

Jaime de Melo

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Aid-for-Trade and the Trade Facilitation Agreement : What can it do for LDCs

Melo Jaime de, *Scientific Director, FERDI (Fondation pour les études et Recherches sur le développement international)*

Reducing trade costs should be the key objective for AFT

- Large differences in average indicator values between Landlocked LDCs [LL-LDCs] and non-landlocked LDCs [nonLL-LDCs] and also with the other two groups. ([here](#))
- Average trade costs are highest in absolute terms for landlocked countries.
- The decline in average trade costs appear to be less for LL countries.

➔ The Istanbul Program of Action (IPoA) which calls for a doubling of the share of LDCs exports in global trade by 2020 implies that reaching this target would require that trade costs fall approximately twice as fast for LDCs as for competitors of LDCs in world markets...

Reducing trade costs should be the key objective for AFT

- Three components of trade costs have been scrutinized: (i) geography; (ii) 'hard' infrastructure; (iii) 'soft' infrastructure.
- (ii) and (iii) are up for improvement by directed AFT.
- While proxies for both the 'hard' and 'soft' components of trade costs are found to have an impact on the volume of trade, there is controversy on their relative importance and hence on the distribution of AFT funds.
- About only 10% of AFT disbursements go to soft infrastructure.
- Improving the soft institutional and regulatory infrastructure (including logistics) as targeted under the TFA will require less funding but is an integral part of trade costs...

Objectives and Rationale for the Trade Facilitation Agreement

- TFA suggests a rather clear road map for where AFT should be focused to help...
 - ... Reducing red tape and increase predictability in customs clearance.
 - ... Strengthening GATT article X on transparency.
 - ... Improving international cooperation.
- ⇒ TFA also calls for more effective collaboration among officials to reduce illegal trade on CITES to protect wildlife (an SDG objective)
- By focusing resources on Least Developed Countries (LDCs), especially Landlocked LDCs (LL-LDCs), AFT should contribute to the post-2015 development agenda.

Estimates of Costs in Transit

➡ **Comprehensive estimates from US import data. One day less in transit is equivalent to a 0.6 to 2.1 percentage point tariff reduction in tariffs in the destination country... i.e. a reduction in trade costs!**

- The principal focus of the TFA is to reduce the time it takes to cross-borders ([here](#) for DB, [here](#) for parcel shipments from the UPU).
- On average, a one-day reduction in trading time is equivalent to a 1.3% reduction in trade costs. This suggests that import-competing activities have a 3.9 % cost advantage relative to exporting in non-LL countries.

➡ **LDCs face, on average, an extra 4.2% trade cost for parcel shipments above those for other developing countries.**

- Other comprehensive estimates (for one country) suggest that a 10% increase in the median time spent in customs is associated, on average, with a 1.8 percentage point reduction in the growth of firm-level exports.

Measuring Potential Benefits from implementing the TFA

- After the signing of the Trade Facilitation Agreement (TFA), the OECD has produced and released a series of 11 Trade Facilitation Indicators (TFI) for 187 countries that measure closely the targets highlighted by the TFA.
- Comparing again LDCs with non-LDCs and LL with non-LL countries, reveals that the values for the LDCs group are again systematically lower for each indicator than for the non-LDCs group. ([here](#))
- Simulations suggest that if the median value of the TFI indicator for the LDC group were to reach the frontier value for the LDC group, the median number of days in customs for the LDC group would be reduced by 1.8 days equivalent to a percentage reduction in trade costs of 2.4% (=1.8*1.3). Corresponding estimates is 3.0% for the LL developing group and 4.5% for the LL-LDCs group. (Melo and Wagner (2015) estimates)

Concluding remarks

- All the evidence points towards higher trade costs for LDCs and landlocked developing countries (LL-LDCs) and the even higher trade costs for LL-LDCs.
- Even though there is more to the 'soft' component of trade costs than customs management, monitoring implementation of the TFA would be a stepping stone towards the concrete trade performance targets (i.e. addressing the "internal" vs. "external" validity dilemma---see Cadot and Melo (2014)).
- A refocusing of AFT towards the measurable targets called for by the TFA would be a step towards taking seriously the call for monitoring repeated increasingly loudly in the successive AFT biennial reviews.
- ...but in SDG objectives should be taken on board with the implementation of the TFA (e.g. border controls for trade in illegal products as defined in the CITES agreement)

