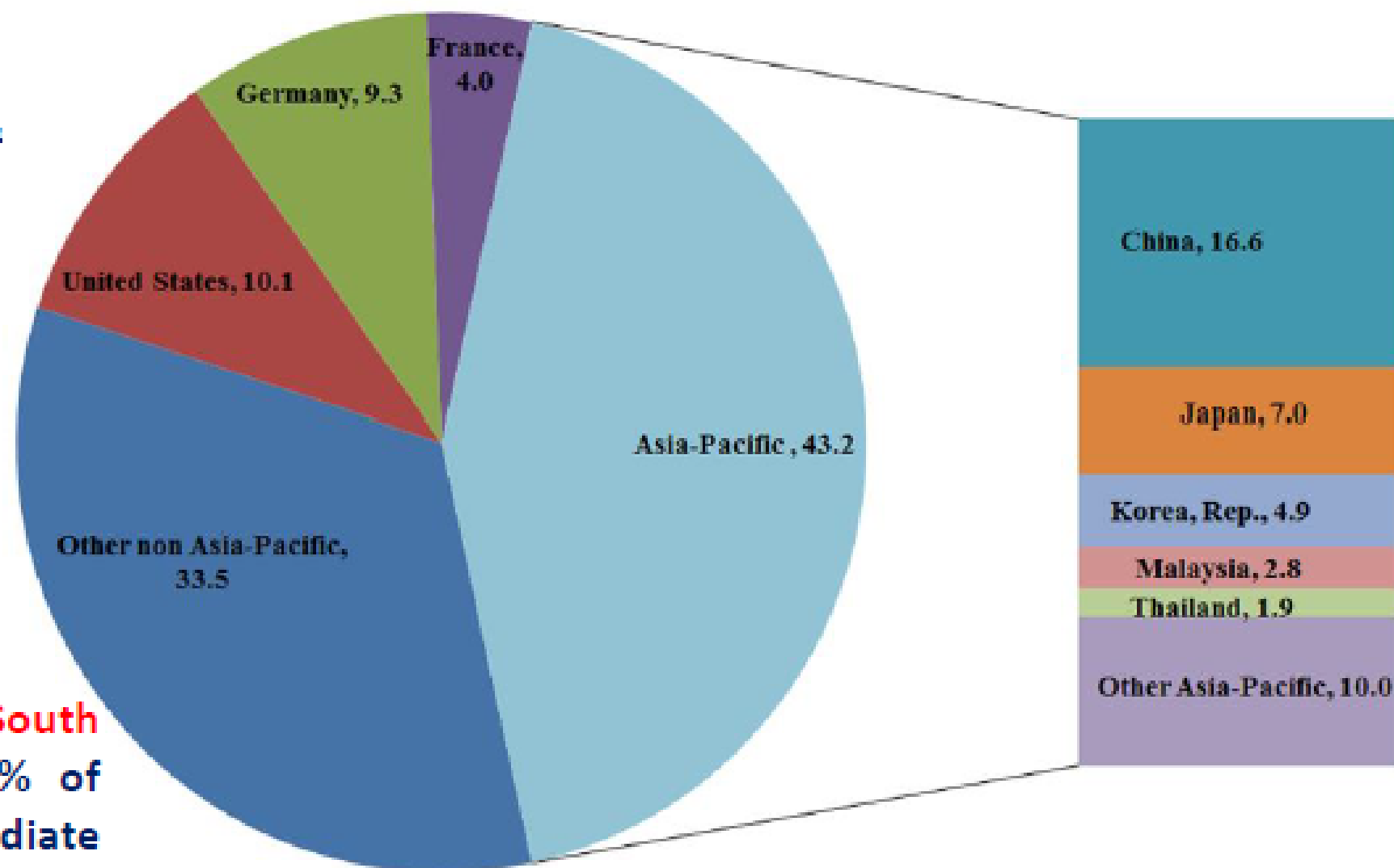
APTIR 2015



GLOBAL VALUE CHAINS: Stylized facts on Asia-Pacific participation



Shares in global exports of GVC-intermediate products, 2013



Region plays a major role on GVC supply side: 43% of global intermediate exports & 39% of global imports.

