



Trade Costs and Facilitation: The Development Dimension¹

Development Economics Research Group (DECRG) – International Trade and Integration

The World Bank

This project is dedicated to expanding knowledge about the relationships between trade costs and private sector growth and export competitiveness in developing countries. A major focus is on exploring the dynamic gains associated with lowering trade transactions costs relative importance of related reform measures in areas such as: customs modernization, regulatory reform, standards harmonization, infrastructure investment, and the diffusion of information and communication technologies (ICT).

The Trade Costs and Facilitation work also includes analysis on the effectiveness of various aid-for-trade and capacity-building frameworks currently in practice or under consideration. The project is aligned with several aspects of the six strategic themes outlined by the President of the World Bank, Robert Zoellick. Research, policy issue briefs, and other products from the project can be accessed via the web at: http://econ.worldbank.org/projects/trade_costs

Impact of the project to date

Research and policy analysis associated with the Project made a direct and concrete contribution with the initial concept for the World Bank's new **Trade Facilitation Facility (TFF)**. The Bank's program of research has had a major role in highlighting the importance of trade facilitation and the reduction of trade costs to a wide audience across the globe. This work led to the preparation of a brief -- requested by the President of the Bank -- that was then managed by the project team in the Research Group. The resulting paper outlined the idea to create a Trade Facilitation Facility, which was subsequently established by the Bank's Trade Department in April 2009.

The research project has also played an important role in providing support for **raising the importance of trade facilitation within the Bank and other institutions** through seminars, presentations, dissemination of data, and other outreach. The project team has provided analytical content to inform the early stages of WTO negotiations on a trade facilitation agreement in addition to regional trade talks. For instance, work was undertaken in cooperation with the Asia Pacific Economic Cooperation group ahead of discussions at the APEC Trade Ministers and Leaders Meeting in Sydney in 2007. Similar work was undertaken for the ASEAN Secretariat to identify key priorities for trade facilitation reform among ASEAN member states.

The work is supported through the Multi-donor Trust Fund on Trade at the Bank -- building on a foundation in work supported by UK DFID -- with a direct impact on Bank operations and new programs. This included the original concept for the **Standards and Trade Development Facility** –

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outlined in a policy research paper for the World Development Report 2002: "Bridging the Standards Divide: Recommendations for Reform from a Development Perspective," (John S. Wilson, February 2001).

Examples of Bank operations that are directly supported by DECRG trade research, data, and analysis include the \$300 million Competitiveness Development Policy Loan (DPL) for Mexico, the \$55 million Tunisia Export Development II Project, the \$24 million Peru Trade Facilitation and Productivity Improvement Technical Assistance Project, the \$197 million West Africa Regional Transport and Transit Facilitation Project, among others. In addition, the project has played a direct role in facilitating dialogue on new Bank operations with China and other EAP countries. These talks were initiated in Beijing in May 2009 at a project-sponsored workshop on trade facilitation with respect to small- and medium-sized enterprises (SME's) and the global economic crisis.

Data and Indicators

The project has also supported the dissemination and use of **data and indicators work on trade facilitation, standards, and logistics**. Applied datasets generated by the project include the EU Standards Database and a unique set of trade facilitation indicators, covering 75 countries. The EU Standards Database collates European standards for agricultural products and textiles/clothing over the period 1995-2003, and maps them to the Harmonized System. For each product-year combination, counts are given for both the number of standards and for the number of pages of standards. This data was used to calculate various standards reform scenarios under the auspices of the project, and will prove a useful tool for future standards reform projects in the field.

The Wilson, Mann, Otsuki (WMO) trade facilitation indicators measure the relationship between trade facilitation and trade flows across 75 countries in global trade, considering four important categories: port efficiency, customs environment, regulatory environment, and service sector infrastructure. Since their original formulation in 2004 and subsequent revisions through the MDTF project, these indicators have been utilized extensively across the Bank and elsewhere to estimate the impact of various trade facilitation reforms.

Looking Ahead

New work planned as of October 2009 includes analysis on topics, including: aid effectiveness in projects with trade objectives; the impact of investment in information technology on trade costs; the relationship between standards and exports and comparative advantages; the post-crisis trade environment vis-a-vis trade facilitation, supply chains, and development; among others.

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