Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement

Comment

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A wise man once told me….

- “Economists hurt their credibility with policymakers when they spend their time arguing about the 5% over which they disagree, rather than highlighting the 95% where they do agree.”

- I will focus on the 5%.

- But first the 95%.....

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A very good report on an important topic

- Thorough and comprehensive
- Very accessible
- On top of recent literature
    - This is not easy to do, because
        - Fast moving field
        - Researchers using different methodological choices
        - Complex policy environment with many different policy levers
        - Data is just becoming available in some circumstances
- The report is informative about topics that are understudied
    - Implementation costs of various reforms
    - Effects of TF policy on firms of different sizes
    - Differential impacts on different product groups
    - Effect on import variety
    - Also, history of negotiations and the policy setting.

- It is hard to believe they did a different report on a different topic last year, and the year before that,…

OK, let's argue about the global benefits of the TFA

- Peterson Institute: $1 trillion per year
  - back-of-the-envelope numbers
  - includes infrastructure investments that are outside of the TFA
  - reported uncritically in the press
- More recent estimates are lower and sometimes by an order of magnitude
  - But hard to judge, because studies vary in levels of implementation, channel of welfare gains etc.
- These estimates suggest gains of $1.1 trillion to $3.6 trillion per year are possible.
- Should we really think they are this high?

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An important endnote

- "It is important to note that the results of counterfactual analysis have to be taken cautiously….Although the report has taken care to address omitted variable and reverse causality biases it cannot control for every specific variable correlated with trade facilitation *and one cannot completely exclude the endogenous co-determination of trade outcomes and trade facilitation infrastructure*."
- This problem
  - Is pervasive,
  - Is difficult to solve, especially in a global model,
  - Probably generates upward bias almost every time it remains unsolved,
  - Is compounded by the assumption of iceberg trade costs and gravity model theory.

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Why might $1.1 trillion, or $3.6 trillion, be too big?

- The policy reforms in the TFA are mainly aimed at facilitating goods trade, and most of the reforms will occur in poor and middle income countries.
  - Much of world GDP is earned in services.
  - Much of world income is earned in rich countries.
  - Much of global goods trade is between rich countries.
  - Rich countries generally have little reform to do under the TFA.
- There are other biases of this type
  - Countries that export natural resources, for example, may not see exports increase much as a result of trade facilitation.
  - Small firms are more affected than big firms by bad customs performance, but big firms do most of the trade.
  - Even within countries trade clearance is generally more efficient at airports, which have the most time sensitive trade.
    - Operational decisions within countries may also prioritize refrigerated shipments, etc

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How much is $1 trillion? $3.6 trillion?

- There are 7.3 billion people on the earth.
  - Partial implementation scenario: $152 per person per year
  - Full implementation scenario: $488 per person per year
- World GDP is $77.9 trillion (2014 dollars), 58.8 trillion (in 2007 dollars)
  - Partial implementation scenario: 2% of 2014 GDP
  - Full implementation scenario: 6% of 2014 GDP
  - The OECD accounts for 63% of World GDP
    - Relative to non-OECD GDP these estimates are 5% and 16%, respectively
    - Relative to non-services GDP these numbers would be even higher.
- World imports of goods are valued at $18 trillion (in 2014 dollars), $16.8 trillion (in 2007 dollars)
  - Partial implementation scenario: 6.6% of the value of total goods trade
  - Full implementation scenario: 21% of the value of total goods trade
  - Trade within the OECD accounts for 1/3 of global trade (UNCTAD)
    - Relative to trade involving at least one non-OECD member, estimated benefits are 9.9% and 31.5% of the value of trade, respectively.

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What’s the problem?

- Iceberg trade costs + gravity model = trouble
  - Gravity theory values trade very highly
  - Missing trade is fully attributed to trade costs
  - Iceberg formulation represents maximal estimated welfare effects of trade costs
    - Goods are assumed to ‘melt’ any time a trade friction is incurred.
    - In reality people are paid to overcome trade costs, and they use these payments to buy other goods.
- Gravity theory and empirical regularities coincide, but this is not a validation of the theory.
  - Data regularities came before the theory
    - An inversion of the scientific method.
  - Gravity theory with iceberg trade costs is very well-published, conventional, and the best we have for these purposes,
    - but still not very good.
  - CGE results will have similar problems if they use the same underlying theories to parameterize the status quo, and/or the reform.

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What is to be done?

- Consumers of such analyses should take big picture numbers very very lightly.
  - There are many sources of upward bias.
  - Tariff-equivalent-reductions might be usefully presented alongside estimated welfare gains.
- Analytical energies are perhaps better focused on careful case studies:
  - What happened when reform A was implemented in country B?

  - Carballo et al (2015) for an electronic single window in Costa Rica
  - Fernandes et al (2015) for risk management in Albanian customs

  - Hopefully more to come….

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