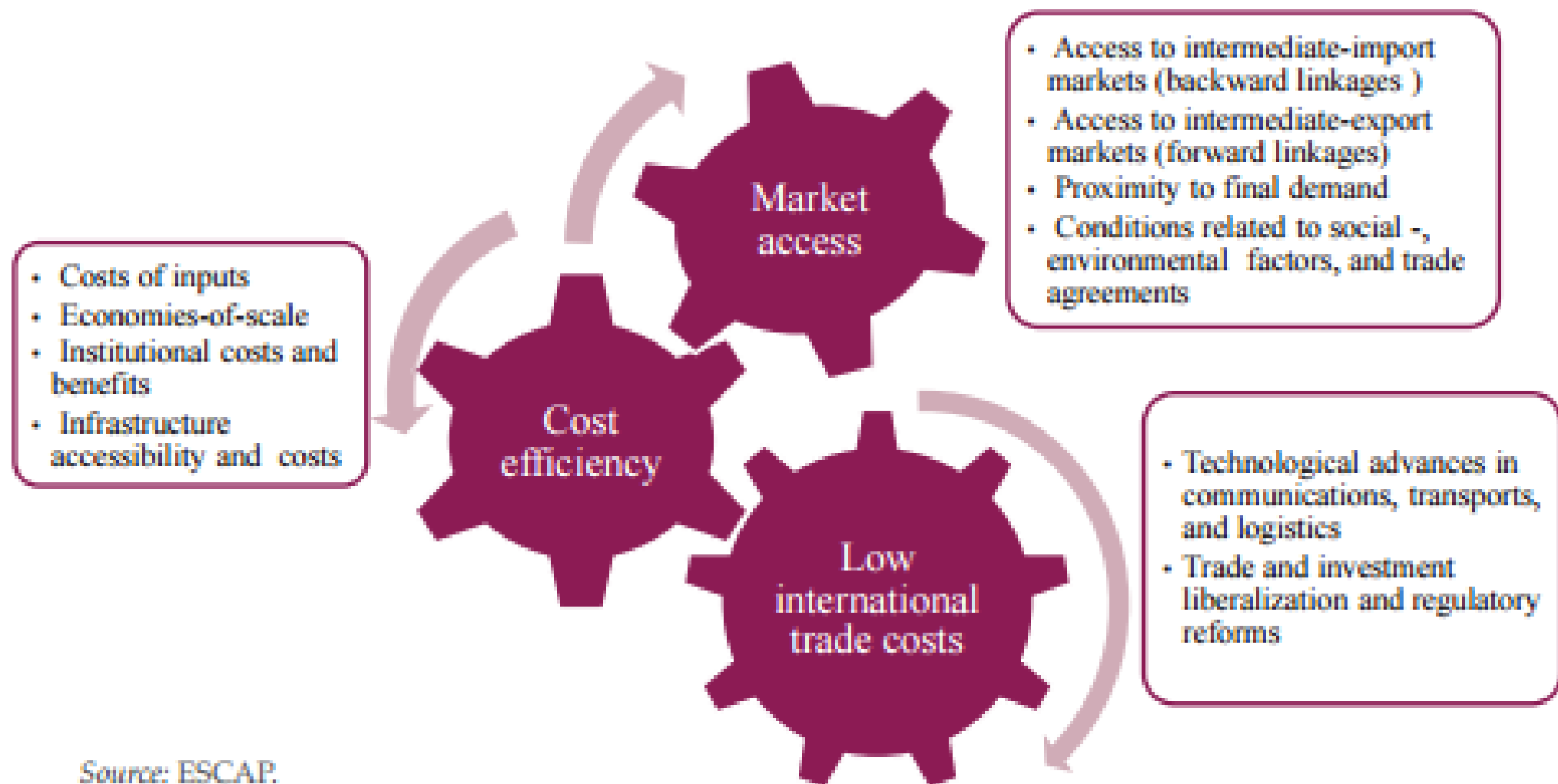
GVCs participation: 90% concentrated on 10 Asian countries.

