

Gains from Improved Trade Facilitation

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Outline

- Setting the context
- Potential gains for Nepal from improved trade facilitation
- Country case studies

Setting the context

- Nepal needs faster and sustained growth in order to reach middle income status by 2030.
- Manufacturing sector can play an important role.
- Export can be a key driver of economic growth and inclusive development
- Role of exports is recognized by Nepal (for example, NTIS 2016)
 - It seeks to strengthen trade and export enabling environment
 - Trade facilitation (TF) is one aspect of the enabling environment

Potential gains for Nepal from improved TF (summary)

- i. Higher trade flows, including exports which has an impact on GDP growth
- ii. Lowers trade costs
- iii. Help exporters who import
- iv. Diversification of export markets and products
- v. Greater participation in global value chains
- vi. An improved business climate which will attract foreign direct investment
- vii. Making growth inclusive through poverty reduction and benefiting SMEs
- viii. Improvement in customs revenue

Higher trade flows, including export

- Results show a positive relationship between OECD's TFI and bilateral trade.
- Gains accrue not only from an improvement in a country's own TFI score but also that of its trading partners
- For Nepal, estimates (in baseline scenario where TFI improves to 1.3) show that
 - Exports increase by 23.0%
 - Imports increase by 21.6%

Source: Estimates based on ongoing background work to examine gains from improved TF

Lowers trade costs

- Improvements in trade facilitation can lead to a reduction in trading costs.
- Estimates show that full implementation of the WTO TFA can lead to a 9.6%–23.1% decline in trading costs (i.e., an average decline of 14.5%).
- A 9.6% decline in trading costs from WTO TFA implementation is equivalent to 21 percentage-point decline in *ad valorem* tariff equivalent of trade costs

Source: WTO. 2015. *World Trade Report 2015: Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement*. Geneva.

Helps exporting firms who rely on imports of intermediate inputs

- Nepalese firms using larger amounts and variety of imported intermediary inputs have better exporter performance
- In Nepal, access to imported inputs at competitive prices is one of the “problematic factors”
- Trade facilitation, by lowering trading costs, can promote exports by making imports less costly (*but no direct evidence*)

Source: G. Arenas. 2016. From Evidence to Policy: Supporting Nepal's Trade Integration Strategy: Nepal Integration into Value Chains: Stylized Facts and Policy Options. Policy Note 2. Washington, DC: World Bank; and World Economic Forum and Global Alliance for Trade Facilitation. 2016. The Global Enabling Trade Report 2016. Geneva

Peru: Role of Advanced Clearance

- Greater use, variety, and quality of imported intermediate inputs is significantly correlated with export performance at the firm level.
- **On TF:** Use of advanced clearance procedure to clear customs for imports helps *importers who export*

Source :Pierola, Fernandes, and Farole. 2015. The role of imports for exporter performance. World Bank Working Paper# 7492.

More diversified export markets and products

- WTO estimates show that in a “conservative” scenario, improvement in trade facilitation leads to:
 - On average, an increase of 11.8%–12.8% in the number of products exported by destination for least developed countries (of which Nepal is one); and
 - An increase of 14.1%–21.3% in the number of destinations by products.

Note: “Conservative scenario” is as defined by the WTO 2015 report. Source: WTO. 2015. *World Trade Report 2015: Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement*. Geneva, . A. Dennis and Shepherd, B. 2011. Trade Facilitation and Export Diversification. *World Economy*, 34(1):101–122; and H. K. Nordås, E. Pinali, and M. Geloso Grosso. 2006. Logistics and Time As a Trade Barrier. *OECD Trade Policy Working Paper No. 35*. Paris: OECD.

Greater participation in global value chains

- Estimates show that improvement in OECD-TFI by 0.1 (on a scale of 0 to 2) could, on average, increase domestic value-added in final foreign demand by 1%–3%.
- Improvement in OECD-TFI by 0.1 (on a scale of 0 to 2) could increase foreign value-added in final domestic demand or gross exports by 1.5%–3.5%.

