

Lowering Trade Cost for Development in Africa

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The views are those of the authors and do not necessarily represent those of the World Bank, Executive Directors, or the countries they represent



Overview

- Introduction
- Trade Costs
 - What we know – or think we do
 - A summary of the specifics for Africa
- Suggestions on Future Research

Trade Costs and Facilitation

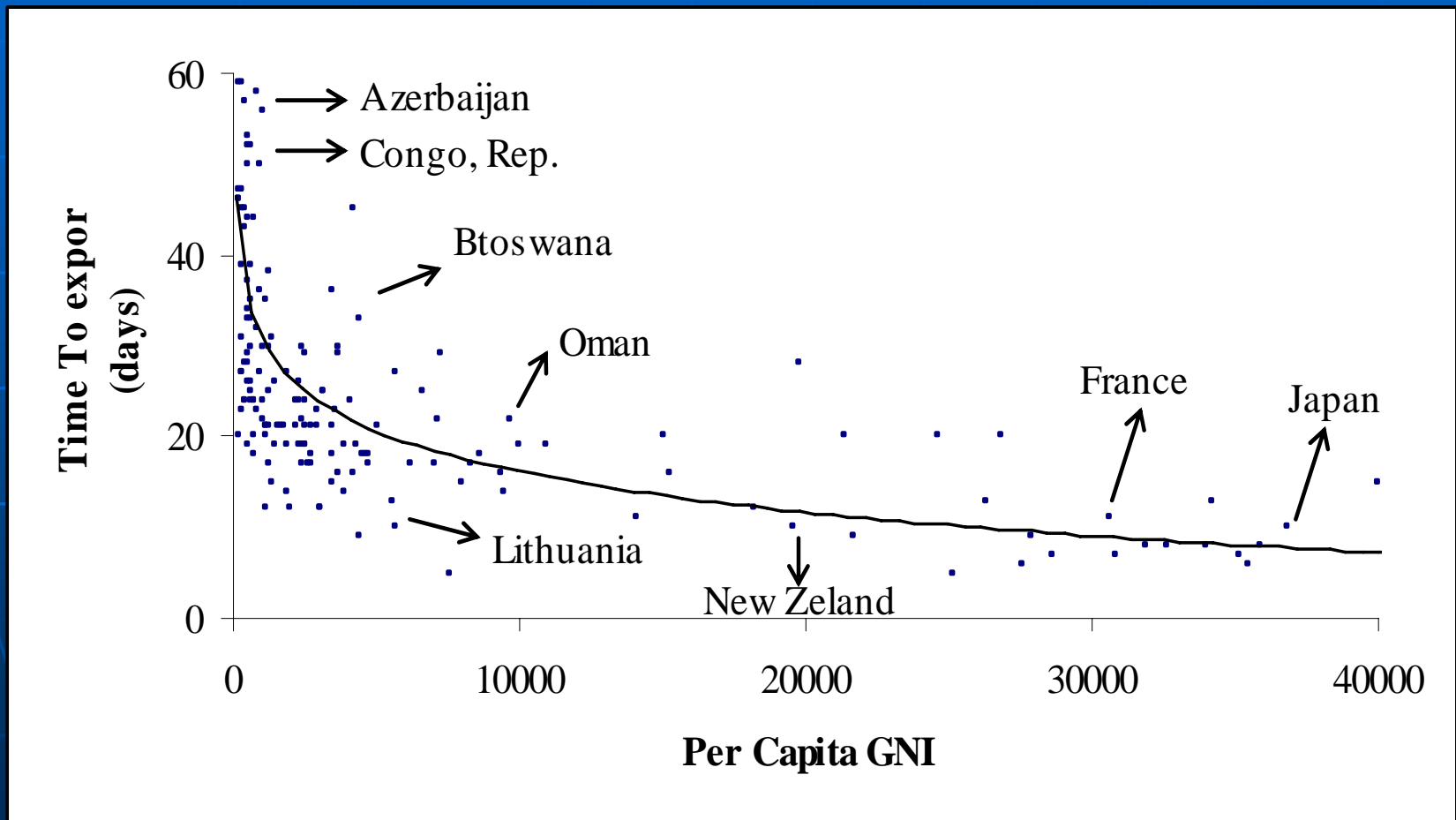
- No standard definition
- Narrow sense
 - Logistics of moving goods through ports or more efficient custom rules for cross-border trade
- Broader sense
 - Environment in which trade transaction take place; transparency of regulation, harmonization of standards, and infrastructure.