The low-income countries are largely bypassed by GVCs.

Rising role of South-South trade: More than 65% of the GVC intermediate imports by Asia-Pacific economies are sourced within the region (+ 25% since 1995) --

Importance of Services: Make up about 30% of industrial export value. Share of imported services in industrial exports increased to 11.1% in 2009. Particularly rapid increase for business services.

Drivers



Source: ESCAP.



GLOBAL VALUE CHAINS:

Key policy priorities for different development stages



Securing entry to GVCs

- **Hard Infrastructure: connectivity , energy and logistics**
- **Domestic regulatory reforms**
- **Trade and investment liberalization and trade facilitation**

Expanding participation in GVCs

- **Competitive environment and strong domestic services**
- **Preferential trade agreements to support regional integration**
- **Soft infrastructure: open financial services backed by strong regulation, education and training to increase absorptive capacity of firms and workers, ICT development**

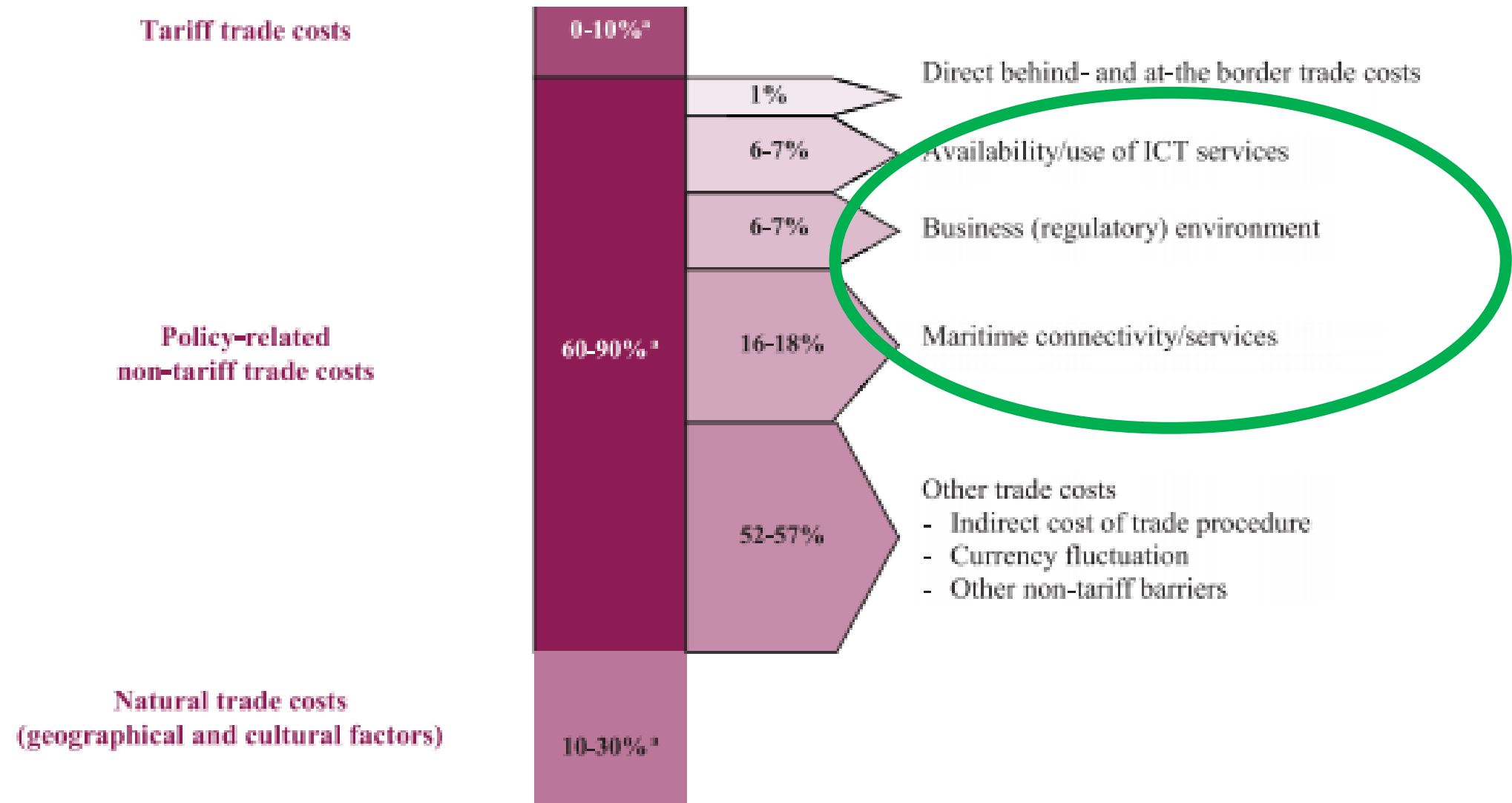
Upgrading within GVCs and creating new GVCs

