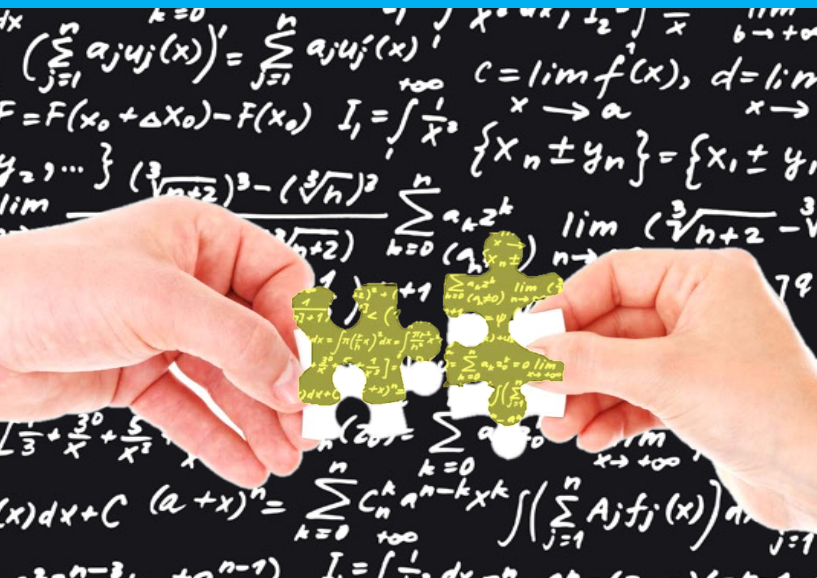




Do trade facilitation provisions
in regional trade agreements
matter?

Impact on trade costs and
multilateral spillovers



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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

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ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

WORKING PAPER

Do trade facilitation provisions in regional trade agreements matter? Impact on trade costs and multilateral spillovers

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Abstract

The scope and depth of bilateral and regional preferential trade agreements (RTAs) negotiated over the past 15 years has expanded beyond traditional market access and preferential tariffs to include provisions on a wide range of issues, including trade facilitation. This study is a first attempt to measure the extent to which RTA provisions related to those featured in the WTO Trade Facilitation Agreement (TFA) contribute to reducing trade costs. Inclusion of such provisions in RTAs does not appear to systematically result in their implementation. Nonetheless, we find that TFA-related provisions in RTAs have a statistically significant impact on bilateral trade costs among RTA members. Aid for Trade Facilitation measures and Freedom of Transit provisions are found to be relatively more effective at reducing trade costs between members than other types of trade facilitation measures. Importantly, the discriminatory (preferential) effect of trade facilitation provisions in RTAs is accompanied by a non-discriminatory reduction in trade costs with all trade partners. Multilateral spillovers from trade facilitation measures in RTAs on trade costs are found to exceed any discriminatory effects within three years of an RTA's entry into force, highlighting the complementarity between regional and global trade facilitation initiatives.

Keywords: trade integration, trade facilitation, trade costs, WTO, trade policy, WTO TFA, regional trade agreements (RTAs), free trade agreements (FTAs), multilateral spillovers, discriminatory effects.

