

Trade Costs

World Bank

May 15, 2008

What do we know?

- Trade costs matter
 - Obstfeld and Rogoff (2000)
 - Trade costs explain 6 major empirical puzzles
 - Feenstra (JEP 1998)
 - \$10 Barbie doll
 - \$1 labor and materials
 - Design US, production China, materials other Asia.
 - Transportation more important than production costs.
 - Anderson and van Wincoop (2004)
 - Trade Costs twice as large as production costs and are an important source of comparative advantage

How do trade costs matter?

- Distance matters a lot
 - Too many papers to mention-distance has not died!
- Time costs matter
 - ad valorem shipping costs roughly constant over time air costs have come down by a factor 10 (Hummels 2007)
 - Each day saved worth 0.8 ad valorem tariff (Hummels 2001).
 - a day is equal to 1 percent of trade or 70 km Djankov, Freund and Pham (2006) .
- Shipping costs matter
 - eliminating market power in shipping would increase trade by 5-15 percent (Hummels, Lugovsky and Skiba, forthcoming).

Where do we go?

- How important are administrative versus structural costs of trade?
 - Doing business data suggest that about 70 percent of time costs are administrative.
 - Is gain in trade from decline in administrative costs the same as from improved infrastructure.
 - How do these costs vary across regions/countries.

Where do we go?

- Work has focused on benefits of improved trade facilitation, what about the costs.
 - How expensive is improved ports, customs, roads etc?
 - What are the political costs of reducing administrative costs?

Where do we go?

- Better analysis
 - Better data, doing business and the logistics indicators a step in the right direction.
 - Use of time-series data. Most analysis has been cross section. Examining time-series changes more precise.

Where do we go?

- More work on telecom revolution and services trade
 - The internet has greatly facilitated outsourcing of services (Freund and Weinhold 2002).
 - In services, variable trade costs can be minimal.
 - How can more countries, especially remote ones, benefit from this?

Containerization: Newark, NJ



Containerization: Conakry, Guinea