- **Building innovative, human and firm capital**
- **Governance and intellectual property protection**
- **Harmonization of rules and standards with international norms**
- **Openness to FDI and imported technology**

**Reducing
South-South
Trade Costs**

Key factors in lowering trade costs in Asia-Pacific

Contribution of natural barriers, behind-the border facilitation and trade-related practice to trade costs

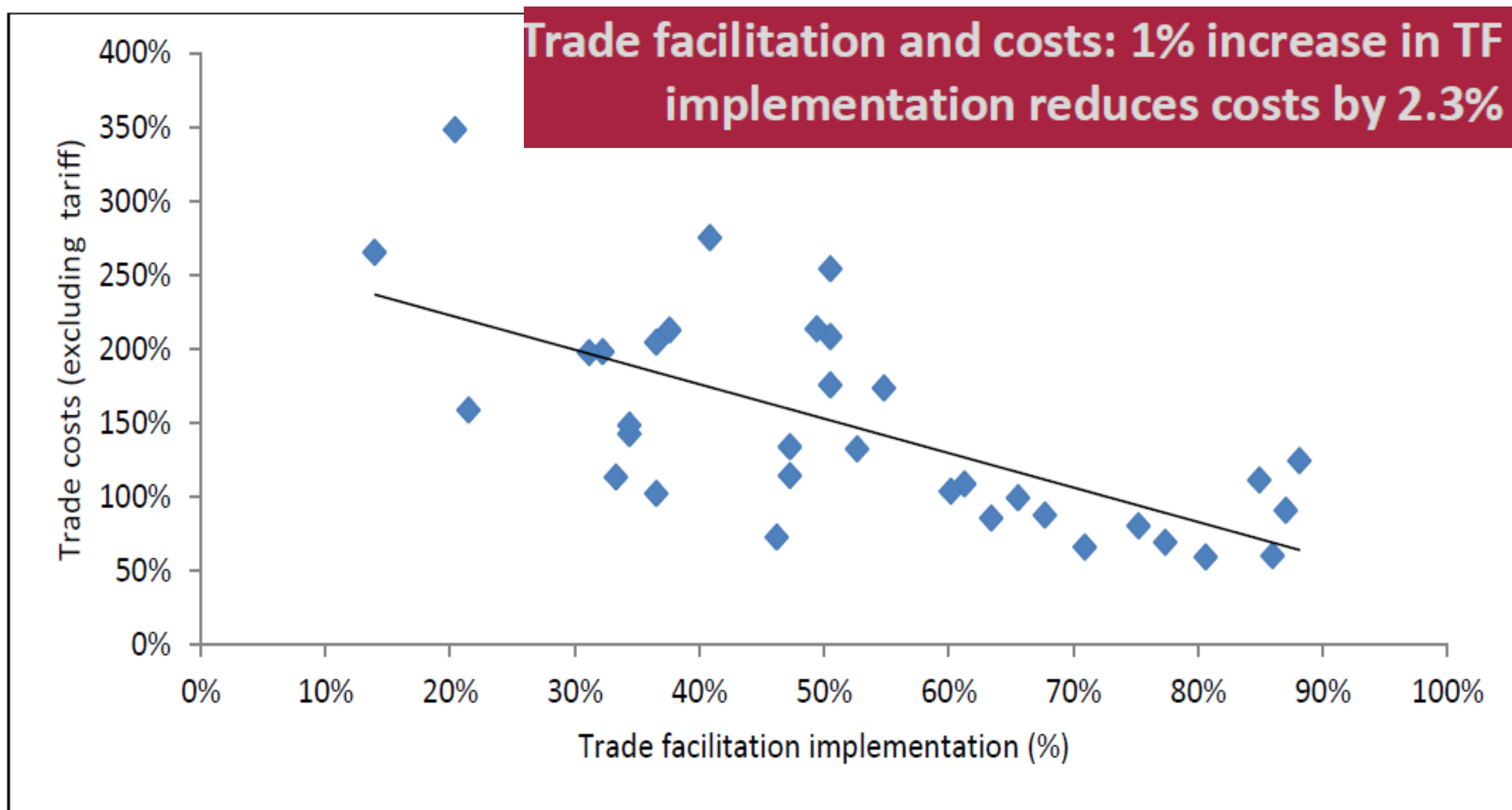


Source: Duval and Uthoktham (2010).

^a Illustrative figure, based on casual observation of the data only. Natural trade costs for landlocked countries may be outside the range shown for natural trade costs.

