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WTO Trade Costs Index: Main Drivers in Landlocked countries

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
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World Trade Organization

Trading Food for Sustainable Development
UNCTAD, 25 November
WTO Trade cost index main findings

• Trade costs highest for LLDCs

• This is largely the result of transport costs and non-tariff measures
Total trade costs highest for LLDCs

WTO trade cost index

- Landlocked countries (LL) 30% higher than Coastal
- Landlocked developing countries (LLDCs) 50% higher trade cost than Coastal
Drivers of Trade Costs

Transport and travel
Distance, quality infrastructure, landlocked

Trade policy, customs procedures and regulatory differences

Information and transaction costs
Common language, history, culture
ICT connection

Governance quality
Drivers of Trade Costs: Fact 1

This decomposition shows to what extent various factors contribute to explaining the variation in bilateral trade costs.

Transport and travel costs explain 25% of differences in trade cost for landlocked countries.
Transport costs: The key determinant of variation of trade costs across sectors

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Hunting, Forestry and Fishing</td>
<td>26%</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>24%</td>
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<tr>
<td>Manufacturing</td>
<td>29%</td>
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<tr>
<td>Chemicals and Chemical Products</td>
<td>34%</td>
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<tr>
<td>Rubber and Plastics</td>
<td>33%</td>
</tr>
<tr>
<td>Wood and Products of Wood and Cork</td>
<td>33%</td>
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<tr>
<td>Basic Metals and Fabricated Metal</td>
<td>31%</td>
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<tr>
<td>Textiles; Leather Products and Footwear</td>
<td>31%</td>
</tr>
<tr>
<td>Food, Beverages and Tobacco</td>
<td>30%</td>
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<tr>
<td>Other Manufacturing; Recycling</td>
<td>30%</td>
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<tr>
<td>Pulp, Paper, Printing and Publishing</td>
<td>29%</td>
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<tr>
<td>Other Non-Metallic Mineral Products</td>
<td>29%</td>
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<tr>
<td>Transport Equipment</td>
<td>28%</td>
</tr>
<tr>
<td>Other Machinery</td>
<td>25%</td>
</tr>
<tr>
<td>Electrical and Optical Equipment</td>
<td>23%</td>
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</tbody>
</table>

Source: WTO Global Trade Cost Index (2021)
Drivers of Trade Costs: Fact 2

This decomposition shows to what extent various factors contribute to explaining the variation in bilateral trade costs.

**Trade policy** matters for 28% of total trade costs differences among Landlocked countries. NTMs are the major component.
What does this mean?

• Covid19 has proved particularly challenging for LLDCs
  - high shipping costs, delays at borders

• Important to increase efforts to:
  • Implement TFA (WTO can help through the A4T, EIF and TFA Facility)
  • STDF also important to address NTMs
  • But also, cooperation to improve transport infrastructure of LLDCs and transit countries
  • And, foster digital connectivity (this is key to help diversify the economies)
    • E.g. During the pandemic exports of some LLDCs is computer services have boomed

• High shipping costs may be temporary, but they have highlighted
the need to build more resilient economies
  • Diversification
  • More competition in the shipping industry? Air transport investments and agreements?