

THE WORLD BANK, WASHINGTON, DC

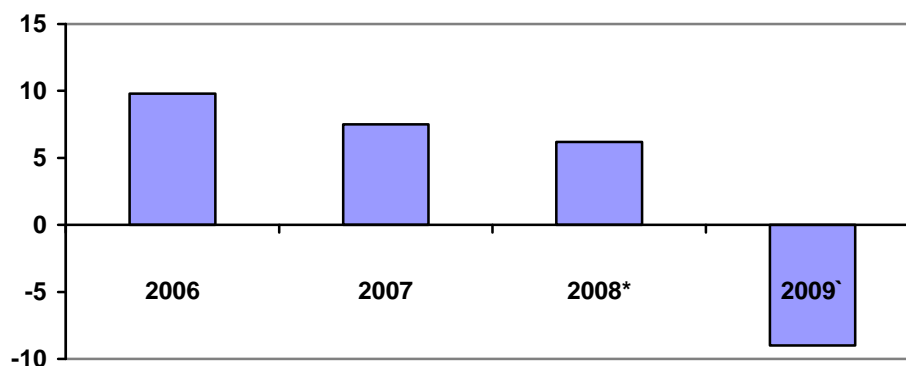
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## The Crisis and Beyond: Why Trade Facilitation Matters<sup>ii</sup>

According to World Trade Organization estimates, global trade is projected to decline by 9 percent in 2009, marking the worst decline in trade flows since the Great Depression, and far outpacing the International Monetary Fund's previous estimate, made in January, of a 2.8 percent decline for the year. As programs are instituted by multilateral organizations and governments around the world to address the crisis and restart trade, action on trade facilitation -- including standards harmonization, customs modernization and infrastructure investment -- are critical. This is important in the context of moving out of the crisis more rapidly, as well as seizing the opportunity for reform. Investment in programs that lower trade costs also relate well to the type of stimulus packages being launched now to mitigate the crisis. Research and analysis demonstrates the impact trade facilitation reform can have in lowering trade costs. From a development perspective and global growth this type of reform matters more than ever.

*Figure 1: Percentage Change in World Trade Volume from Previous Year*  
*\*Estimate (GEP 2009), `Projection (WTO 2009)*



With a swift completion of the Doha round of trade talks difficult to achieve, trade facilitation reforms represent a win-win opportunity for governments to (1) stimulate economic growth through increased investment in trade-related infrastructure, and (2) maximize trade flows within the existing multilateral trade policy framework with quick,

low-cost “behind-the-border” reforms, such as standards harmonization and regulatory liberalization.

### **The Crisis and Trade Costs**

The food, fuel and financial shocks that have hit the global economy represent major challenges to the trading system and long-term development prospects. World Bank and other research has demonstrated that, in developing countries in particular, trade costs associated with logistics, administration, and regulation often exceed trade costs associated with tariffs.

Many of the world’s emerging economies were insulated from the gradual weakening of demand growth in developed markets during the initial months of the crisis. Commodity prices on world markets remained at record high levels. However, with the sudden crash of commodity prices in November 2008, a number of developing countries current account positions have changed significantly. Crude oil prices, for example, declined from a high of US\$143 per barrel in July 2008 to just US\$50 per barrel in mid-November 2008. Prices are projected to fall by another 25 percent over the course of 2009. (GEP 2009).

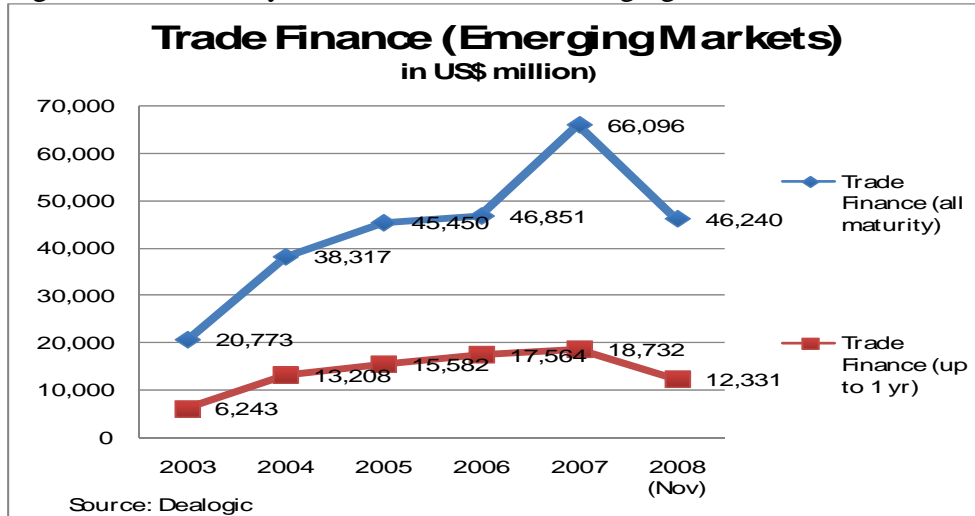
As the global crisis exacerbates trade costs through, among other channels, the decreased availability of trade financing and the proliferation of trade-distorting policies, “behind-the-border” inefficiencies in economies’ trading sectors have become magnified. Recent reports suggest that only 116 trade finance loans were signed in the last quarter of 2008, representing the lowest quarterly deal count since 2004. (PRMTR 2009). The opportunity cost of not enacting trade facilitation reforms has therefore increased significantly.