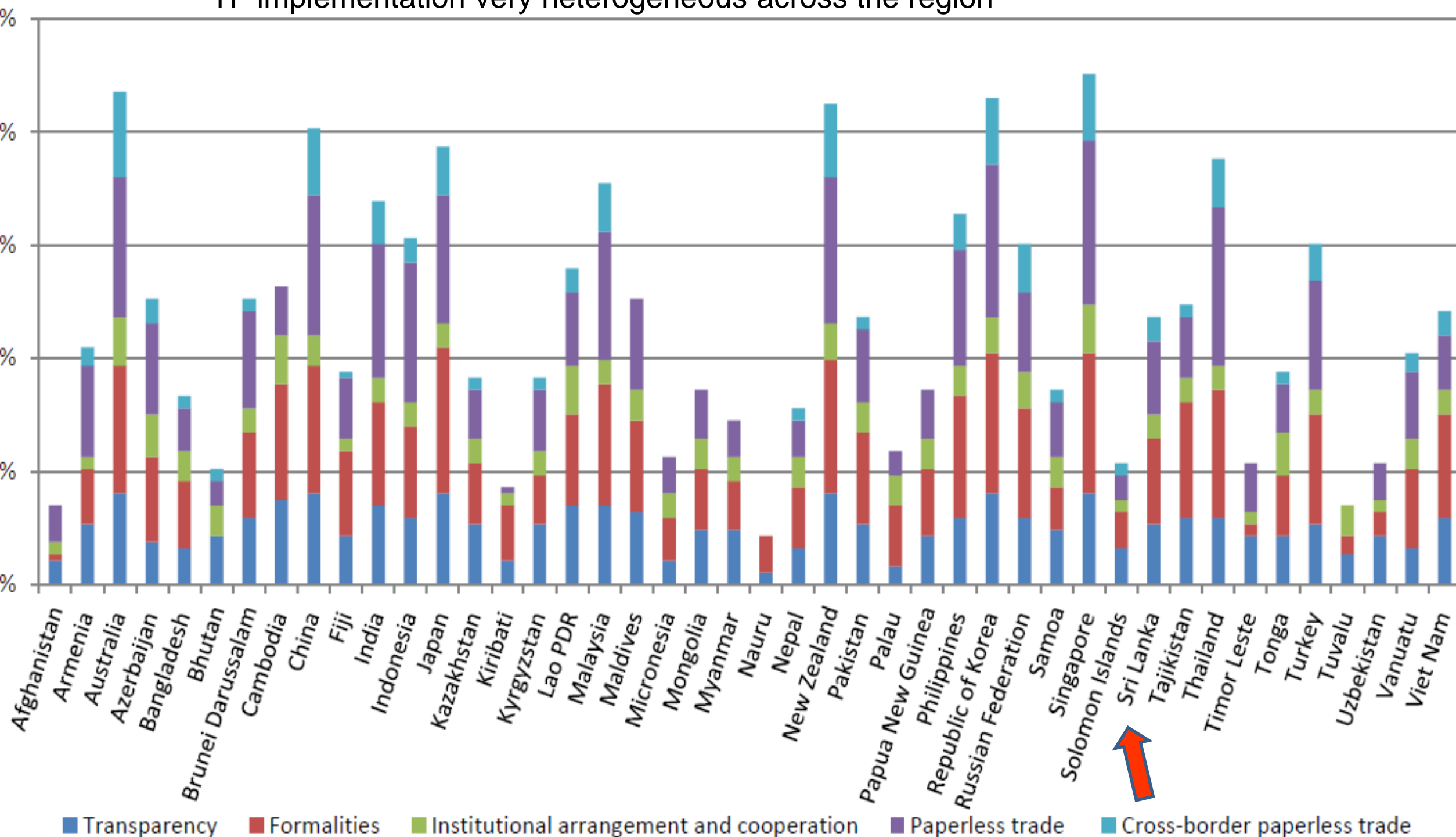
* Illustrative based on casual observation of the data only. Natural trade costs for landlocked countries may be outside the range shown for natural trade costs.

Strong relationship between TRADE FACILITATION and TRADE COSTS



What is the state of implementation of trade facilitation in Asia-Pacific?

