Reducing Trade Costs for Least Developed Countries (LDCs)

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Outline

• Introduction

• Salience of trade costs for LDCs

• Changing structure of trade costs in the last decade

• Evolving priorities of LDCs in addressing trade costs

• Role of Aid for Trade (AfT) in reducing trade costs

• Conclusion
Introduction

• Increased visibility of trade costs as a barrier
• LDCs taking initiatives; starting with low base
• Domestic stakeholders can play a limited role
• LDCs receiving AfT for pursuing this objective
• Several drivers of change
• EIF and various other initiatives contributing
• AfT more effective, if some conditions are met
Some stylized facts

- Trade costs in LDCs not falling as steeply as they should (Arvis et al., 2013)

- LDCs‘ participation in Global and Regional Value Chains (GRVC) increasing but limited (ITC 2013)

- LDCs‘ export concentration very high; urgent need for diversification (ITC, 2013); attempts so far not successful (Nicita et al., 2013; Fernandes et al., 2013)

- Most LDCs handicapped by several natural barriers that add to their trade costs; climate change vulnerability included (Bruckner, 2012)

- Most firms in LDCs being Small and Medium Enterprises (SMEs) face a disproportionately higher burden of trade costs (ITC and WTO, 2014); more so for the imports of inputs
Trade costs in LDCs vary significantly across different categories

LDCs from different sub-regions

- In some sub-regions, costs are high and have increased significantly

Figure 1a: Import costs in Central Africa sub-region, 2005-2014 (USD and % change)

Figure 1b: Import costs in South Asia sub-region, 2005-2014 (USD and % change)

Source: Doing Business Database, World Bank
**Landlocked LDCs**

- Landlocked LDCs faced higher initial costs compared to coastal LDCs, and they are rising steeply.
- They incur 180% higher costs for their imports, compared to costal LDCs.

**Figure 2: Import costs of landlocked vs. coastal LDCs (USD), 2005-2014**

Source: World Bank
Commodity-exporting LDCs

- Commodity-exporting countries face higher costs compared to the overall LDC average
- Mineral-exporting countries face the highest trade costs within this category, which also happen to be landlocked ones

Figure 3: Export costs for commodity-exporting LDCs, 2005-2014 (USD)

Source: World Bank
Fragile LDCs

- Fragile LDCs face higher trade costs compared to LDC average
- Some sub-regions within this category, such as Central Africa and South Asia, face much higher trade costs compared to others
- When landlocked countries are removed from the list, the result is different

Figure 4: Costs of exports in fragile states, sub-regions and LDCs (USD), 2005-2014

Source: World Bank
Changing structure of trade costs in the last decade – I

• Some LDCs have undertaken significant reforms and achieved reduction and improved their LPI rating (Table 1)

• Despite landlockedness, some LDCs (e.g., Malawi, Rwanda, Burkina Faso, Ethiopia and Nepal) have made major improvements

Table 1: Changes in LPI of top ten LDCs (1-5 best), 2007-2014

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<tr>
<td>Malawi</td>
<td>2.42</td>
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<td>2.81</td>
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<td>Rwanda</td>
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<td>Sao Tome and Principe</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Burkina Faso</td>
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<td>Senegal</td>
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<td>Liberia</td>
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<td>Ethiopia</td>
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<td>2.41</td>
<td>2.24</td>
<td>2.59</td>
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<tr>
<td>Nepal</td>
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<td>2.20</td>
<td>2.04</td>
<td>2.59</td>
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<td>Solomon Islands</td>
<td>2.08</td>
<td>2.31</td>
<td>2.41</td>
<td>2.59</td>
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Source: Logistic Performance Index (LPI), World Bank
Changing structure of trade costs

- Unpacking the elements of trade costs in the earlier DTISs and new ones and using “tag cloud” to measure their relevance/appearance show that there has been some change in the structure, but not significant.
Evolving priorities of LDCs in addressing trade costs

DTIS (2002-2008)

• Transport and logistics: quality of road construction; allocating more resources for transport infrastructure; promoting competition in the transportation sector; controlling bribery and corruption; and better handling and management of regional trade and transit.

• Border management: Improved systems; appropriate mechanisms for customs valuation; facilitating digital exchanges; enhancing the capacity of the border management agencies; reducing duplications and achieving the harmonization and simplification of tariffs and non-tariff barriers; and enhancing transparency.

DTIS (2013-2014)

• Transport and logistics: management of transit corridors; implementation of cross-border transport arrangements for regional and transit traffic; and improvement in port infrastructure.

• Border management: better management of infrastructure; use of information technology; professionalization of customs administration; reduction of duplication; increase in transparency of procedures; and fight against corruption.

