

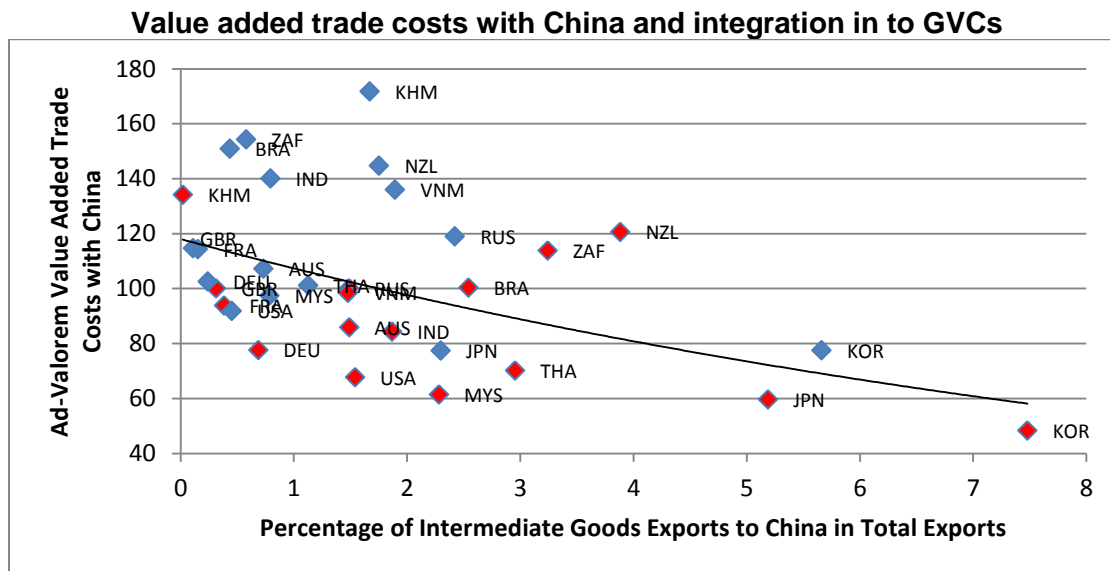
Value Added Trade Costs in Goods and Services

There have been many attempts to measure bilateral trade costs. Earlier studies directly measured trade cost components such as: international transport costs; or the cost of moving goods from factory to sea port. To more comprehensively capture all components of trade costs, others inferred trade frictions from gross trade and output data. ESCAP, together with the World Bank, now maintains a global dataset of such comprehensive bilateral trade costs calculated on that basis (i.e., the ESCAP-World Bank trade cost database). However, it features trade costs for the goods sector alone because of data limitations.

Taking advantage of the emergence of new trade in value added data (i.e., OECD-WTO TiVA database), ESCAP released the 'Value Added Trade Cost Database' in May 2015 covering both goods and services. It calculates trade costs on the basis of trade in value added data and national sectoral GDP data at both a national and disaggregated sectoral level, while also reflecting the impact of global value chains (GVCs). Preliminary findings based on this new dataset are introduced below.

- **Reducing trade costs is critical to integration into global value chains**

ESCAP research shows that economies that are more integrated into international supply chains and production networks (in terms of intermediate goods exports relative to total exports) tend to have lower value added trade costs. This is illustrated below in the case of trade costs with China and suggests that countries which reduce trade costs will trade more in value added intermediate goods.



Source: Duval, Y., Saggi, A., and Utoktham, C. (2015).

- **Trade costs have generally declined over time**

Across most countries and regional groups, value added trade costs are declining over time – more steeply than with gross trade costs. The rate of decline is faster in the manufacturing sector compared to the agricultural sector.

- **Trade costs vary substantially across countries and regions**

Analysis reveals that value added trade costs – measured in ad valorem equivalents – vary significantly across countries and depending on their trading partners. For example, trade costs of the Republic of Korea and Malaysia with China are less than 60%, while trade costs of Cambodia with China exceed 130%. At the sectoral level, value added trade costs are found to be substantially higher in the agricultural sector compared to the manufacturing sector.

- **Value added trade costs are lowest in East Asia**

Intra East Asia-3 (China, Japan, Republic of Korea) value added trade costs are lowest across all regional groups and even lower than intra EU-3 from 2005 onwards. Intra ASEAN-4 value added trade costs are higher than those between ASEAN-4 and the USA. In contrast to results obtained using gross data, value-added trade costs in goods of developed Pacific economies (Australia and New Zealand) are found to be high, confirming that distance and geographical isolation is a very significant impediment to GVC participation.

- **Trade costs are higher in services**

Across developed and developing economies, value added trade costs are – on average – higher in the services sector compared to the goods sector. High trade costs in services tend to be associated with high trade costs in goods, and vice versa. Differences in value added trade costs across service sub-sectors (transport and telecoms vs. finance and insurance) tend to be more limited than across goods sectors (agriculture vs. manufacturing).

The full 'ESCAP Value Added Trade Cost Database' is made publicly available, free for use on the ESCAP website.¹ It covers trade costs – in the goods and services sectors, across 56 countries, over the period 1995-2009, at a national and sectoral level.

Sources:

Duval, Y., Saggu, A., and Utoktham, C. (2015). Value Added Trade Costs in Goods and Services, ESCAP Trade and Investment Division Staff Working Paper 01/15, Bangkok²

For other notes on Reducing Trade Costs in Asia and the Pacific see: <http://www.unescap.org/resources/notes-reducing-trade-costs-asia-and-pacific>

This note is based on in-house research and analysis by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). For more information on ESCAP's work on reducing trade costs and trade facilitation, please visit: <http://www.unescap.org/our-work/trade-investment/trade-facilitation>

¹ The full dataset is made freely downloadable on ESCAP's Asia-Pacific Research and Training Network on Trade (ARTNeT) website: <http://artnet.unescap.org/databases.html#first>. We kindly request citation of this paper on use of the dataset in research.

² <http://www.unescap.org/resources/value-added-trade-costs-goods-and-services>

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