The Impact of the WTO Trade Facilitation Agreement on Trade Costs

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What data do we use?

We use:

• **WTO Trade Cost Index**
  - newly developed
  - indirect estimation of overall trade frictions

• **WTO Trade Facilitation Agreement Database**
  - tracks the progress of Members’ commitments at a given point in time.
  - differs from the OECD Trade Facilitation Index – a set of indicators that provide information on several aspects of trade facilitation. Each indicator can take values from 0 to 2, where 2 reflects the best performance that can be achieved.
What methodology?

Explain bilateral trade costs as function of:

- TFA = share of common commitments between Members
- Trade policy variables (eg tariffs, RTA, NTMs)
- IT connectivity
- Transport costs
- Governance variables
- Exporter-sector-time fixed effects
- Importer-sector-time fixed effects
How much did TFA reduce trade costs?

- TFA has had a **significant** impact on trade!
- Full implementation of commitments will have **additional significant** effects
- This is work in progress. Our preliminary estimations show:

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\begin{align*}
\text{TFA} & \quad 16\% \\
\text{Observed reduction} & \quad 5\% \\
\text{Reduction if all Members fully commit} & \quad 16\% + 5\% = 21\%
\end{align*}
\]

Additional effect with full commitment

Actual commitment

Note: Results based on data from 2014 to 2020. Trade costs calculated following “WTO Trade Cost Index: Evolution, Incidence and Determinants” (2021), using OECD TiVA (2022) data for trade flows and the WTO TFA Database (TFAD)
The impact of TFA commitments was almost half as powerful as that of a regional trade agreement (RTA)

Note 1: Results based on data from 2014 to 2020.
Note 2: Trade costs calculated following “WTO Trade Cost Index: Evolution, Incidence and Determinants” (2021), using OECD TiVA (2022) data for trade flows and the WTO TFA Database (TFAD)
Impact by economic development

- Largest effect on imports of lower-income from high-income economies

- Largest potential reduction from further commitments by lower-income economies

Note 1: Results based on data from 2014 to 2020. Trade costs calculated following “WTO Trade Cost Index: Evolution, Incidence and Determinants” (2021), using OECD TiVA (2022) data for trade flows and the WTO TFA Database (TFAD)

Impact by sector

- TFA reduces trade costs across several sectors of the economy
- Significant potential to further reduce trade costs

Note: Results based on data from 2014 to 2020. Trade costs calculated following “WTO Trade Cost Index: Evolution, Incidence and Determinants” (2021), using OECD TiVA (2022) data for trade flows and the WTO TFA Database (TFAD)
Work in Progress

- Extend the estimation period to allow for more precise estimates of the impact of TFA (including TFI and additional controls)

- Keep updating results as more data become available

- http://tradecosts.wto.org/