References

The paper « How the Trade Facilitation Agreement Can Help Reduce Trade Costs for LDCs » (Melo and Wagner (2015)) presents the estimates. It can be downloaded here

<http://www.ferdi.fr/en/publication/b129-how-trade-facilitation-agreement-can-help-reduce-trade-costs-ldcs>

A survey of the difficulties confronting an assessment of AFT is available here

<http://www.ferdi.fr/fr/publication/p75-evaluating-aid-trade-survey-recent-studies>

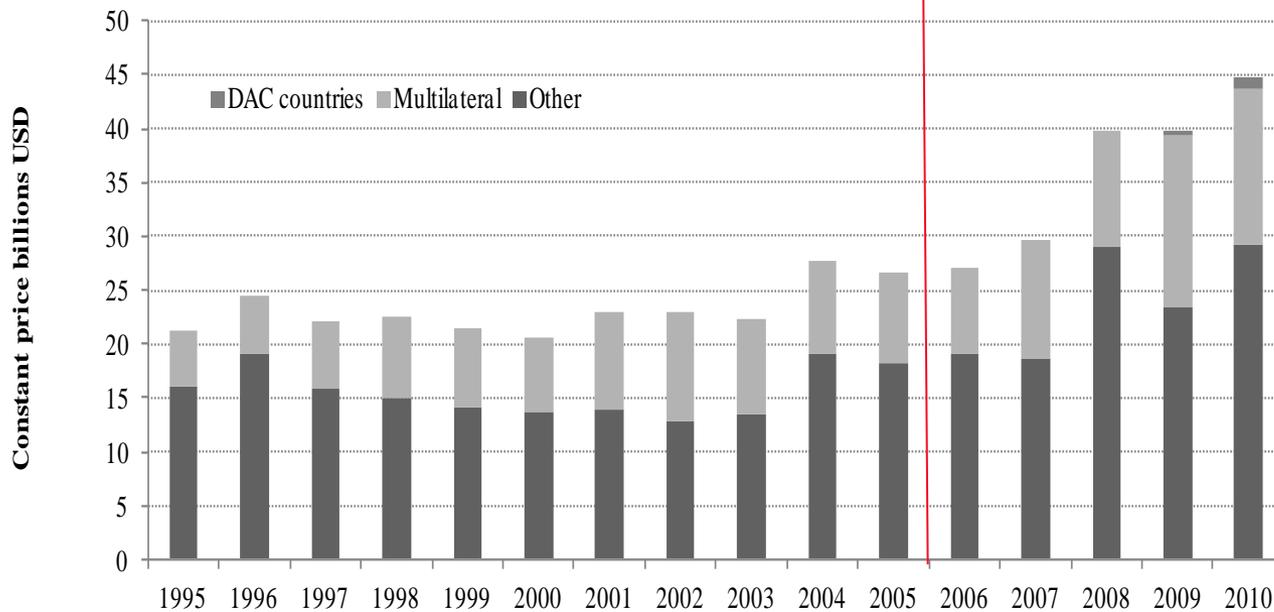
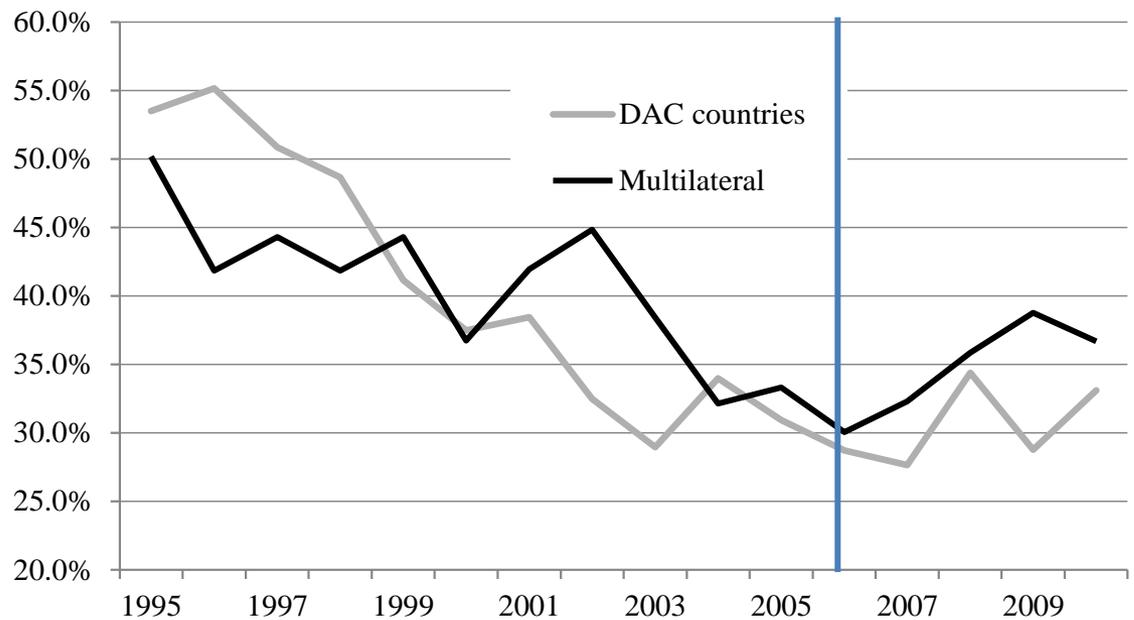
Cadot and Melo eds. discusses methods to confront the conceptual and measurement difficulties in identifying causal relationships from interventions to outcomes.