• New priorities: cross-cutting barriers for the infrastructure development; designing transport policies to strengthen market structures in transport and logistics sectors; modernizing the regulatory frameworks; and improving collaboration among border agencies and with the private sector.
## Select reforms undertaken

<table>
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<th>Country/time-frame</th>
<th>Key achievements and figures</th>
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<td><strong>Burkina Faso</strong> (2008-2012)</td>
<td>• Increased transparency: Informal payments dropped by more than 50%.</td>
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| **Cambodia** (2007-2014) | • Simplification of licensing procedures: trade costs for processed agricultural products reduced by 30%.  
• Simplification of export procedures: cost to obtain export licenses for milled rice reduced by 28%.  
• Introduction of ASYCUDA: Time to import from 45 days in 2007 to 26 days in 2012. |
| **Lao PDR** (2009-2012) | • Opening Lao transit trade to all Thai truckers: logistics costs reduced by 30%.  
• Launching of Trade Portal: Clearance times for goods reduced by 42%. |
| **Haiti** (2007-2010) | • Introduction of ASYCUDA: improved LPI from 123rd place to 98th place in 2010. |
| **Liberia** (2008-2014) | • Automation of the National Business Registry: Liberia moved from 167th position in its Doing Business ranking to 144th. |
| **Rwanda** | • One-stop electronic customs clearing system: Time required to clear goods cut by 40% which is equal to one day saving; businesses saves around USD 8-17 million/year. |
| **Sierra Leone** (2009 – 2012) | • Infrastructure upgrade Freetown-Conakry Highway: transport costs reduced by 30% |
| **Zambia** (2009-2012) | • One-Stop Border Post at Chirundu: Reduction in the average time spent by a truck at the border from seven days to about three to four hours; increase in number of trucks passing through the border from 1,800 to 2,000 per month to 12,000 to 14,000. Average savings to provide sector about USD 20 million a month; and increase in trade tax collection by more than 100%. |
Drivers of change

- Evolving dynamics in the global trade
- Rise of regional integration
- Analytical work
- Changing priorities and policies of the governments
- Role of the private sector
- Global development discourse and initiatives
Role of Aid for Trade

• A brief literature survey shows:

  – Support provided for trade policy and reform have been effective in reducing trade costs in developing countries because of their focus on "soft" infrastructure and investment in enhancing institutional quality [e.g., Cali and te Velde (2009); Portugal-Pérez and Wilson (2010); Helble et al. (2012); Massa (2013)].

  – When it comes to low-income countries and LDCs, impact is limited because support towards strengthening institutional quality does not seem to produce desired results without addressing infrastructural or supply-side bottlenecks, for which more and targeted AfT is necessary [e.g., Busse, Hoekstra and Königer (2011); Vijil and Wagner (2012); Hühne, Meyer and Nunnenkamp (2013)].
Role of Aid for Trade

- AfT disbursement to LDCs is higher than overall disbursement.
- Although the growth rate in LDCs declined in the aftermath of the global financial crisis and plummeted to 2% in 2012; it rebounded in 2013 (Figure 7).
- LDCs received the second highest share (27%) amongst various groupings, followed by lower middle-income countries (34%).

Figure 5: Comparative AfT disbursement for developing countries and LDCs (USD), 2006-2013

Source: OECD-DAC aid activity database (CRS)
Role of the EIF

• Since its inception in 2009, the programme has made a total allocation of USD 193 million, which represents 97% of the resources available in the EIF Trust Fund.

• Although 48 LDCs and three recently graduated countries have joined the EIF:
  – Institutional support (up to USD 1.5 million) has been provided to 37 countries; and
  – 36 productive capacity-building support (up to USD 3 million per project) has been so far delivered in 27 countries.

• Focus of the second phase (2016-2022) on leveraging and sustainability, among other things.
Conditions for enhancing effectiveness of AfT based on EIF experience

• Analytical work underpinning AfT intervention
• Investing in institutional capacity building
• Enhanced country ownership
• Relatively longer time horizon
• Considerable investment of resources
• Enhanced donor coordination
• Due consideration to political economy factors
Conclusion

• Reducing trade costs is relatively more important for LDCs.

• LDCs taking necessary measures aimed at lowering trade costs with some success.

• Transformative shift, however, impeded by limited institutional capacity and resource constraints.

• Literature is relatively sanguine, albeit somewhat qualified, on the impact of AfT in reducing trade costs in LDCs.

• Evidence pointing towards effective role of AfT in reducing trade costs in LDCs:
  – Increased AfT to LDCs and to relevant sectors; and
  – Various interventions on the ground through multilateral, regional and bilateral initiatives and their impacts.

• AfT works well when certain conditions are met. They include: analytical work, institutional strengthening, country ownership, considerable investment with a relatively longer time horizon, improved donor coordination and due consideration given to political economy factors.
Thank you for your attention