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Trade Facilitation for Inclusive & Sustainable Growth: Recent Research and Future Research Agenda

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Outline

1. Measuring Trade Costs in the Developing World
2. Does Trade Facilitation Benefit Small Firms in Global Value Chains?
3. Conclusion and Directions for Future Research

1. Measuring Trade Costs in the Developing World

- ▶ Defined broadly, trade facilitation is any policy action (other than cutting tariffs) that reduces international trade costs
 - ▶ Trade costs = the wedge between exporter and importer prices
 - ▶ Not just tariffs and international transport, but also:
 - ▶ Geography
 - ▶ Social and cultural costs (language)
 - ▶ Logistics performance
 - ▶ “Narrow” trade facilitation (customs and border procedures)
 - ▶ Product standards (SPS and TBT)
 - ▶ Regulatory differences
 - ▶ ... and the list goes on
- ▶ Some trade facilitation initiatives (such as APEC’s TFAPs 1 and 2) define success in terms of reducing trade costs by a particular amount, like 5% in 5 years...
- ▶ But there is no measurement methodology incorporated in the commitment, so how can success be judged?

1. Measuring Trade Costs in the Developing World

- ▶ Before we can know which trade facilitation policies work best, we need a comprehensive measure of trade costs
 - ▶ All inclusive, i.e. captures all factors that drive a wedge between export and import prices
 - ▶ Includes non-observables, and factors that are difficult to observe (standards and regulatory barriers)
 - ▶ Easy to calculate based on existing data
 - ▶ Available for a wide range of countries, and preferably over time
- ▶ UNESCAP – World Bank Trade Costs Database aims to provide such a measure
 - ▶ Presentation and results in Arvis, Duval, Shepherd, and Utoktham working papers (World Bank PRWP 2013 and ARTNET WP 2012)
 - ▶ Focus on the developing world
 - ▶ Coverage of manufactured goods, agriculture, and total trade (sum)
 - ▶ 1995-2010 in the original edition. New update to 2011 just put online.
 - ▶ All data freely available through the World Bank data website.

1. Measuring Trade Costs in the Developing World

- ▶ Where does an all inclusive measure of trade costs come from, and how do we calculate it?
- ▶ Consider the canonical AvW (2003) gravity model:

$$X_{ij} = \frac{Y_i Y_j}{Y_w} \left(\frac{t_{ij}}{\Pi_i P_j} \right)^{1-\sigma}$$

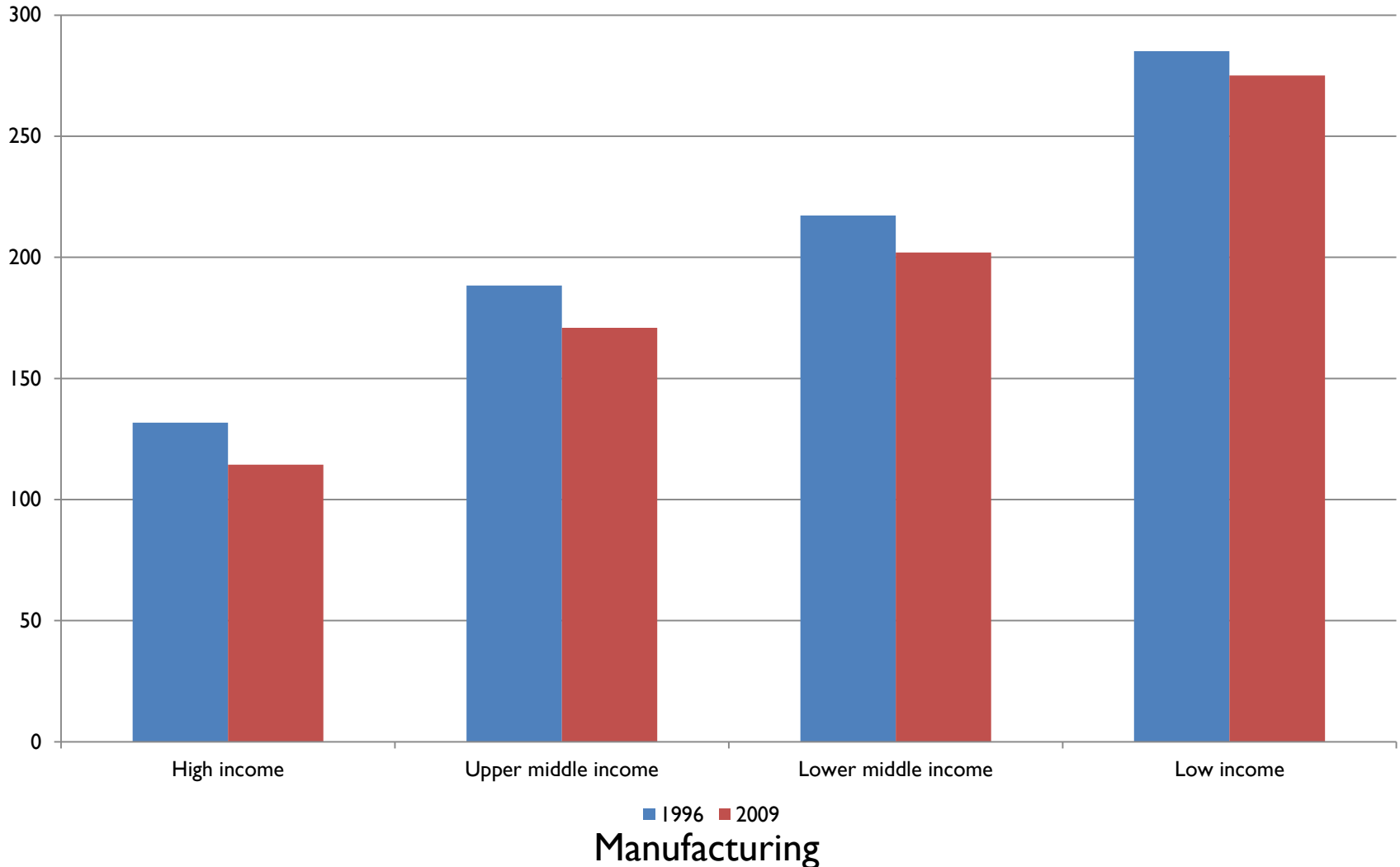
- ▶ By writing down four equations (X_{ii} , X_{ij} , X_{jj} , and X_{ji}) we can divide through and eliminate the multilateral resistance terms.
- ▶ The result after rearrangement is an expression for trade costs in terms of trade and production data:

