



Trade Issue Brief

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Benjamin J. Taylor and John S. Wilsonⁱ

Trade Facilitation Reform Promises Large Gains to Trade in Mexicoⁱⁱ

According to research at the World Bank, trade facilitation efforts in Mexico and its primary trading partners have the potential to increase Mexican exports by \$34 billion a year.

The study estimates that these improvements could increase Mexican imports by \$16.5 billion per year, or about 15.2 percent of Mexico's average imports for the years 2000 to 2003. Combining both Mexico's unilateral reforms and those of its trading partners yields improvements in Mexico's export and import flows of 24 and 15.2 percent, respectively. As a result of increases in trade volumes, the study estimates that new jobs would also be created in Mexico (Soloaga, Wilson, and Mejia—SWM 2006).

Building Mexican Competitiveness

Mexico has a strong opportunity—and incentive—to continue to expand productivity and economic growth and reduce poverty. This includes continued cuts in red tape, lowered border barriers, and reforms to decrease trade costs. Mexico's trade policy liberalization programs over the past two decades have reduced poverty by more than 3 percent (Nicita 2007). The benefits, however, have been distributed unevenly across regions and sectors of the economy due to a lack of complimentary trade reforms.

Increases in wages for skilled labor, for example, have outpaced increases in unskilled wages, leading to greater overall inequality in wealth. This disparity is particularly evident in the central and southern regions of the country, which have poorer infrastructure and institutional capacity. By contrast, the wealthier northern states, which have better links to the U.S. market and increased access to foreign direct investment, have benefited immensely (Nicita 2007).

According to the World Bank's Doing Business 2008 survey, more than two-thirds of the costs associated with importing goods into Mexico are related to inland transportation. By contrast, Mexico scores well in contrast to other middle-income countries when

considering the number of documents required to process border transactions.

In fact, the average amount of documentation required for cross-border transactions in Mexico is on par with OECD countries. Nevertheless, the benefits of performing so well in certain trade-related measures cannot be fully realized if other transaction-related aspects remain expensive. Due mostly to the cost and difficulty of inland transport, the average per container import cost for Mexico is about \$900 more than other comparably developed countries, and is almost double the regional average (\$2,411 versus \$1,208). The average amount of time to export goods is 17 days, almost double the OECD average (Doing Business 2008).

The Model

Within this context, SWM (2006) examine the potential impacts of trade facilitation reforms in four areas: port efficiency, customs, information technology, and regulatory environment (including standards). The authors follow a simulation strategy that uses a formula to design a unique program of reform for each country in the sample, and apply it to the specific case of Mexico. The formula brings below-average countries in the group half-way to the average for the entire set of countries. The standard

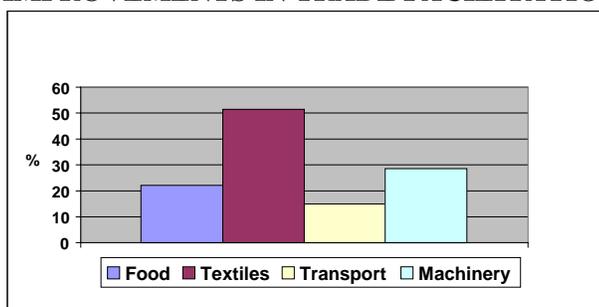
gravity formulation includes various measures of market size (gross domestic product per capita), measures of remoteness (distance and adjacency), and measures of kinship (regional trade arrangements and language/ethnic similarities). To this basic formulation the authors add tariff data and the trade facilitation indicators.

Mexico’s baseline share in global industrial exports is 3 percent overall. It is between 2.7 percent for food, beverages, and tobacco, and 4 percent for vehicles and machinery—the sectors considered here. With respect to imports, Mexico’s overall share is about 3 percent as well. Imports for the food, beverages, and tobacco sector represent 1.6 percent of global total imports. The textiles and vehicles sector represents about 2.6 percent of global imports, and the machinery sector represents about 3.8 percent.

Simulation Results

Chart 1 indicates that the simulation yields a relatively high impact on textile exports (51.5 percent), and, although still important, lower percentage impacts in machinery (28.6 percent); food, beverages, and tobacco (22 percent); and vehicles (15 percent). In all these sectors, more than 80 percent of the expected increase in exports is due to Mexico’s unilateral improvements in trade facilitation measures.