<http://www.voxeu.org/content/aid-trade-what-have-we-learnt-which-way-ahead>

Extra material

AFT Flows

AFT initiative
arrested decline
of AFT in ODA



Indicators of AFT outcomes

(Averages per country group over 2005-2011)

Country categories (number of countries in parenthesis)	GDP _{pc}	GDP _{pc} growth	HR ^a (PG ^b)	AFT _{pc}	AFT / GDP	WGI ^c	Avg Trade Cost ^d	Trade Cost 2010 ^e
Column	1	2	3	4	5	6	7	8
Landlocked LDC [LLDC](16)	507	3,9%	72,3 (35.3)	21,5	3,7%	-0,72	319.1	95.4
Non-landlocked LDC [non-LDC] (33)	1192	2,3%	66,5 (31.9)	34,2	3,4%	-0,78	273.9	93.2
Landlocked non-LDC [LL] (14)	2067	4,5%	20,7 (7.7)	19,7	1,2%	-0,65	289.7	109.1
Other Developing [DC] (87)	4833	2,6%	21,4 (8.2)	29,2	0,8%	-0,17	198.9	95.9

Source: Melo and Wagner (table 1)

Notes:

^a HR is the head-count ratio is the proportion of the population below 2\$/day.

^b PG is the poverty gap ratio i.e. the percentage of the population under the poverty line