Source: E. Moisé and S. Sorescu. 2015. Contribution of Trade Facilitation Measures to the Operation of Supply Chains. *OECD Trade Policy Papers*, No. 181. Paris: OECD.

A better overall business climate, which will attract FDI

- Trade facilitation reforms and lower trade costs can signal an improved business climate and attract FDI.
- Reducing trade costs between source and host country by 1% leads to a 0.8% increase in bilateral FDI inflows on average.
- For Nepal, average increase in bilateral FDI flows, from reducing its trade cost to the average trading cost of developing countries, is estimated to be 24%.

Source: Y. Duval and C. Utktham, 2014. Impact of Trade Facilitation on Foreign Direct Investment. *Trade and Investment Working Paper Series*. No. 4. Bangkok: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Trade and Investment Division; and WTO, 2015. *World Trade Report 2015: Speeding Up Trade—Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement*. Geneva.

Trade facilitation reforms can make growth inclusive

- TF reforms lower entry barriers and improving access to information
- Business surveys show that female-owned micro firms report a higher share of procedural obstacles than male-owned micro firms
- Additional document requirement or additional day of import or export increases poverty incidence

Source: C. Nguyen, 2013. Poverty, Inequality and Trade Facilitation in Low and Middle Income Countries. In R. Ratnayake et al., eds. *Impacts of Trade Facilitation Measures on Poverty and Inclusive Growth: Case Studies from Asia*. UNESCAP: Bangkok; WTO, 2016. *World Trade Report 2016: Levelling the Trading Field for SMEs*. Geneva; and ITC, 2016. *SME Competitiveness Outlook: Meeting the Standard for Trade*. Geneva;

Improved customs revenue

- Revenues collected at the border are a major source of government revenue
- Implementation of the TFA is likely to lower revenue losses through improved valuation systems, improved capacity, efficiency in clearance process, and by preventing customs fraud
- Revenue collection will also increase on account of trade expansion and improved trader compliance

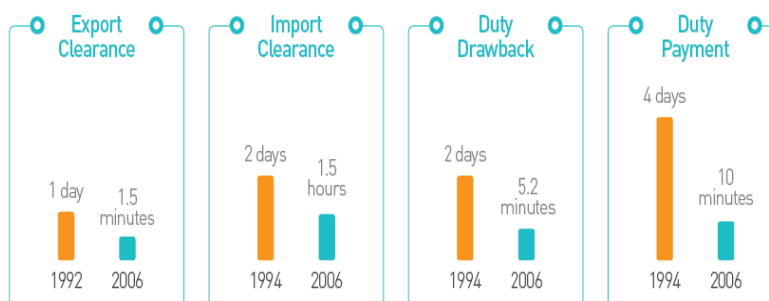
Uruguay: Customs delays negatively impact exporter performance

- Customs-driven delays have a significant negative on export performance effect on firms' foreign sales.
- 10% increase in customs delays results in a 3.8% decline in exports.
- Policy implication: implementation of risk-based procedures can help reduce delays

Source: Volpe Martincus, C., J. Carballo, and A. Graziano. 2015. "Customs." *Journal of International Economics*, 96, 119-137.

Gains from national single window— example of Korea's UNI-PASS

- Improvement in customs procedure after Implementation of UNI-PASS



- Improved transparency in customs procedure

Source : Korea Customs e-Clearance System: UNI-PASS, Customs UNI-PASS International Agency (CUPIA) website. (<http://www.unipass.or.kr>) via Kim (2017). Improving the Trade Facilitation: Introduction of Single Window System. Background paper prepared for 2017 ADB-KSP Joint Consulting for CTEC.

Costa Rica: Electronic single window facilitates exports

- Electronic single window has indeed facilitated trade—number of exporters have increased and exports of existing exporters has also increased.*
- Higher shipping frequency, buyer diversification, and greater sales per buyer.

Source: Carballo, J., A. Graziano, G. Schaur, and C. Volpe Martincus. 2016. "The Border Labyrinth: Information Technologies and Trade in the Presence of Multiple Agencies." IADB Working Paper 706.