

# Enabling Trade

## From Valuation to Action

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# Foreword



Nils S. Andersen  
Chief Executive Officer,  
A.P. Moller-Maersk

In an interconnected world faced with both challenges and opportunities, enabling and growing trade is a key component in creating economic, social and environmental successes.

Last year's *Enabling Trade: Valuing Growth Opportunities* report demonstrated that reducing supply chain barriers is a uniquely effective measure to enable global economic growth. The report explored how reducing even a limited set of supply chain barriers halfway to global best practice could increase trade by 15% and gross domestic product (GDP) by nearly 5%.

The overall benefits to nations, producers and consumers are clear. However, making it happen is not as simple – particularly because supply chains cut across multiple stakeholders, requiring collaboration and leadership that goes beyond local constituents and borders. Accordingly, this year's *Enabling Trade: From Valuation to Action* report delves deeper into examples of practical application.

Firstly, the report explores how effective supply chains can alleviate a critical societal challenge that concerns all of us: the need to feed a growing population. Secondly, it takes a look at the automotive sector to get an industry-specific perspective. The report then turns attention towards regional trade agreements as a vehicle to achieve concrete results, specifically by observing the early progress on reducing barriers within the Pacific Alliance. And finally, it reviews border management, a key functional area with continued potential for reform.

As the report demonstrates, reasons for optimism exist, but more can be done. By removing barriers to trade, leaders have an opportunity to facilitate investment and employment in emerging markets, accelerate global economic growth and prosperity, and take real steps to reduce the substantial losses of food “from farm to fork”. Benefiting generations to come, this is an opportunity – and challenge – we should seize.

# Introduction

## Implementing Trade Facilitation and Understanding New Challenges

Businesspeople the world over are looking for practical ways to sell into new markets and buy from whoever can offer them the best product. Small and medium-sized businesses, emboldened by the promise of e-commerce, look much further afield than they ever did before, while large industrial companies work to serve newly prosperous economies and cut costs in the face of new competition.

Governments recognize this opportunity and aim to welcome global value chains, both through domestic reforms and international negotiations. Increasingly, the challenge is how to implement reform. In a world where average tariffs have fallen into single digits, meaningful reforms require a much wider set of stakeholders to build the conditions for global supply and value chains.

Following the successful negotiations at the World Trade Organization's (WTO) Ministerial Conference in Bali, Indonesia in late 2013, the WTO and the world are faced with both the implementation challenge and the question, "What's next for trade facilitation?" The Trans-Pacific Partnership Agreement and the Transatlantic Trade and Investment Partnership, for example, are designed to be "deep" trade agreements, reaching far behind the border to enable equitable transnational commerce.

This effort is eminently worthwhile. The World Economic Forum's *Enabling Trade: Valuing Growth Opportunities* report, produced in 2013 with the support of the World Bank and the management consulting firm Bain & Company, found that reducing even a restricted set of supply chain barriers halfway to global best practice would yield a nearly 5% increase in GDP, or six times the benefit of removing all remaining tariffs. The benefits to emerging nations, in particular in Africa and South-East Asia, would be proportionally much higher.

Business is looking for a modular, harmonized way to operate. Here, it is useful to recognize the importance of foreign direct investment; sales by foreign-owned firms are roughly 50% higher than world merchandise trade (US\$ 26 trillion vs US\$ 18 trillion, respectively<sup>1</sup>). Increasingly, firms are considering whether they can set up sourcing and distribution operations in a similar way across many countries.

To allow a "plug and play" approach to trade and investment, multiple agencies within national governments (e.g. customs authorities) need to consider how their domestic requirements may affect the international supply chain.

Given that they may already benefit from tariff preferences, non-tariff reforms are particularly important for low-income countries. The ability to contribute to a global value chain through task specialization is an opportunity open even to very low-income countries, provided they can meet the international norms for that task. Meeting those norms becomes a tipping point for trade.

## Enabling Trade: From Valuation to Action

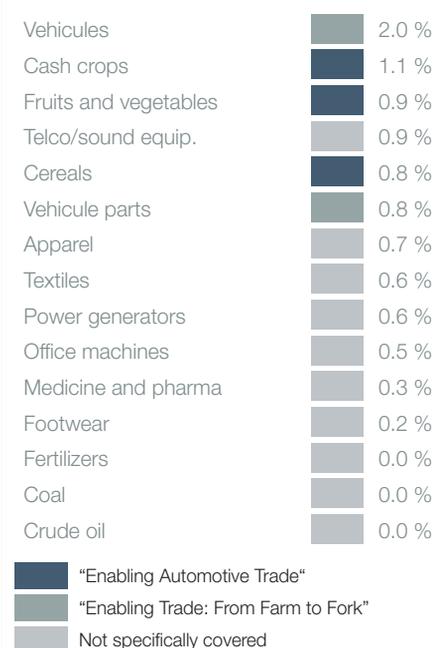
This report stems from an effort to support implementation of Enabling Trade reforms.

Importantly, it was apparent that making the case to trade officials or learning only from traders would not suffice. Behind-the-border issues can be advanced only by involving a wider range of interest groups and decision-makers. We should not underestimate the extent to which conversations and decisions occur in functional silos, as busy people try to deliver on the responsibilities of their day jobs. We need to help others "think supply chain," and to do that, we need first to learn to think as they do.

The Enabling Trade initiative therefore delved deep into several sectoral, regional and functional priorities. The two sectors covered – agriculture and automotive – are not only massive drivers of the global economy, but also among the most vulnerable to delays (Figure). As a regional priority, the Pacific Alliance represents a bright spot of political will to deepen economic integration through facilitating regional trade. Border administration, as the functional priority, is top-of-mind for both policy-makers and business leaders, and was a primary component of the 2013 WTO negotiations.