Quantifying the Impact

- Trade cost do matter, but importance in overall context differs by country and region.
- Rule of law, states in cyclical conflict, macro issues, landlocked states, etc.

What We Do Know.....

Trade costs are high in poor countries...



Source: Doing Business Report (2008)

The Data Confirm This.....

(average cost)

	High Income	Middle Income	Low Income
LPI (Score)	3.9	3.0	2.8
Trade Facil. (Score)	6.1	4.2	3.7
Services (Score)	15.9	33.7	44.9
DB Import (US\$)	813.6	1024.2	1212.0
DB Export (US\$)	774.4	867.2	949.3

How Do Trade Costs Matter?

■ Distance and Time

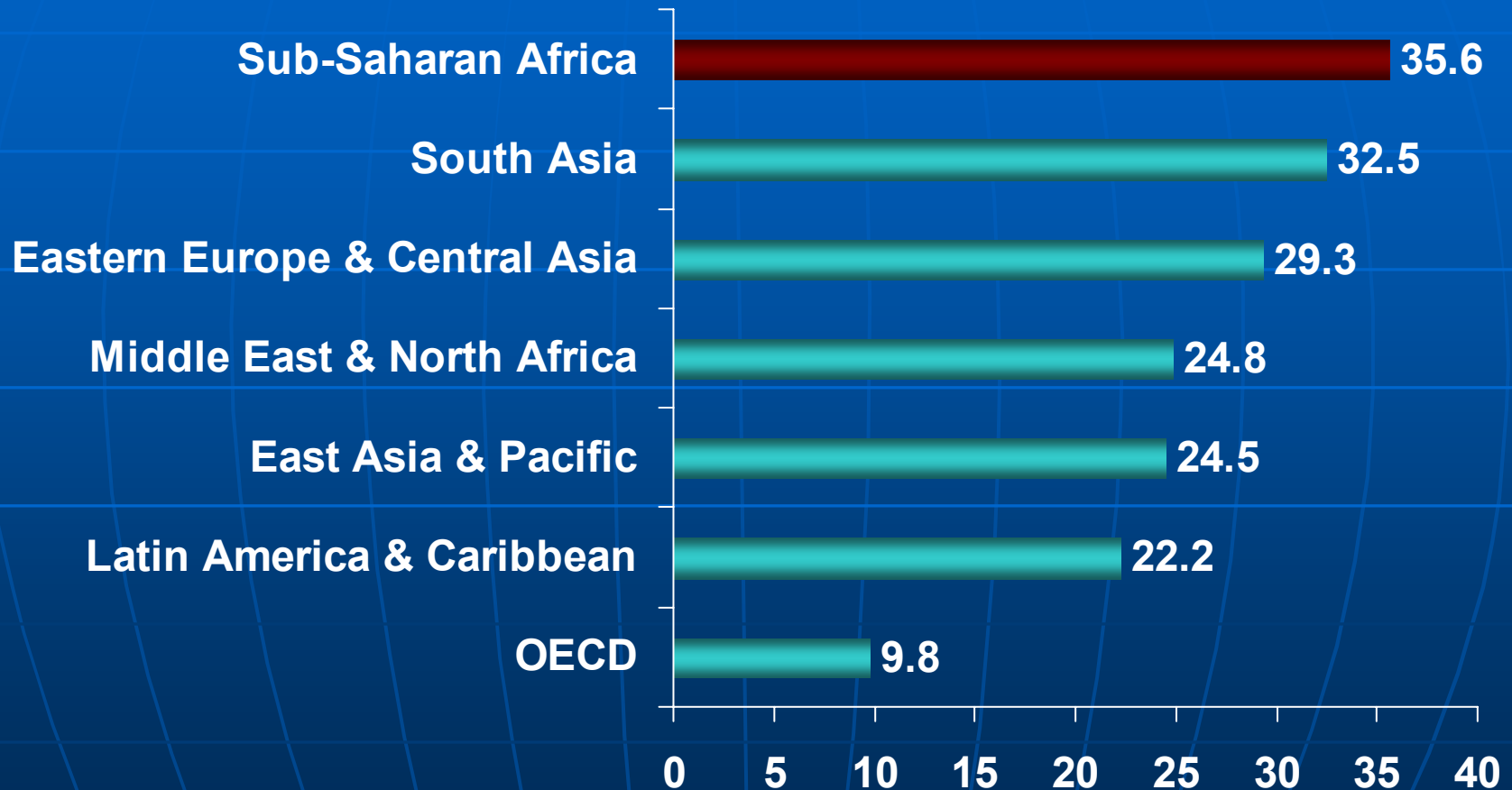
- Additional day of delay in shipping reduces trade by 1 percent. Equivalent to 70 km.