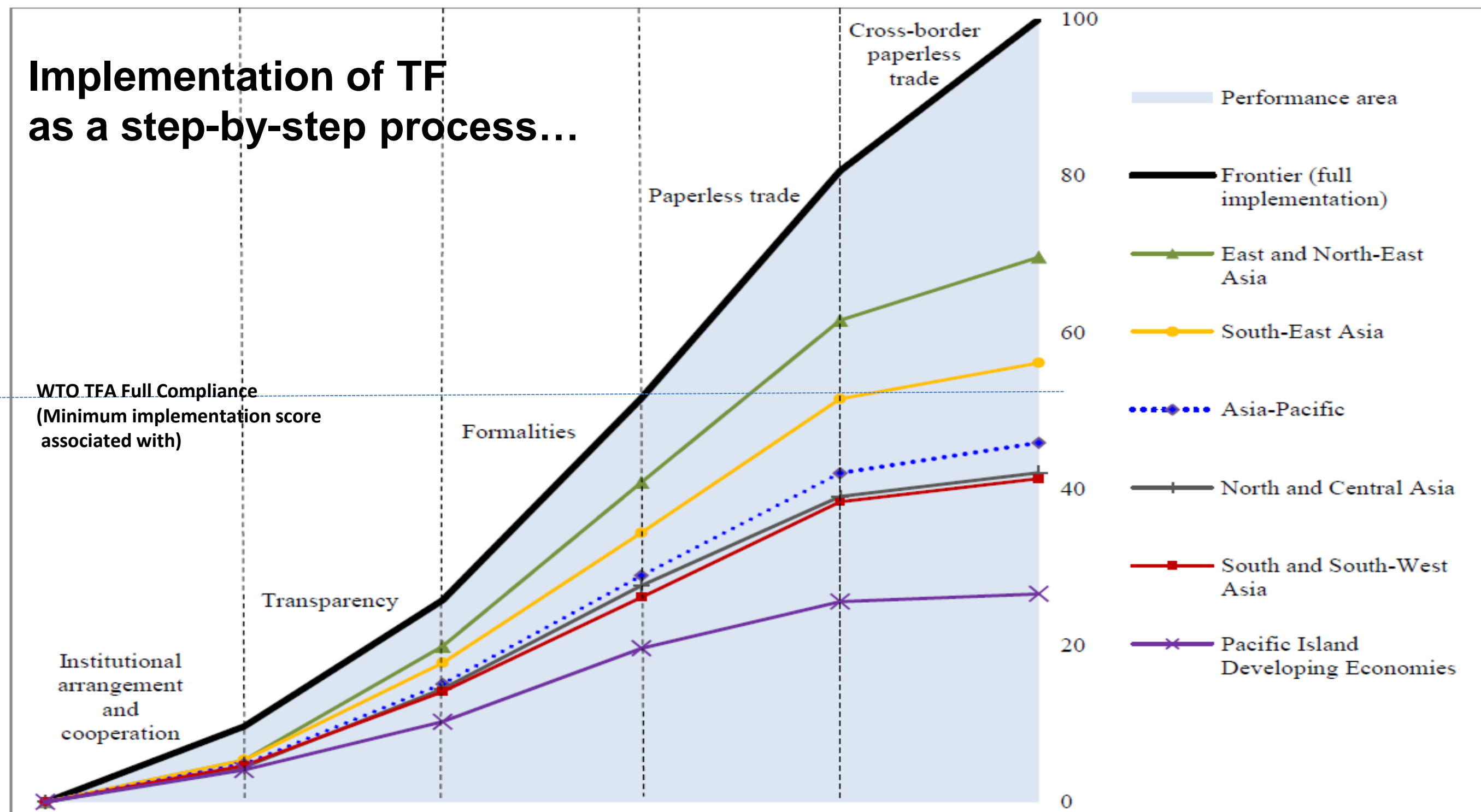
TF implementation very heterogeneous across the region



Towards “Next Generation” TF in Asia-Pacific

Figure 20: Moving up the trade facilitation ladder towards seamless international supply chains

Implementation of TF as a step-by-step process...



Note: the figure shows cumulative trade facilitation implementation scores of Asia-Pacific sub-regions for five groups of trade facilitation measures included in the survey. Full implementation of all measures = 100.

Summary: How can trade costs be further reduced?

There is no one-size fits all formula, but some steps would work pretty much everywhere

- Address tariffs and NTMs (based on evidence)
- Fully implement the WTO TFA commitments
- Take an integrated “whole of supply chain” approach
- Prioritize TF measures (based on evidence)

Summary 2: How can trade costs be further reduced?

- Consult and work closely with the private sector
Important to consult SMEs
Different sectors have different needs (e.g., agrifood trade)
- Apply modern ICT to trade procedures... and the entire trade process - potential of cross-border e-commerce
- Strengthen regional cooperation on trade facilitation
In particular towards paperless trade and transit

Be ambitious!

ASEAN Single Window (ASW)

Regional Agreement on the Facilitation of Cross-Border Paperless Trade



THANK YOU!

Q&A





Selected references and further materials

Anderson and van Wincoop (2004) Trade Costs

http://www.bc.edu/content/dam/files/schools/cas_sites/economics/pdfs/workingpapers/wp593.pdf

Arvis et al (2013) Trade Costs in the Developing World: 1995 – 2010

https://www.wto.org/english/res_e/booksp_e/aid4trade15_chap2_e.pdf

Asia-Pacific Trade and Investment Report – various issues from

<http://www.unescap.org/publications/asia-pacific-trade-investment-report>

Hoekman, B. (2016) Trade and the SDGs: Making ‘Means of Implementation’ a Reality, The Commonwealth Secretariat,

WTO (2015) How are Trade Costs Evolving?

https://www.wto.org/english/res_e/booksp_e/aid4trade15_chap2_e.pdf

Contact mikic@un.org for other references or go to unnex.unescap.org



THANK YOU!!!