#### *Major Trade-Distorting Policies Implemented since the Global Economic Crisis*

- Indonesia is due to implement import restrictions covering 500 items in the electronic, food and beverages, toys and textiles from February 1.
- Argentina and Brazil -- key members of MERCOSUR -- are proposing a 5 per cent lift in tariffs on a range of items including dairy, leather goods, textile and wine.
- India put a levy on imported palm oil.
- Moscow has raised taxes on imported foreign cars by as much as 35 per cent.
- The US has bailed out its carmakers in a \$US13.4 billion package as car sales went into freefall.
- The US has initiated legal action against China at the WTO, alleging unfair support for its export industry, by offering cash grants, rebates and preferential loans to exporters.
- The US included a “Buy American” provision in its recently passed \$787 billion stimulus bill.

*Source: World Trade Organization, JOB(09)/2, January 2009*

Figure 2: Availability of Trade Finance in Emerging Markets



For example, the time and distance between markets matter a great deal more in a competitive environment characterized by lower demand. World Bank research suggests that just one additional day in product delays prior to shipping cuts trade by at least 1 percent (Djankov, Freund, Pham 2008). New work at the Bank also suggests that distance to markets remains a significant barrier for low income developing countries (Carrere, De Melo, Wilson (mimeo)). Moreover, regulatory barriers that stifle competition in service sectors associated with the transport of goods could deepen economic recession. In Sub-Saharan Africa, it takes 48 days on average to get a container from the factory to a ship. Reducing export times by 10 days is likely to have a bigger impact on exports (expanding them by about 10 percent) than liberalization in Europe or North America (Hummels 2007).

Recent action by multilateral institutions and governments to increase access to trade finance will help in mitigating further decreases in trade. The degree to which finance programs can stimulate increased trade flows over time, however, depends also on fundamental trade facilitation reform to lower costs.

### Stimulating Economic Growth: Infrastructure also Matters

Investment in transport infrastructure and border control technology systems can help support economic recovery and lower trade costs in the long-term. Since capital for such investment is currently in short supply, governments will likely have to design creative financing solutions that rely on healthy fiscal surpluses or sovereign wealth funds.

Two recent studies on the impact of hard infrastructure investment on trade illustrate both the associated challenges and the potential payoffs. The first study shows that an investment in upgrading and maintaining a trans-African highway network linking 83 major African cities at a length of about 100,000 km could increase Intra-African trade as a whole from \$10 billion to about \$30 billion per year (Buys, Deichmann, Wheeler 2006). The second study shows that an improvement of road networks in 27 Eastern European

and Central Asian countries could increase trade by as much as 50 percent. Moreover, an intraregional trade increase of 30 percent can be achieved from a road-upgrade in only three countries: Albania, Hungary, and Romania (Shepherd and Wilson 2007).

A number of countries have already demonstrated an ability and willingness to act on such large-scale reforms. China's announced \$570 billion stimulus package, for example, calls for investments in a variety of trade-related infrastructure projects. Similarly, India's prime minister recently announced that India will need to spend \$500 billion through 2012 to build roads, ports, airports, utilities, schools and hospitals even as India's economic growth slows to 7.5 percent in the current fiscal year. Investment in India will likely rely heavily on Middle Eastern sovereign wealth funds (Bloomberg 2008).