Djankov, Freund and Pham (2006)

- Impact of distance on trade has increased over time for low income countries (total sample 138 countries 1962-2006).

Carrere, De Melo and Wilson (mimeo)

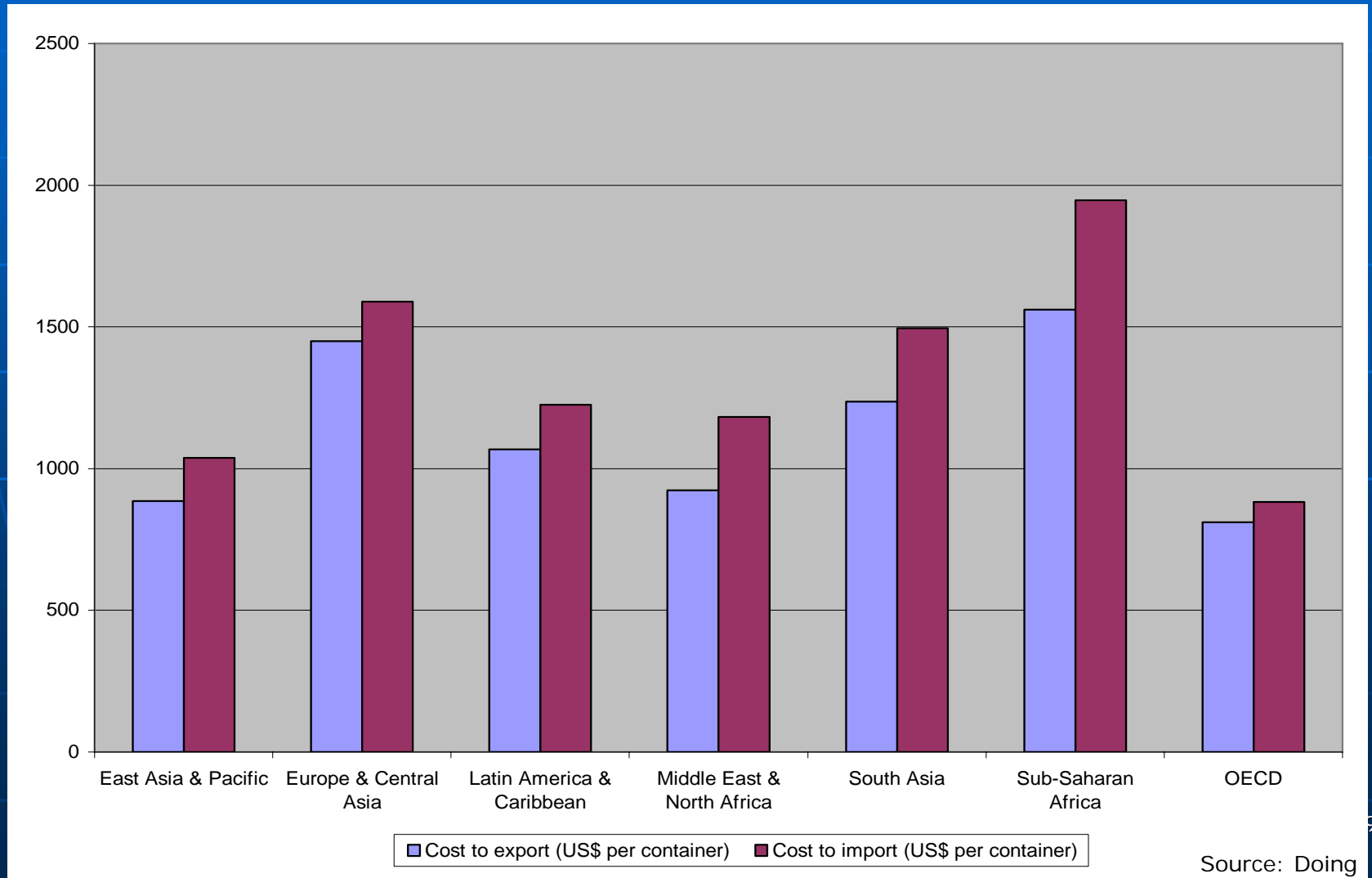
Average Time to Export (# of days)



