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Fostering economic development by implementing the WTO Trade Facilitation Agreement

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Why trade facilitation matters

- Increasing poor countries’ integration into global markets enhances their development prospects
- High trade costs are a major impediment:
  - Ad valorem equivalent of 200% for “lower middle income countries” and more than 250% for “low-income countries” (Arvis et al, 2013)
- Inefficient trade procedures constitute a significant part of trade costs
  - which is why the WTO Trade Facilitation Agreement (TFA) offers enormous development opportunity

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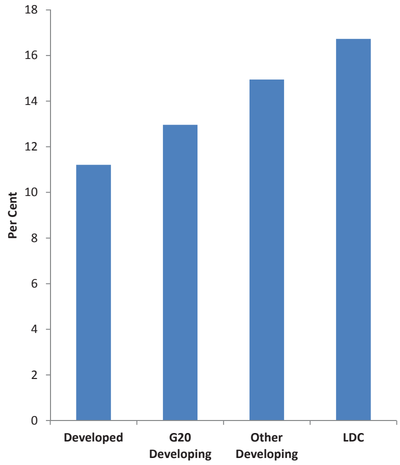
Implementing the TFA will reduce developing countries' trade costs

- On average, TFA implementation would reduce trade costs by about 14.5% (WTO, 2015)
  - Trade costs in developing countries will fall by between 13%-15%
  - Trade costs in LDCs will fall by 17%



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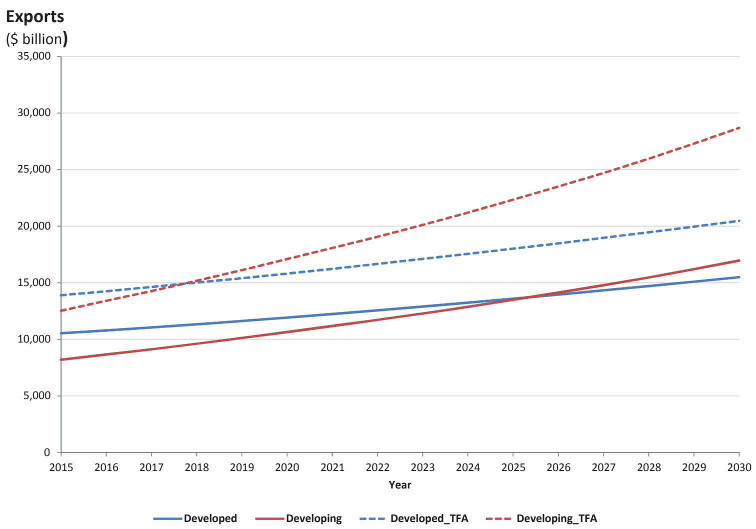
Expand developing countries' exports



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Help developing countries diversify their exports

TFA implementation reduces fixed costs of trade

- Allows firms to export products they had previously sold only in the domestic market
- Allows firms to enter markets that were too costly to enter before

Increase in number of products/markets

Grouping	Products	Markets
Developed economies	9.8%	19.0%
G-20 developing economies	11.6%	19.4%
LDCs	35.6%	59.3%
Other developing economies	20.0%	33.2%

Sources: WTO (2015); Beverelli, Neumueller and Teh (2015).

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Expand participation of developing countries in GVCs

- Timeliness and predictability in delivery time matters for trade in GVCs
- Delays in delivery increase the costs of holding stocks, impede rapid responses to changes in customers' orders
- CGE results of TFA implementation:
  - exports in sectors where GVCs are known to be prominent, e.g. electronics and textiles and clothing, would increase by an additional average rate of almost 1 per cent per annum compared to "non-GVC" sectors

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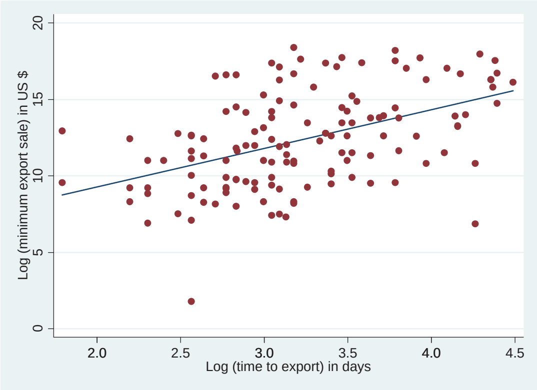
Help more SMEs participate in trade

- Trade facilitation can promote the entry of SMEs into export markets.
- Smaller firms are more likely to export and can increase their export shares more than large firms



Attract more FDI

- Available economic literature supports the argument that improved trade facilitation increases inward FDI:
  - Foreign investors are likely to see trade facilitation as a proxy for a country's investment climate
  - There are empirical studies showing that countries with inefficient trade procedures receive less FDI
- Estimates in the report suggests that this link between trade facilitation and FDI is stronger for small economies

Increase customs revenues and reduce corruption

- Speeds up the flow of trade
  - Generates more customs collections (which makes up a big part of government revenues in LDCs)
  - Reduces incidence of corruption
    - Trade-related corruption is positively affected by the time spent to clear customs procedures (Shepherd, 2009)
    - Limits official discretion and face-to-face contact between officials and clients
    - Adoption of ASYCUDA generated a substantial reduction in the tariff evasion elasticity (Jean and Mitaritonna (2010)

What OSCE members can do

- More WTO members need to ratify the TFA
  - Eight OSCE members have not yet ratified the TFA*
- Implementation costs are likely to be much smaller than the expected benefits
- Innovative S&D provisions in TFA allow members to tailor implementation to their circumstances
- A Trade Facilitation Agreement Facility has been established
  - OSCE members are encouraged to contribute financing and/or expertise to the facility

*As of 10 May 2016.

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