

Report to the APEC Policy Support Unit

Reducing trade transaction costs in APEC economies by 5% – Progress with achieving the goals of TFAPII

**Interim Assessment of TFAPII (2006–2008) and Approach for the Final
Assessment (2006–2010)**

ITS Global in association with the Centre for Customs & Excise
Studies, University of Canberra and the Australian APEC Study
Centre, RMIT University

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Executive Summary

The Consultant was commissioned by the Policy Support Unit to review progress towards the TFAPII goal of reducing trade transaction costs in APEC economies by 5% by the end of 2010. The review specifically included an assessment of the reduction over the TFAPII period 2006–2008 for which data were available.¹

Findings

1. APEC is well on track to reduce trade transaction costs by 5% by the end of 2010. This is the leading finding of the Interim Assessment.

Trade transaction costs across APEC fell by 3.2% between 2006 and 2008. This exceeds the *pro rata* benchmark of 2.5% for the period if the 2010 target is to be achieved.

This is the result of Direct Estimation of the change by the Consultant. These estimates were based on data on the time taken by and fees and charges levied on trade transactions, collected for the *Trading Across Borders* component of the World Bank's *Doing Business Index*.

Gravity modelling of APEC trade flows implied that trade transaction costs had declined by more than 5%.

Since there are methodological uncertainties in both means of assessment, the Consultant recommends use of the more conservative assessment for policy purposes.

Gravity modelling shows cuts have been achieved in all areas of APEC and have expanded the value of merchandise trade by 15%.

2. Most, but not all, APEC economies achieved reductions in trade transaction costs.

Twelve of the 20 economies assessed achieved a real reduction in trade transaction costs. Eleven exceeded the 2.5% benchmark and four realized cuts of over 20%. These economies accounted for 55% of APEC merchandise trade in 2008.

Some economies, however, made little progress or regressed.

3. Reducing the time that regulation imposes on transactions reduces transaction costs more than cutting fees.

Across APEC, the fees and charges along the logistics chain increased by nearly 20%. Yet the reduction in time taken (6.3%) still delivered a net reduction in estimated trade transaction costs.

This indicates the aggregate cost of the time taken is substantially greater than the aggregate cost of the fees and charges. Accordingly, measures to facilitate trade should give priority to reducing the time required to comply.

4. Did policy actions contribute? At this stage, it is not possible to tell.

The Key Performance Indicators (KPIs) selected for TFAPII could not assess the contribution of public policy and operational changes by public sector border agencies to the overall reduction in trade transaction costs.

It is possible the some of the reductions in time taken were achieved by private sector initiatives.

¹ The Consultant assessed the changes in trade transaction costs in 2007 and in 2008 by comparison to 2006.

Recommendations to improve TFAPII

The Consultant was also asked to review key features of TFAPII, namely the definition of trade transaction costs, the appropriateness of its “Actions and Measures”, and the effectiveness of its KPIs in assessing how well the Actions and Measures performed.

It was to propose changes as necessary and has recommended that APEC:

1. Extend the definition of transaction costs for TFAPII to include “Ports, Terminal Handling and Inland Transport.”

The CTI agreed that the scope of TFAPII be expanded to include these links in the international logistics chain. Inclusion of Ports and Transport was recommended by the Consultant.

Subsequent research by the Consultant confirmed the importance of that decision – 60% of estimated costs occur in ports, terminal handling and inland transport links.

2. Revise TFAPII “Actions and Measures.”

The Consultant recommends that APEC members:

- Establish a specific set of “Actions and Measures” for Ports, Terminal Handling and Inland Transport; and
- Amend one “Action and Measure” in the Standards and Conformance area.

3. Adopt revised KPIs to measure trade transaction cost reductions.

New KPIs were proposed after the Consultant assessed that most of the TFAPII KPIs were incapable of measuring the impact their “Actions or Measures” had on reducing trade transaction costs.

This recommendation reflects consultations with, and agreement by, the relevant CTI sub-fora.

4. Commission research to implement new KPIs.

Implementation of some of the recommended KPIs will require new systems for data collection. Some will need independent research to be undertaken for sub-fora to determine how best to measure the changes in transaction costs.

Recommended methodology for the TFAPII Final Assessment

The Consultant was asked to recommend a Methodology for the Final Assessment of TFAPII on its conclusion at the end of 2010.

The Consultant notes that the Interim Assessment did not extend to evaluating the various contributions that public policy changes within APEC had made in reducing estimated trade transaction costs.

A Final Assessment which made such an evaluation would greatly assist in defining the most effective strategies for APEC policy makers to take to continue to facilitate trade and reduce transaction costs in the logistics chain.

Accordingly the Consultant recommends that APEC:

- 1. Commission empirical research before undertaking the Final Assessment to identify the contribution of public policy changes to the reduction in trade transaction costs; and**
- 2. Base the Final Assessment on the following five components:**
 - Direct estimation of the change in trade transaction costs over the TFAPII period, utilizing the annually updated World Bank data from its *Doing Business* project;
 - A Gravity Model of APEC trade flows to provide an indirect measurement of those costs over the Final Assessment period, as points of comparison and complementarity;
 - Utilization of data from measurement of performance against the revised KPIs;
 - A case study of real business transaction costs for a selection of products in a selection of APEC economies that are broadly comparable to the *Doing Business* data; and
 - An assessment of the public policy changes over the period and their impact in reducing measured trade transaction costs.