Source: Doing Business Report (2008)

The Price of Crossing a Border

Export and Import cost in USD



Source: Doing Business

How Trade Costs Matter

■ Transparency and regulation

- Regulatory convergence a greater payoff than reduction in tariffs and NTMs for developing countries

Hoeckman and Nicita (mimeo)

- For Africa, EU regulation harmonized to ISO standards are less trade restrictive.

Czuabla, Shepherd, and Wilson (2007)

- A 10% increase in restrictiveness (European aflatoxin standards) reduces trade in 11% in Africa groundnut exports.

Otsuki, et al (2001)

How Trade Costs Matter

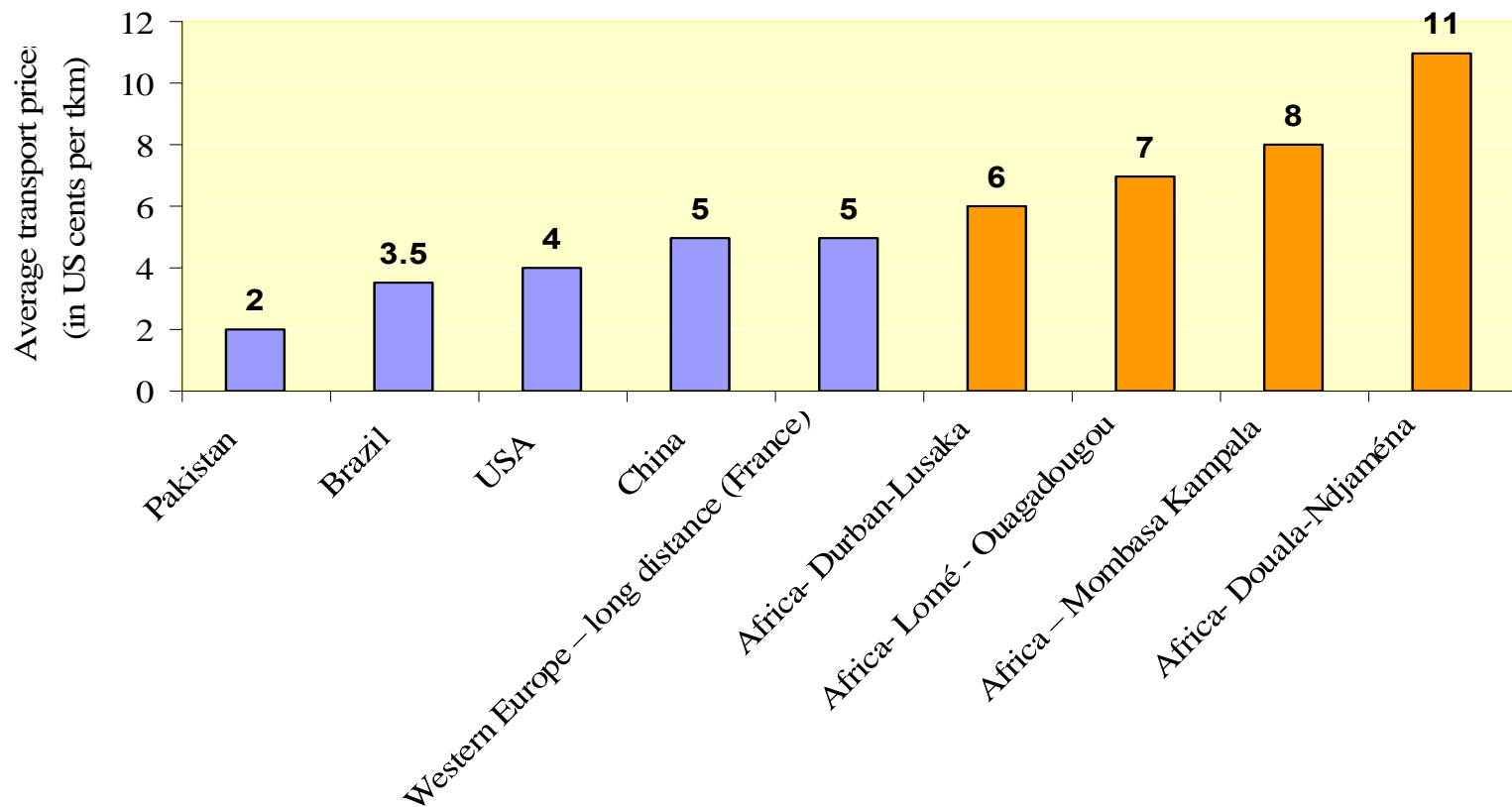
■ Infrastructure

- Road upgrade in Africa could expand trade \$250 billion over 15 years.
- Financing the program would require about \$20 billion for initial upgrading and \$1 billion annually for maintenance.

Buys, Deichmann and Wheeler (2006)

How Trade Costs Matter?

- Transport Services in Africa are expensive... especially for landlocked countries