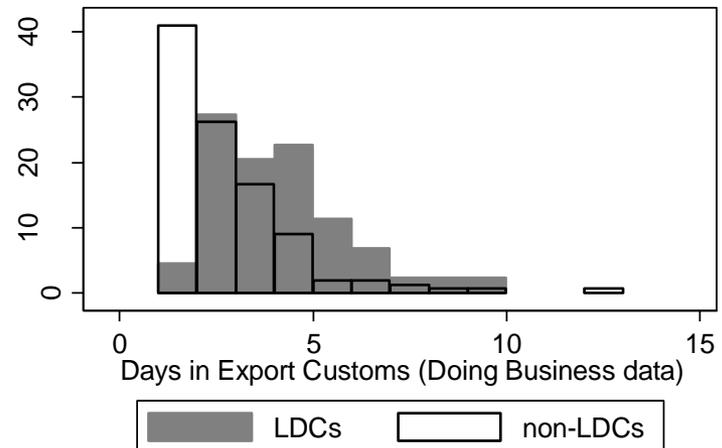
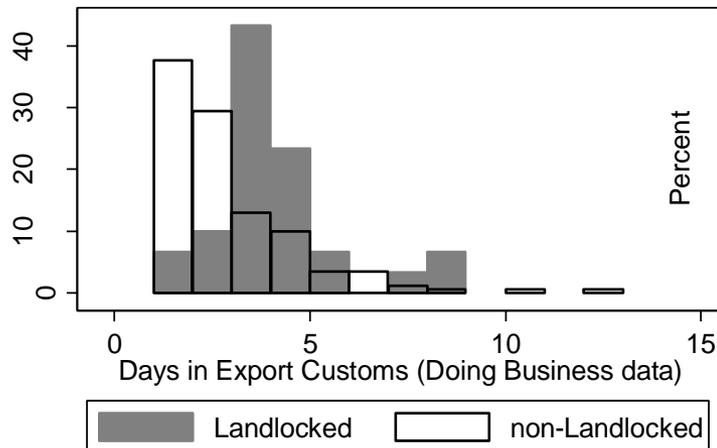
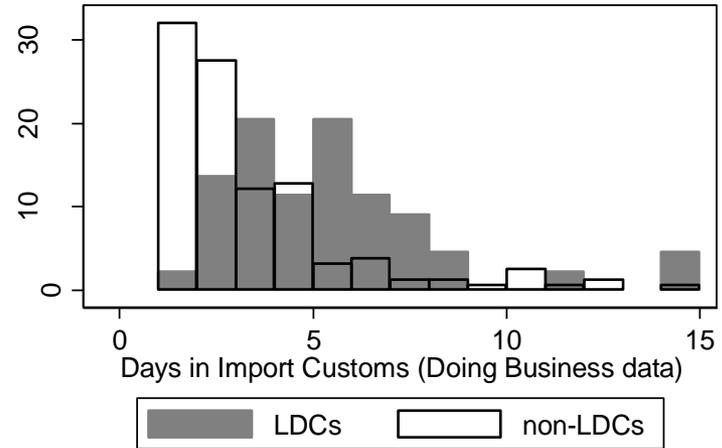
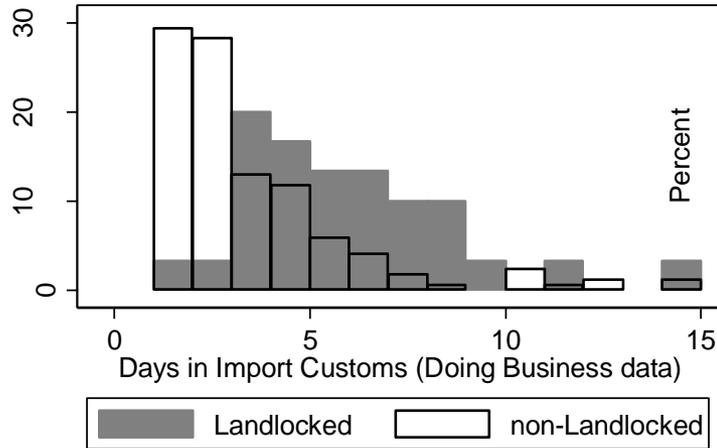
^c WGI is a Worldwide Governance Indicators (average score between -2,5 and +2,5 of the 6 indicators of the (Voice and Accountability, Regulatory Quality, Rule of Law, Political Stability and Absence of Violence, Government Effectiveness and Control of Corruption)

^d Authors' construction based Arvis et al. (2013). Trade costs relative to the trade costs of the 10 countries with the lowest trade costs (normalized to 100).

^e Trade costs normalized to 100 on 1995-1996 average.

