Fixing Trade Facilitation: The Trillion-Dollar Development Windfall

Primary tasks

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Trade facilitation, or the improvement of trade regulatory mechanisms to reduce barriers and costs to global business, is a big opportunity for limited international dollars. The December 2013 World Trade Organization's Bali agreement is an opportunity that donors and reformist governments should seize. In fact, trade facilitation does not require new trade agreements, but rather a renewed focus and some additional targeted resources from donors, and consistent political will from host country leaders. Trade facilitation is unfinished business and the Bali agreement allows us to finish the job while offering a "win win" pay off for developed and developing countries.

The new Bali agreement provides a new organizing platform for donors to work with partner countries. The Bali agreement specifically offers the US Government a new opportunity to organize its trade support assistance around a trade agreement—an approach that has gotten lost in the last five years as fewer bilateral trade deals have been consummated in the Obama Administration. As a result of less trade deals, the programming of US trade support monies has experienced bureaucratic drift. USAID should coordinate USG work on trade facilitation and USAID should program additional targeted trade facilitation monies work around the Bali Agreement.

A notional "take" on what the USG's needs in an integrated donor approach to trade facilitation is $150 million of new or reprogrammed monies. Given the huge shared trade gains between developed and developing countries this would be money well spent.

Fixing the plumbing of international trade will result in massive gains in additional global trade. In a recent study, the Peterson Institute for International Economics estimates that gains in trade facilitation could lead to a global GDP increase of almost $1 trillion. These gains would be shared more or less equally between developed and developing countries.

Although trade has a massively positive development impact, and the two areas, while inherently linked, are often artificially separated. The Bali agreement, as it winds its way through the system, is a step in the right direction. This agreement creates the global political space for donors and reformist governments to move to take advantage of existing trade deals.

Since fixing trade facilitation builds on already existing trade agreements, making it count is principally a development and diplomacy challenge and secondarily a trade policy one. It requires significant political will on the part of host country governments, targeted diplomacy and development resources, as well as patience from both donors and their host country partners.

Fixing trade facilitation is also not a question of large amounts of money, but it does require at least some funds and strategic coordination and thinking. One major challenge, at least in the U.S. context, is the intense competition for limited dollars and attention in a very crowded development assistance field. In this context, the political coalition that pushes trade deals through is primarily concerned with further trade enlargement, and that coalition's political influence does not carry over into the development sphere. Today trade facilitation receives the "crumbs" of diplomats' time and development money.

In addition, in the U.S. system, trade does not reside in the same congressional committees as foreign assistance, and there are different cultures within the development community among trade, diplomacy and development experts, who have different bureaucratic incentives for the many executive agencies and different congressional committees with overlapping jurisdiction for some activities. The level of lobbying effort and energy to get a trade deal completed does not carry over to securing the commitment to support implementation assistance. As a result, for most aid donors, including the United States, trade facilitation is de facto not a priority in terms of people, time, and money for limited assistance resource.

In this environment of reduced aid budgets and skeptical publics in many parts of the world, achieving real trade facilitation should be a winner both for global development and for developed country domestic consumption. It does not require additional legislation for another trade deal; rather, in most cases it is a matter of finishing the job on implementation of existing agreements and maximizing the potential gains from trade facilitation. The money and expertise exist, but there is a need for additional focus of money and some additional targeted resources to link them strategically for an extended period of time in order to finish the job.

Developing countries are already party to bilateral, regional and multilateral trade deals; however, many of these agreements are imperfectly implemented and unlikely to progress further assistance on implementation. A key provision of the Bali agreement is a commitment to help developing countries with this implementation challenge. Bilateral donors and multilateral institutions such as the WTO can play a fundamental role in helping these trade agreements realize their potential.
Official donors, for instance, can offer technical assistance and institutional capacity-building to assist with implementation of existing trade agreements. They can also be repositories of open-source knowledge to offer best practices to developing countries as they approach future free trade deals and assist them with creating legal frameworks to face the technical obligations and commitments of trade agreements.

Developed country donors need to identify as many as 40-60 countries of the 100 or so WTO developing/less developing Members that are politically willing and able to make the required legal changes and take actions to follow through on implementation by confronting politically sensitive issues or ending crony arrangements that hinder trade. Bilateral and multilateral donors need to do a better job of sharing best practices with developing countries and allocating donor responsibilities. Bilateral donors need to leverage the money, knowhow, and reach of multilateral development banks, and the multinational private sector likewise needs to help with implementation by making the right people, expertise and sometimes even financial resources.

In the context of the Bali agreement, the international community needs to identify a process to determine both needs and political will on the part of developing countries to actually make some hard decisions. Time is short, for many countries the initial decisions must be made by July 31. The process by which developing countries submit their wish lists is only part of the process. It is easy to ask for money, it is harder to determine whether a country receiving assistance will actually follow through on specific hard political or policy changes to actually implement the Bali agreement.

The international community also needs a process to divvy up the costs of carrying out these reforms. A 2011 World Bank assessment of Trade Facilitation estimated that trade facilitation needs were between $5-$10 million per country for technical assistance and technology adaptations. Most of the interventions are in the form of training, capacity building and certain kinds of technology adaptations (e.g. computers or scanners at border check points). These are relatively small dollar sorts of fixes that go a long way to “unclogging the pipes” of global trade. Some of this can be carried by the US bilaterally, some by other donors bilaterally, some by the multilaterals and some with certain kinds of private sector assistance but a process where the roles of donors are divvied up needs to be identified.

As part of this process, the U.S. government needs to identify a small amount of new or reprogrammed resources for a subset of these countries (say $5 million a country) for about 30 countries (approximately $150 million in total new monies or redirected monies) for a period of five years. The Bali Agreement offers the US Government a chance to reorganize its trade facilitation work around a global trade deal. Some of these monies could be “double counted” from any monies attached to a renewal of AGOA which is up in 2015.

A time limit of five years on these monies should be used as part of the negotiations with countries applying for additional assistance as part of the Bali process. Dedicating an additional set of resources for a fixed amount of time will create an incentive for countries to make decisions about timelines and also allow donors like the US to prioritize countries willing to make change.

U.S. Agency for International Development (USAID) should play a lead role in the USG. A USAID official should be appointed as a designated “U.S. ambassador for trade facilitation”, along with empowering USAID to manage, with appropriate inter-agency input, a new fund for Bali related technical assistance and capacity-building to start the job on the new agreement and finishing the job on trade facilitation for established agreements, such as the Central America-DR (CAFTA-DR) Free Trade Agreement. Trade facilitation is the lowest-hanging fruit in global development, and presents an enormous win-win opportunity for both developed and developing countries.

Daniel F. Runde holds the William A. Schreyer Chair in Global Analysis and directs the Project on Prosperity and Development at the Center for Strategic and International Studies (CSIS) in Washington, D.C.

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