

EXECUTIVE SUMMARY

High trade costs inhibit numerous developing countries from fully exploiting the market access opportunities that the multilateral trading system creates. Cumbersome and time-consuming border procedures, obsolete or ill-adapted infrastructure, limited access to trade finance and the complexity and cost of meeting an ever broader array of standards all serve to price too many countries out of international trade. Comparative advantage remains underexploited. Market access does not always convert into market presence. The potential gains from trade are not always fully realised. The Aid-for-Trade Initiative was launched at the 2005 Hong Kong World Trade Organization (WTO) Ministerial Conference to tackle these kinds of constraints and is making headway. The joint OECD-WTO report, *Aid for Trade at a Glance 2015*, cites many examples of where obstacles are being overcome and the attendant development benefits. Yet more remains to be done. The report calls for a redoubling of efforts to tackle the issue of trade costs which continues to marginalise many of the world's poorest and most fragile economies.

Reducing trade costs matters ...

Remoteness, inadequate or defective infrastructure and small markets with limited supply side capacity mean that some countries face higher trade costs than others. Policy measures at, between and behind borders is also important in raising trade costs. And when these “frictions” give rise to high absolute costs they can render exports uncompetitive and effectively nullify comparative advantages. High trade costs also erode consumer welfare, narrowing the range of goods and services on offer and pushing up prices. Moreover, they deny firms’ access to technology and intermediate inputs, preventing their entry into, or movement up, global value chains.

While trade costs alone do not explain the development pathways of individual economies, they are a major factor in clarifying why some countries are unable to grow or diversify. Evidence suggests that developing countries bear a disproportionate share of global trade costs, even though they have become more integrated into the world economy in recent years. Some middle income countries have been successful in reducing such costs, but low income countries, especially in sub-Saharan Africa, continue to struggle with stubbornly high trade costs. Moreover, these costs are falling at slower rates than elsewhere, increasing the risk of marginalisation.

...especially for the Least Developed Countries

The Least Developed Countries (LDCs) either on their own or with support are gaining traction in lowering trade costs. However, they find it hard to make a transformative shift because of the high absolute costs from which they start (particularly landlocked countries), limited institutional capacity and resource constraints. This is where aid for trade is contributing to lowering trade costs. A review of Diagnostic Trade Integration Studies, together with evaluations and case studies, shows that the impact of these interventions is highest when based on: robust and credible analytical work; a high level of country ownership; institutional capacity building; continuous support over a sufficiently long period; resource leveraging; and a co-ordinated donor response.

... and small- and medium-sized enterprises.

Small- and medium-sized enterprises (SMEs) represent the backbone of economic activity especially in developing countries. Those that are integrated in global markets – whether directly or indirectly – are more productive than SMEs that do not participate in trade. More productive SMEs find it easier to integrate, but integration is also likely to contribute to raising productivity and closing the productivity gap between small and large enterprises. The result is higher and

more inclusive growth. However, SMEs suffer disproportionately from high trade costs, hampering their integration into the global economy. Reducing trade costs will therefore contribute to making trade more inclusive as it may allow SMEs to expand employment and increase wages. Gender equality can benefit from this, given that many SMEs are owned by women and employ more women than men.

The WTO Agreement on Trade Facilitation is an important step

An important step towards reducing trade costs was taken in 2013 when the Ninth WTO Ministerial Conference in Bali concluded the Agreement on Trade Facilitation (TFA). The TFA promises to bring substantial cost reductions for traders and revenue increases for governments. The TFA gives customs and border modernisation efforts a new focus and direction. Donors have expanded their financial support to implement trade facilitation measures to USD 1.9 billion since 2005, with positive results reported on many of the issues covered by the TFA. Sustained donor support will be needed to assist developing countries in making good on their commitments and realising the full potential of the agreement.

... and helps countries to connect with global value chains.

Many of the costs that affect the smooth connection of various parts of the production chain transcend national borders. For this reason, regional initiatives to enhance connectivity can often be more effective in addressing such costs than purely national programmes. Thus, there is significant scope to tackle trade barriers on a multi-country or regional basis and in ways compatible with the principles of the multilateral trading system. In response, several aid-for-trade projects – often with multi-donor funding – have targeted regional trade costs and successfully improved regional economic co-operation. Going forward, it is important to learn from these examples that have succeeded in reducing trade costs sustainably

Aid-for-trade disbursements are helping ...

A total of USD 264.5 billion has been disbursed for financing aid-for-trade programmes and projects since the Aid-for-Trade Initiative was launched in 2006, while the share of aid for trade in sector-allocable aid has risen from 31% to 38% in 2013. To date, more than three-quarters of total aid for trade has financed projects in four sectors that are closely related to cutting trade costs; transport and storage (29%), energy generation and supply (21%), agriculture (18%) and banking (10%). Middle Income Countries received, in addition, USD 190 billion in trade-related other official flows mainly for infrastructure and private sector development. The LDCs received 10 USD per capita in aid for trade, more than double the average.

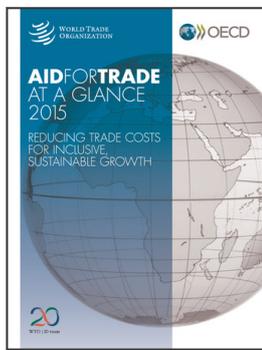
... with further support through public-private co-operation.

In order to design effective solutions for cutting trade costs, in particular those occurring at the border, close collaboration between the public and the private sector is key. Partnership between the public and private sectors can ensure that efforts tackle the value chain-related constraints and reach tipping points for growth. To that end, a constant dialogue between government and the private sector can help adapt reforms to meet the needs of firms including SMEs which will also enhance poverty reduction. While business' first priority is implementing the TFA, a co-ordinated approach is required, that goes beyond encouraging trade. For example, enabling trade should go hand in hand with facilitating investment to enlarge the pool of finance for development.

Aid for trade and the sustainable development agenda

The post-2015 development agenda, which aims at inclusive and sustainable development in social, economic and environmental dimensions, requires a significantly increased amount of financing. This will strengthen the prominence of international trade as a source of financing for development, particularly for the LDCs. However, the trade and development community should take care that the transformative nature of the post-2015 development agenda does not inadvertently result in a rise of unnecessary non-tariff measures that would increase trade costs and reduce the capacity of developing countries to use trade as an engine of economic growth and poverty reduction.

The new development paradigm under the post-2015 development agenda may require aid for trade to adopt a more integrated approach. Such an approach should ensure that aid for trade contributes to inclusive and sustainable development outcomes. That is, in addition to improving trade performance, the Aid-for-Trade Initiative should aim at positive social, economic and environmental impacts. For example, it should help developing countries to deal with the extra cost that may be associated with a greater burden of compliance with non-tariff measures.



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