CHART 1: EXPECTED IMPACT ON MEXICAN INDUSTRIAL EXPORT VALUES FROM IMPROVEMENTS IN TRADE FACILITATION

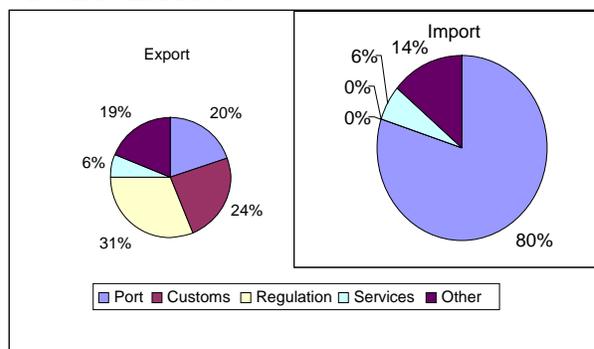


With respect to Mexican imports, the simulation yields a higher percentage impact on food, beverages, and tobacco imports (21.8 percent) and textile imports (14.1 percent), and lower impacts in machinery (8.2 percent) and in vehicles (2.9 percent). At the aggregate level, 80 percent of the changes in imports are due to

Mexican reforms in trade facilitation, in particular improvements in port efficiency.

Chart 2 shows a summary of expected impacts, by sector, of unilateral reform on exports and imports as a share of the overall effect of the simulations. On the export side, the regulatory environment seems to be most important, as it accounts for 31 percent of the increase in exports. However, port efficiency and the customs environment are also important determinants of the changes estimated, each accounting for more than 20 percent of the change in exports.

CHART 2: SHARE OF MEXICAN EFFORTS IN TRADE FACILITATION ON TOTAL IMPACT OF SIMULATIONS



With respect to imports, improvements in port efficiency proved to be the most important factor; it accounts for about 80 percent of the increase in incoming trade volumes. At the sector level, improvements in port efficiency account for 69 and 54 percent of the increment in the imports of food and machinery, respectively.

The Wider Potential Benefits of Reform in Mexico

SWM (2006) further the analysis by making an assessment of the likely impact of the simulated trade volumes on Mexican labor demand. The increase in exports produces demand for new jobs; changes in imports also contribute to employment expansion. About half the increased labor demand comes from the textile sector, which has the highest demand elasticity to international trade (0.062) and also the highest expected increase in exports and imports (46 and 14 percent, respectively).

It is increasingly evident that the scope and benefits of unilateral trade facilitation reforms could be very large for Mexico. The expected increases of about 24 percent for exports and about 15 percent for imports suggest that trade facilitation measures should continue to be among the important areas for continued reform in 2008 and beyond.

Among specific policy options to be considered are customs modernization, road infrastructure development, and rail sector reform. The Mexican customs system should continue to work toward greater modernization so as to reduce the transaction costs of importing and exporting goods, as well as toward greater security. This could be achieved through the adoption of new risk assessment procedures and an electronic “single window” medium.

In addition, Mexico has the ability to further utilize innovative financing schemes that have recently been made available in order to accelerate improvements in its national highway system. Road networks leading to land ports, for example, are in dire need of investment in order to make them more suitable for use by heavy vehicles. Presently, heavy trucks are destroying access roads to major boarder cities, thus increasing truck operation costs along these corridors.

With respect to the rail sector, there are two main policy issues that need to be addressed in order to increase efficiency. The first is the lack of an agreement between rail concessionaires on track rights and interline connections. The second is antiquated requirements that necessitate crew changes at border crossings. Both practices increase rail transport costs and divert traffic to other modes of transport that are already overburdened (CEPAL 2007).

Further Reading

Nicita, Alessandro. 2004. “Who Benefited from Trade Liberalization in Mexico?” World Bank, Washington, DC.

Soloaga, Isidro, John S. Wilson, and Alejandro Mejia. 2006. “Moving Forward Faster: Trade Facilitation Reform and Mexican Competitiveness.” World Bank, Washington, DC.

Villa, Juan Carlos. 2007. “Transaction Costs in the Transportation Sector and Infrastructure in North America: Exploring Harmonization of Standards.” CEPAL. (August).

World Bank. 2008. “Doing Business 2008.” World Bank, Washington, DC.

World Bank. 2003. “Lessons from NAFTA for Latin America and the Caribbean Countries: A Summary of Research Findings.” World Bank, Washington, DC.

World Bank. 2007. “Mexico: Trade Brief.” World Bank, Washington, DC.

ⁱ The findings, interpretations, and conclusions expressed in this paper are entirely those of the authors. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

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