### **Restarting Trade through Regulatory Reform**

Removing technical and regulatory barriers in standards can also reduce trade costs in a time of crisis. These types of reforms can be carried out quickly and with relatively little investment. For this reason, governments that do not currently have the ability to finance larger infrastructure and technology projects can also focus on steps to lower trade costs through regulatory reform.

Harmonized standards and the specific national rules related to testing, certification, and accreditation can help lower trade costs through lower production costs for products sold in multiple markets. For example, a recent World Bank study that examined the impact of European Union standards on African textiles and clothing exports found evidence that non-harmonized standards reduce African exports of these products, whereas EU standards harmonized to ISO standards are less trade restricting. (Czubala, Shepherd, Wilson 2007).

### **Looking Ahead**

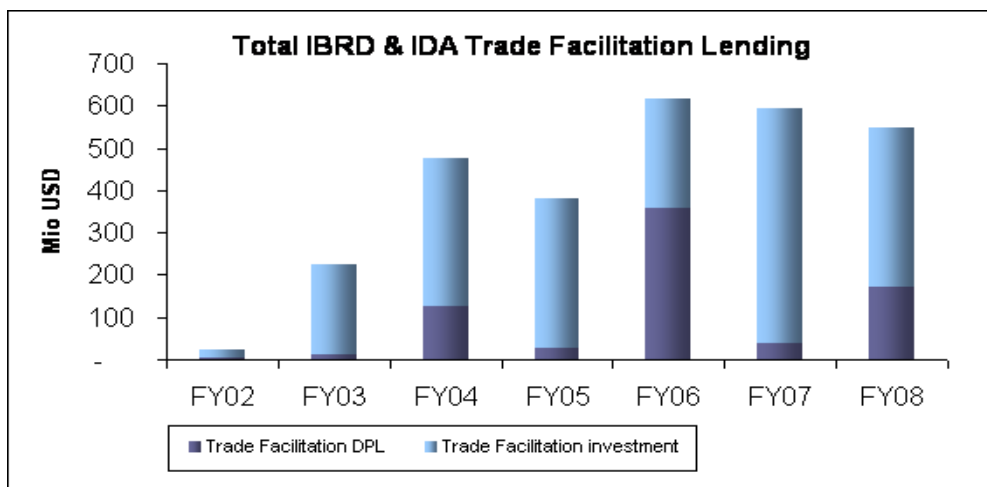
The global trade facilitation agenda can only be driven ahead with clear demand and demonstration of commitment to reform at the country level. International institutions and bilateral donors can play a key role, however, in shaping and informing country agendas.

There is an important agenda with respect to trade facilitation reform and its benefits in a development context. Progress requires sustained reform at the national level in ensuring the rule of law, increasing the transparency of trade, investing in regulatory reform, and upgrading infrastructure to lower trade costs. Work by the Bank at the country level is addressing these issues, in addition to addressing new trade finance challenges that have arisen over the past several months (Wilson 2009). In response to the global financial crisis, for example, the IFC's Global Trade Finance Program (GTFP), which extends and complements the capacity of banks to deliver trade financing in emerging markets, is expanding from \$1.5 to \$3 billion.

In addition to this assistance, however, multilateral institutions have an important opportunity to provide leadership in the creation of a new cooperative framework to better coordinate and channel aid for trade facilitation. As Robert Zoellick, President of the World Bank Group, noted in his speech on a “new multilateralism,” the multilateral network needs to encourage governments to search for mutual interests as a means by which to promote a shared sense of responsibility in enacting reform (Zoellick 2008b).

Given the increasing difficulty developing economies face in order to enact trade facilitation reforms and the recent shortage of trade-related finance, it becomes all the more important for developed and developing economies alike to recognize the importance of streamlining the global trading system. The World Bank, among other institutions are investing in new research, analysis, and programs to support trade facilitation reform. This includes launch of a Trade Facilitation Facility (TFF) to support action to lower trade costs for development. With these and other steps, global trade can move toward a growth path and economic recovery can more quickly achieved and sustained for the long-term.

Figure 3: World Bank Trade Facilitation Lending (World Bank 2008)



**Further Reading:**

Bloomberg News Asia: “GE Bets on India Rail, Power Shortage to Meet \$8 Billion Target,” November 25, 2008. <http://www.bloomberg.com/apps/news?pid=20601080&sid=a5g8jYFzkPHs&refer=asia>

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Zoellick, Robert B. (2008b) "Modernizing Multilateralism and Markets," The Peterson Institute for International Economics, Washington, DC. October 6, 2008.

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<sup>i</sup> The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

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