### Figure: Sectors Covered in This Report Are among the Most Vulnerable to Delays

Tariff equivalent for Value of Time Saving per Day (2007)



Source: United States Agency for International Development (USAID), March 2007. "Calculating Tariff Equivalents for Time in Trade"

## Enabling Trade: From Farm to Fork

First, speaking to what's important in agribusiness means recognizing the challenge of doubling food output in the next few decades, to cope not only with growing populations but also a shift by wealthier consumers to richer diets, and increasing demand from bio-energy producers for resources. It also means recognizing the sustainability challenges of a sector responsible for 14% of the world's greenhouse gas emissions,<sup>2</sup> 70% of its freshwater consumption,<sup>3</sup> and the livelihoods of billions of the world's poorest people.

In this context, supply chain reforms are a great contributor to reducing food loss: of all food produced, 30% is lost before it is consumed. The nature of this loss is different in high- and low-income countries; in the former, consumers play a large part in generating food waste, while in the latter, loss occurs primarily at pre-consumer stages. Agricultural development efforts focus primarily on increasing production. Introducing the concept of loss and waste as symptoms of supply chain barriers provides new motivations to tackle those barriers, and an opportunity to resolve core agricultural concerns. In particular, by highlighting the means to cut early-stage value leakage, the hope is to improve the share of value flowing to the poorest farmers.

## Enabling Automotive Trade

Second, the automotive industry, another sector familiar with trade disputes, is examined. In this case, motivation is driven as much by opportunity as by design. We respond to an interest from senior automotive executives in the Enabling Trade programme, as well as an invitation by the WTO's director-general for these executives to assemble an industry viewpoint on current trade challenges.

Rather than assessing individual challenges in depth, an overview was compiled of the issues raised by a global sample of the industry's suppliers and vehicle manufacturers. The interest here comes from the close consensus on priorities among fiercely competitive global manufacturers. What is more, this politically-connected industry, with strong experience in foreign direct investment and sometimes conflicting interests between local protection and global openness, is beginning to look beyond the battlefields of tariffs and local content requirements. Aiming to cut costs from global value chains, the focus turns towards border delays and synchronized regulations.

## Enabling Trade in the Pacific Alliance

The third area of implementation interest is the Pacific Alliance. This grouping of Chile, Colombia, Mexico and Peru (and next-in-line Costa Rica and Panama) has caught the attention of business with its ambitions for rapid integration. In a region with strong ideological differences and low intraregional trade (only 6% of exports), business is keen to support a promising initiative.

The Alliance's objectives include immediate tariff elimination for the vast majority of goods, harmonization of rules of origin, mutual recognition of regulatory standards, connection of single windows and elimination of visa requirements. Initial progress is promising; for example, 90% of tariffs have already been eliminated.

The Enabling Trade programme attempts to contribute to this progress by convening leaders from business and government throughout the year, and by further illustrating priorities through a regional business survey and case studies conducted together with the Inter-American Development Bank. The biennial global Enabling Trade Index will be launched in Panama in 2014 with particular focus on the region.

## Enabling Smart Borders

Finally, the report looks at implementing reform in a functional area – border management – with a particular focus on digitization. The pursuit of electronic trade management systems, a core recommendation of the last Enabling Trade report, is seen by business as a potential quick win, with relatively low investment requirements and relatively few decision-makers to align.

In many cases, the private sector is eager to provide input and, where appropriate, help accelerate reform through partnerships. Additional urgency and need for dialogue is provided by ambitions for e-logistic ecosystems in which data interchange between business and government will play a crucial role.

## Conclusions

Practical trade facilitation remains a priority for economic development. The participants in the Enabling Trade programme reiterate their recommendations to governments to take a supply chain approach for trade reform, both in international coordination and domestic action. In return, supply chain facilitation appears to have a particularly successful record in enabling development.

The shift in the focus of trade facilitation towards supply chain improvement and coordination requires greater involvement of domestic actors beyond the trade community. To build support from these communities, trade facilitation efforts need to understand sectoral concerns and be understood in the context of those concerns. Only then can faster progress be made in harmonizing supply chain environments to allow plug and play trade. Happily, this leads to a practical pathway for implementation aimed at improving quality of life and expanding opportunities for everyone.

## Endnotes

1. Hoekman, B. "Governance of Deeper Economic Integration in a Supply Chain World". European University Institute and CEPR. DRAFT, October 20, 2013.
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## Project team

- Marisol Argueta, Senior Director, Head of Latin America, World Economic Forum
- Jieun Chung, Senior Manager, Supply Chain and Transport Industry, World Economic Forum
- Sean Doherty, Director, Head of Supply Chain & Transport Industry, World Economic Forum
- Fernando J. Gómez, Associate Director, Latin America, World Economic Forum
- Mark Gottfredson, Partner, Bain & Company
- Abby Gray, Case Team Leader, Bain & Company
- Gerry Mattios, Principal, Bain & Company
- Christophe Menger, Senior Associate Consultant, Bain & Company
- Alex Mitchell, Director, Head of Automotive Industry, World Economic Forum
- John Moavenzadeh, Senior Director, Head of Mobility Industries, World Economic Forum
- Philipp Saylor, Associate Director, Automotive Industry, World Economic Forum
- Dimitri Sculy-Logothéti, Senior Associate Consultant, Bain & Company
- Tania Tanvir, Senior Project Manager, Consumer Industries, World Economic Forum

## Other key contributors and reviewers

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## Consultative group

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