Trade Facilitation: Reform Priorities in Southeastern Europe

John S. Wilson, Lead Economist
The World Bank

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Overview

- Trade Facilitation in Context
  - Economic Growth and Driving Forces

- Why Barriers and Trade Costs Matter in Southeastern Europe

- Priorities for Reform and Investment
Growth – across regions

(World Bank – Global Economic Prospects Report)

• **Real GDP growth, 2003-2006**

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2004</th>
<th>2005e</th>
<th>2006f</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAP</td>
<td>8.4</td>
<td>7.8</td>
<td>6.9</td>
<td>6.4</td>
</tr>
<tr>
<td>SA</td>
<td>7.9</td>
<td>6.8</td>
<td>6.1</td>
<td>5.3</td>
</tr>
<tr>
<td>ECA</td>
<td>7.2</td>
<td>5.3</td>
<td>5.2</td>
<td>4.9</td>
</tr>
<tr>
<td>MENA</td>
<td>5.2</td>
<td>4.9</td>
<td>4.7</td>
<td>4.5</td>
</tr>
<tr>
<td>SSA</td>
<td>3.6</td>
<td>3.6</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>LAC</td>
<td>5.8</td>
<td>5.8</td>
<td>5.8</td>
<td>5.8</td>
</tr>
</tbody>
</table>
Productivity is accelerating........

Decomposition of GDP growth 2005-2015
(Average % per annum)

Percentage

-1 0 1 2 3 4 5 6 7

High-income countries East and Asia Pacific Europe and Central Asia Latin America and the Caribbean Middle East and North Africa South Asia Sub-Saharan Africa

Legend:
- Green: Labor
- Blue: Capital
- Orange: Productivity

Development Prospects
World trade as a driving force

Merchandise exports ($billion)

- Other developing
- China
- Other high-income
- United States

World trade as a driving force
So Why Focus on Trade Facilitation?

Trade Facilitation → Trade → GDP growth → Human Development → Trade Facilitation
Key Features in Southeast Europe

- Post-Communist transition and conflict
- All countries relative high poverty rates
- Highly trade dependent
- High transport and trade costs
High Trade Costs…

Trade Costs in the ECA Region, 2006

Source: Doing Business.
Long Trading Times…

Trading Times in the ECA Region, 2006

Source: Doing Business.
Priorities for Trade Reform?

- World Bank research focus:
  - Major trade report in 2005; "From Disintegration to Reintegration."
  - Wilson, Luo, and Broadman (2005). Examine trade costs and facilitation as barrier to integration.

- Compare EU members and candidates.
Measuring Trade Facilitation:

- **Data Sources – 75 countries:**
  - World Economic Forum
  - Global Competitiveness Yearbook
  - Kaufmann, Kraay and Zoido-Lobaton (2002) (KKZ)

- **Objective:**
  - Inform priority action in capacity building.
Wilson, Luo, Broadman (2005)

- Building on Previous World Bank research
- Evaluate reform in the following:
  1. Port Logistics (air and sea)
  2. Customs Environment
  3. Regulatory Environment
  4. Information infrastructure

Creating Country-Specific Indicators

- Consistency-- Country-specific information on a consistent basis from multiple sources for each indicator
Trade Facilitation Indicators: (Wilson, Luo, Broadman)

- Ports Customs Regulation IT infrastructure
- EU candidate countries average (4)
- New EU member countries average (8)
- Macedonia, FYR
- Serbia
- Russia
- Ukraine
- ECA average
- EU15 average
Trade Gains Raising Capacity Half-way to the EU Average

Total Trade Gain($178 billion) from ECA's Capacity Building

- Port $48 billion (27%)
- Custom $33 billion (19%)
- Regulation $27 billion (15%)
- IT infrastructure $69 billion (39%)

# Trade Gains from Reform – Raising Capacity Half-way to the EU level ($ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU New Members</strong></td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>16,830</td>
</tr>
<tr>
<td>Estonia</td>
<td>373</td>
</tr>
<tr>
<td>Hungary</td>
<td>22,493</td>
</tr>
<tr>
<td>Latvia</td>
<td>1,389</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2,282</td>
</tr>
<tr>
<td>Poland</td>
<td>32,656</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>7,928</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3,475</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>87,424</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>178,474</strong></td>
</tr>
</tbody>
</table>
### Trade Gains from Reform – Raising Capacity
Half-way to the EU level ($ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade Gains</th>
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</thead>
<tbody>
<tr>
<td><strong>EU Candidates</strong></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4,586</td>
</tr>
<tr>
<td>Croatia</td>
<td>3,108</td>
</tr>
<tr>
<td>Turkey</td>
<td>23,636</td>
</tr>
<tr>
<td>Romania</td>
<td>7,933</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>39,263</strong></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
</tr>
<tr>
<td>Macedonia FYR</td>
<td>1,327</td>
</tr>
<tr>
<td>Russia</td>
<td>42,717</td>
</tr>
<tr>
<td>Ukraine</td>
<td>6,299</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>1,443</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>51,787</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>178,474</strong></td>
</tr>
</tbody>
</table>
What About Trade and Transport?

  - New dataset on road networks and quality in Europe and Central Asia.
  - Estimate intra-regional trade gains with infrastructure upgrade.
  - Key bottlenecks?
New Road Network Data

- Computerized maps and spatial analysis software

- Network of minimum distance intercity routes covering:
  - 27 countries
  - 138 cities (all European and Central Asian cities with population > 300K)
Results: Big Gains with Road Infrastructure Upgrades

- Large potential trade gains with upgrading road infrastructure in Europe and Central Asia
- Region wide road upgrade - $74 billion trade gain.
- The bulk of gains with upgrades in Albania, Romania, and Hungary
- Gains from upgrading road infrastructure greater than from cutting tariffs but reduced trading time does matter.
Conclusions

- Trade gains are driven by raising capacity and reform in several areas but country priorities differ in SEE.

- Collective action to raise lower barriers can increase trade but domestic reform critical.

- Action on trade facilitation and infrastructure investment both matter.
Conclusions

- Trade agreements and cooperation in SEE?

- Central European Free Trade Agreement
  - Good platform for encouraging cuts in trade costs.
  - EU engagement critical.
  - New focus on development assistance and coordination?
Thank You

John S. Wilson
Lead Economist
The World Bank

jswilson@worldbank.org
http://econ.worldbank.org/projects/trade_costs