$$\tau_{ij} = \tau_{ji} = \left(\frac{t_{ij} t_{ji}}{t_{ii} t_{jj}} \right)^{\frac{1}{2}} - 1 = \left(\frac{X_{ii} X_{jj}}{X_{ij} X_{ji}} \right)^{\frac{1}{2(\sigma-1)}} - 1$$

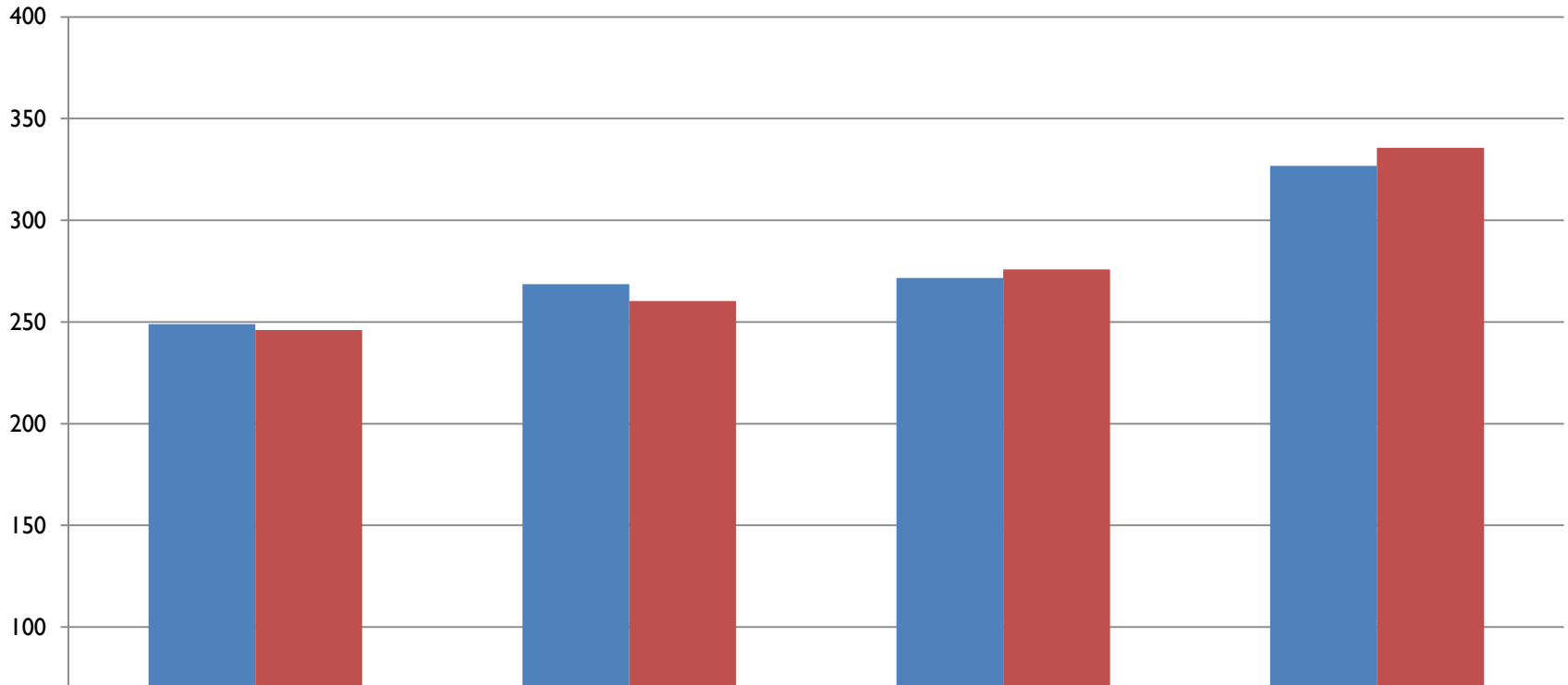
1. Measuring Trade Costs in the Developing World

- ▶ Advantages of this method (due to Novy, 2013):
 - ▶ It does not assume balanced trade or symmetrical trade costs
 - ▶ It can be derived from a wide variety of theory-based gravity models
 - ▶ The trade costs index is in ad valorem terms, and can easily be compared with tariffs and other measures
 - ▶ It is easy to calculate with minimal data requirements, at the price of some assumptions regarding production data
 - ▶ Application provides at least partial coverage for 178 countries, and three sectors, over the 1995-2011 period
- ▶ Disadvantages of this method:
 - ▶ The index is expressed bilaterally (i.e., it is the same regardless of direction)
 - ▶ It expresses international trade costs relative to domestic trade costs, so interpreting changes and making causal links is difficult
 - ▶ Ad valorem equivalents are sensitive to a parameter assumption, but index numbers are relatively insensitive.

1. Measuring Trade Costs in the Developing World



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