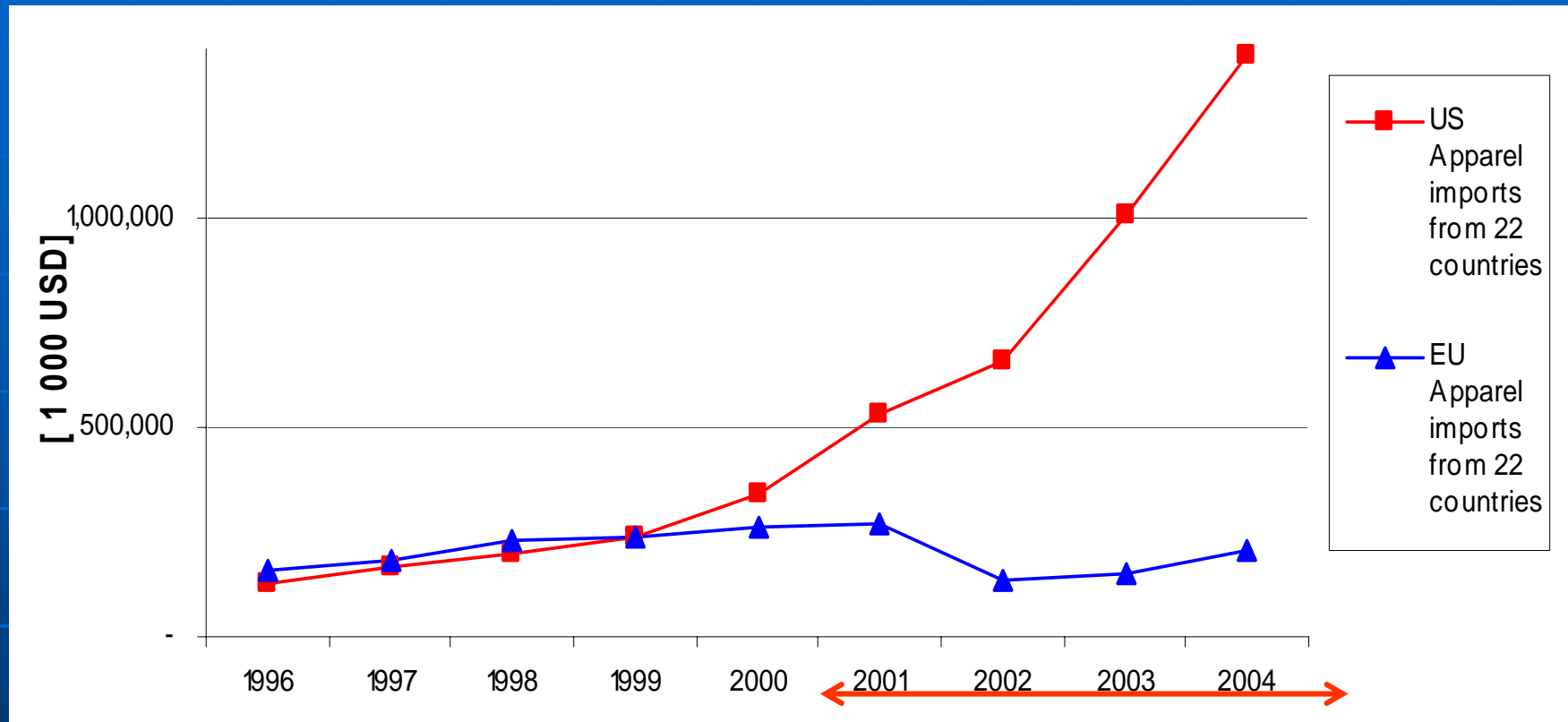
How Cost Matter...

- Regional Agreements and Rules of Origin
 - To benefit from preferences, goods should comply with Rules of Origin (RoO) defining «substantial transformation».
 - Primary role to prevent trade diversion but interests groups can capture them
 - Strict RoO erode trade preferences, by raising costs:
Example 1:. Trade-weighted ad-valorem estimates of compliances costs of rules of origin for PANEURO are of **4.7 – 8.2 percent**. Cadot et al. (2007):

How Cost Matter...

- RoO can raise costs...
 - **Example 2:** 22 least developed African countries, have similar preferences, but small difference:
 - **EU: double transformation**
yarn → fabric → apparel
 - **US: simple transformation (from 2001)**
yarn → fabric → apparel
(natural experiment)

Apparel exports of 22 African countries



AGOA's « Special Rule »

- Controlling for other factors, the AGOA's Special Rule accounted for 300% in exports raise.
- AGOA-SR is associated w/ more varieties of apparel

Portugal-Perez (2007)

Informing the Reform Agenda

- The impact of Trade Facilitation
 - Ports and services infrastructures are the main trade facilitation indicators that raise intra-African trade
 - Customs and regulatory environments are the factors that lower intra-African trade

Njinkeu, Wilson and Fosso (mimeo)

The Link to Poverty

- Tobacco club membership in Malawi increases output per acre 40-74 percent and an increase of between 45-89 percent in tobacco sales per acre.

Negri and Porto (2008)

- Households producing export crops in Uganda less likely to be poor than households that not involved in export markets. Doubling export participation reduces poverty by 13 percent.

Balat, Brambilla and Porto (2008)

Summary

- Regulatory reform and transparency are key reform priorities.....but specific agendas differ by region and country.
- The details matter.....but.....
- No reform agenda will succeed without rule of law, reducing power of protectionists.

Next Steps.....

- Soft or hard infrastructure?
- Cost / benefit trade-offs.
- Discussion of the details
- Let's work together
- The Bank's commitment to policy relevant analysis

Thank You

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http://econ.worldbank.org/projects/trade_costs