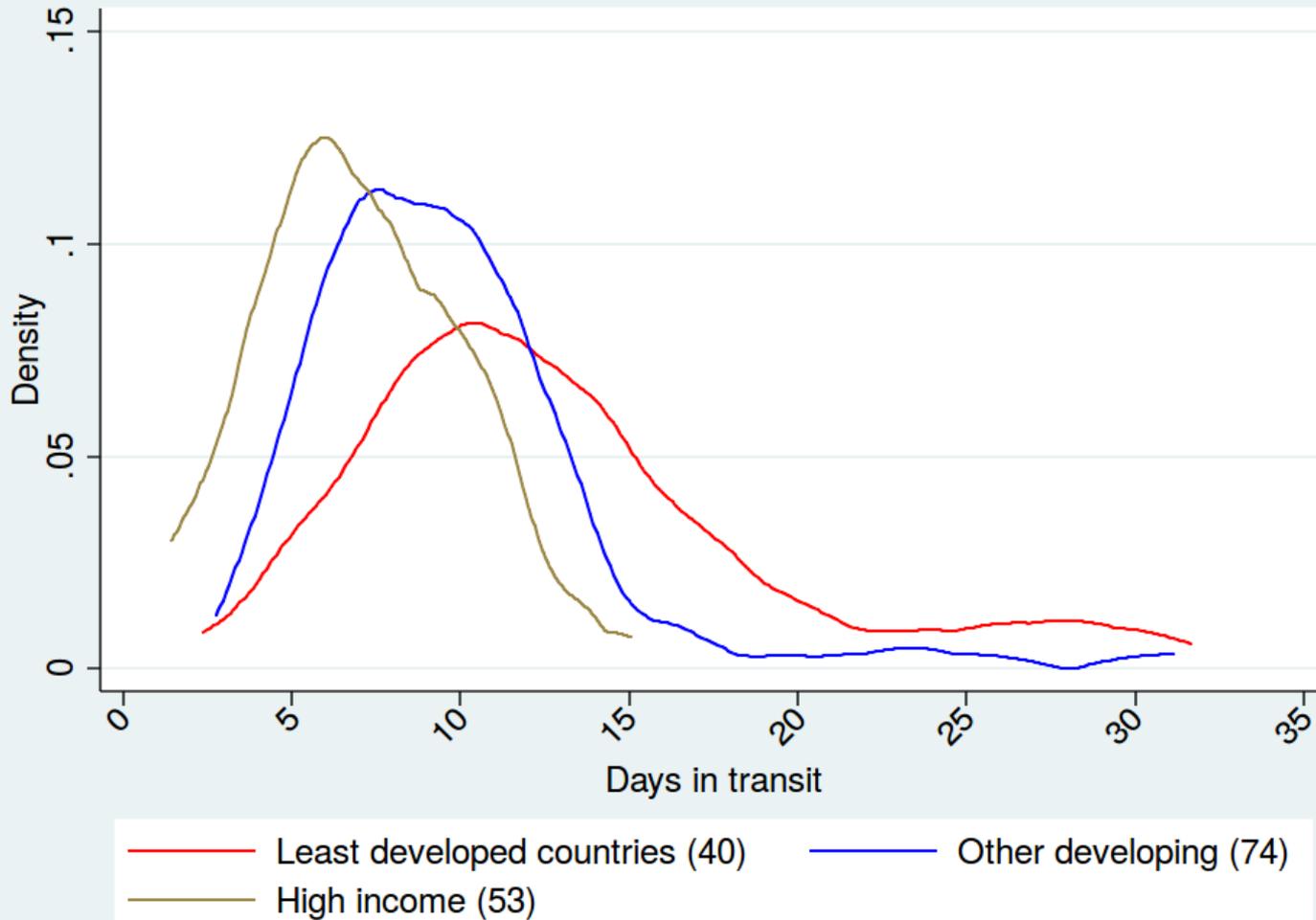
Days in Customs for imports & exports (DB data)

(LL vs. non.-LL and LDCs vs- non-LDCs)



Average days in Transit for air parcels (2013-14)

(high-income [7.0]; other developing [9.7], LDCs [13.0])



Scores on OECD TF indicators (2015)

(Scores range: Min=0; Max=2.0)

