Support to WTO Trade Facilitation Agreement is Insufficient or Misdirected

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Discussions in the WTO on how to implement the Bali Agreement on Trade Facilitation are facing several challenges including firm requests by developing countries to exempt food security programs from unfair-competition penalties (see Wise and Capaldo's recent article). In response, many international organizations have renewed their pledges to support the Agreement but their efforts appear either gravely insufficient or misdirected.

Trade facilitation reform poses three main problems: its expected gains of $1 trillion dollars for the global economy are largely overstated as they are based on a set of unjustifiable assumptions; its initial costs are substantial; its destabilizing potential is ignored in most discussions (see Capaldo, 2014, for more details). Unfortunately, none of the three main initiatives recently taken by international organizations in support of the Agreement addresses any of these problems.

The World Bank Trade Facilitation Support Program offers $30 million to help countries "devise and implement large scale reform[s]". Consistently, the World Bank estimates that "hard" infrastructure, such as ports and other large facilities, will be the main source of the gains from trade facilitation. At the same time, the United Nations estimates the implementation cost to be in the range of $1-15 million for each country obviously not including hard infrastructure. But assuming an optimistic $15 million per country and assuming that only 100 out of 160 WTO countries were to implement the Agreement, the total cost would be $1.5 billion. With a capacity of one fiftieth of what is needed, the Support Program has little chance of accomplishing its goal.

The WTO's Trade Facilitation Agreement Facility takes an indirect approach to the funding challenge by promising to help countries obtain funding from other sources. It does offer some financial support but only when other sources fail to materialize and only for investments in "soft" infrastructure of up to $200,000. Clearly, when other sources fail to materialize, limited investments in soft infrastructure, largely in the form of international consultancies, would hardly lead to a gainful implementation of the Agreement.

Finally, several international organizations, including OECD and various branches of the United Nations, offer Coordinated Assistance for Implementation of the WTO Trade Facilitation Agreement. This initiative provides technical assistance in designing the multiple policies required to implement the Agreement. However, it does not address the need of technical assistance arising from the risks of trade facilitation. In this sense, the joint effort is misdirected.

Since the Agreement has the potential of generating further economic instability and ill-distributed social costs, any initiative that aims at supporting countries in the implementation phase would have to address these problems. Strong systems of social protection offer the most effective defense against instability while contributing to other desirable social and economic goals. Unless this fact takes a principal role in global policy discussions, no trade agreement has serious chances of leading to sustainable and equitable growth.

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