Screenshot of the UNNExT website (http://unnex.unescap.org/). The page features the UNNExT logo, the United Nations ESCAP logo, and the UNECE logo. A navigation menu includes links to Home, What is UNNExT?, Online Expert Database, Events and Activities, UNNExT Policy Briefs, UNNExT Tools, UNNExT Masterclass, Reference Readings, and Contact Us. A sidebar highlights a video titled "Towards National Single Window for Trade Facilitation: UNNExT Single Window Implementation Toolkit" (3:57 mins). The main content area displays a calendar for September 2015 and a list of recent and upcoming events, including the Second Meeting of Legal and Technical Working Groups on Cross-border Paperless Trade Facilitation (5-6 November 2015, Bangkok) and the Capacity Building Workshop on Cross-border Paperless Trade Facilitation (4 November 2015, Bangkok).

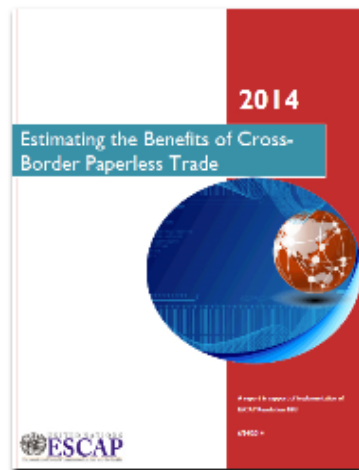
unnex.unescap.org

Screenshot of the UNNExT website (http://unnex.unescap.org/our-work/trade-investment/trade-facilitation). The page features the UNNExT logo, the United Nations ESCAP logo, and the UNECE logo. A navigation menu includes links to Home, Our Work, Publications, Committees, Latest Updates, Upcoming Events, and Resources. The main content area displays a section titled "Trade Facilitation" with a description of the network's mission and a list of publications, including "Reducing Trade Costs" (23 Jun 2015) and "UNRCs Trade Facilitation and Paperless Trade Implementation Survey 2015: Asia and the Pacific Report" (23 Jun 2015).

www.unescap.org/our-work/trade-investment/trade-facilitation

Benefits of Cross-Border Paperless Trade

Estimating the Benefits of Cross-Border Paperless Trade



Date: Tuesday, June 24, 2014

Type: Books

ABSTRACT

This report estimates the possible economic benefits—export gains, and cost savings—from partial or full implementation of cross-border paperless trade facilitation measures. Simulation results suggest that cross-border paperless trade has significant potential to reduce trade costs and boost trade in the Asia-Pacific region. Moreover, there is every reason to believe that these are low-end estimates of the possible economic gains from reform, due to the way in which the simulations are set up on a technical level, and the fact that they focus on implementation of cross-border measures only. In reality, paperless trade is typically implemented on a broader basis, which would tend to increase the level of export gains and cost savings reported here.

DOWNLOAD:

Benefits of Cross-Border Paperless Trade

▼ [Download](#)

Annual regional export gains :

\$36 bn (for partial implementation) to \$257 bn (full implementation)

Export time reduction: 24% to 44%

Export cost reduction: 17% to 31%

Total direct cost savings across all trade: \$1bn to \$7bn annually

Source: <http://www.unescap.org/resources/estimating-benefits-cross-border-paperless-trade>

Trade Process Analysis Database (TPAD)

<http://www.tpad.unnext.org/>

A database of business process analyses of country and product-specific import and export procedures conducted in Asia-Pacific developing countries.

Over 50 import and export process cases included, based on studies conducted since 2009 by international organizations such as ESCAP, ECE, ADB and their member states.