JEL: F1, F5, F6

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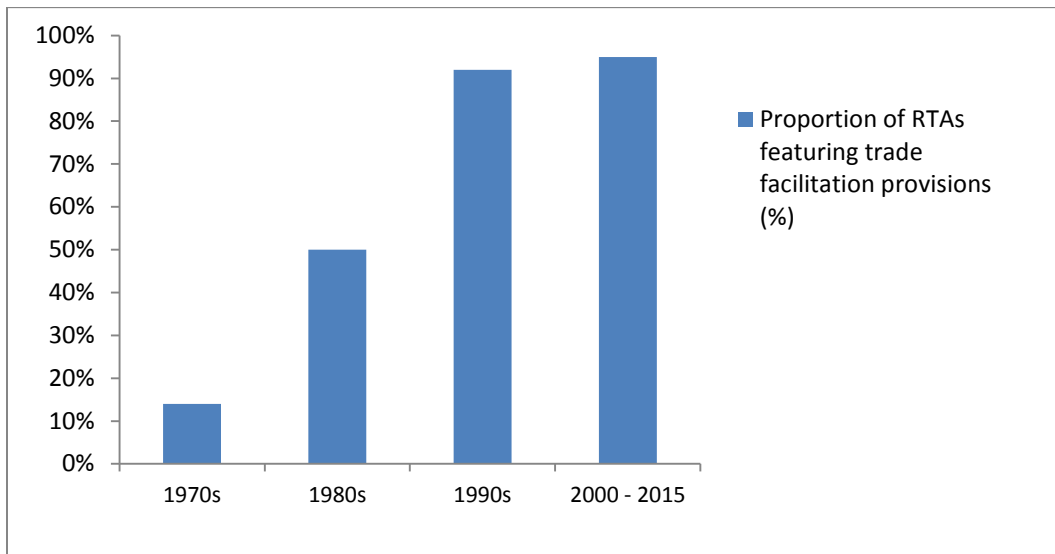
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1. Introduction

The number of regional trade agreements (RTAs) has increased rapidly over the past two decades. The content and scope of the RTAs has also expanded considerably beyond agreements on preferential tariffs and/or their eliminations. In particular, trade facilitation issues, i.e., measures aimed at increasing the efficiency of trade procedures, are now almost systematically included in bilateral and regional trade agreements, as shown in figure 1.

Figure 1. RTAs increasingly address trade facilitation



Source: Neufeld (2016)

While the benefits of trade facilitation (TF) are well established (see WTO, 2015 and ADB/ESCAP, 2013 for literature reviews), it has long been debated whether such benefits can be effectively captured through negotiations of bilateral or regional preferential trade agreements (e.g., Moise, 2004; Maur, 2008). After all, given the obvious benefits of simpler procedures for both governments and traders, aren't countries already actively working on trade facilitation unilaterally regardless of what commitments they may be making in RTAs? In addition, given the likelihood that trade facilitation measures will apply to all trade partners once implemented, does including trade facilitation provisions in RTAs really help preferential trade partners in reducing trade costs with each other? If so, do the trade facilitation commitments made through RTAs spillover and help reduce trade costs with other trade partners?

This paper is a first attempt to bring some answers to these questions by measuring the extent to which trade facilitation provisions included in RTAs may have reduced trade costs. Limiting our investigation to those trade facilitation measures that are related to the ones now included in the WTO Trade Facilitation Agreement (TFA), we find a fairly robust and statistically significant relationship between inclusion of trade facilitation provisions in RTAs and reduction in trade costs. We also find evidence that trade facilitation provisions in RTAs result in multilateral non-discriminatory trade costs reduction over time. Finally, our results suggest that, among different types of TFA-related measures considered, RTA trade facilitation commitments related to Aid for trade facilitation, transit, and transparency are most effective in reducing trade costs.

Following an overview of countries' commitments to trade facilitation through RTAs in section II, we very briefly review the literature on measuring the impact of trade facilitation on trade cost in section III.A. Methodology and data sources used to estimate a trade cost model covering trade facilitation provisions in RTAs are introduced in section III.B. Results are presented and discussed in section III.C, followed by conclusions and limitations of the study.

2. Trade facilitation commitments through RTAs: At a glance

Several studies on trade facilitation provisions in RTAs have already been conducted, most recently by Neufeld (2014; 2016). While earlier studies (e.g., Bin Peng, 2008; Duval, 2011) used broader definitions of trade facilitation,¹ Neufeld focused on measures directly linked to those of the WTO TFA.

The 5 TFA-related measures found to be most frequently included in RTAs – out of 28 measures considered in her study² - are (1) Exchange of customs-related information, (2)

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