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)

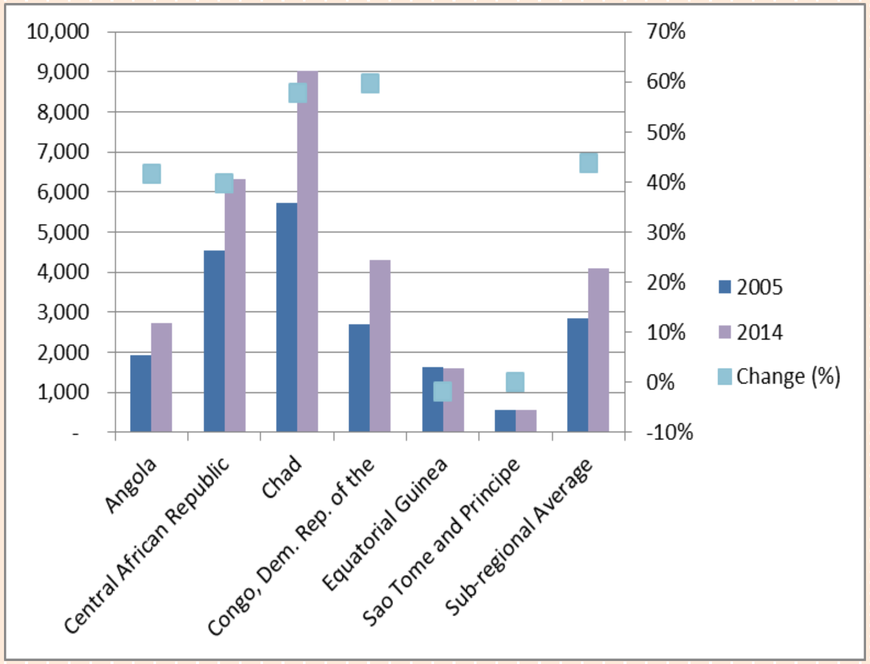
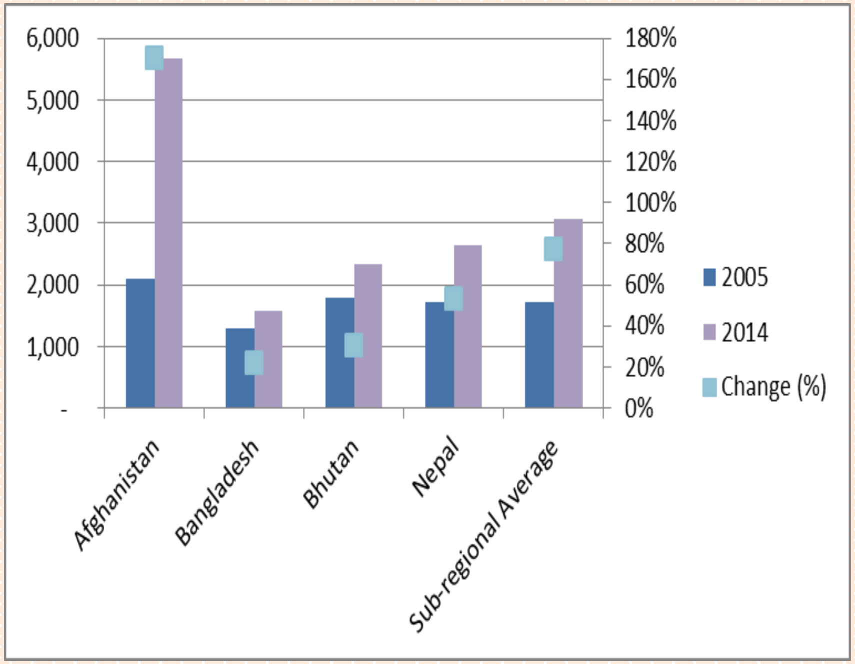


Figure 1b: Import costs in South Asia sub-region, 2005- 2014 (USD and % change)

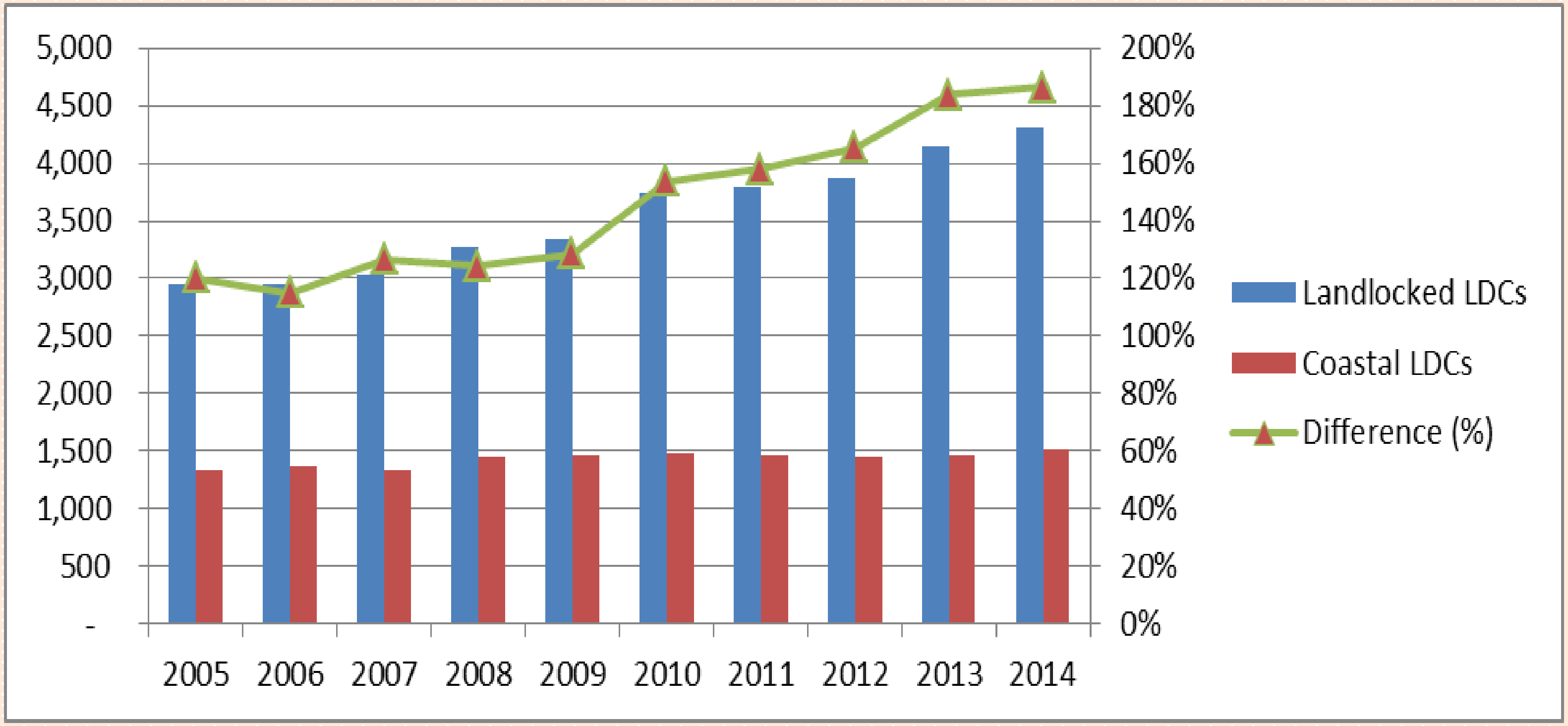


Source: Doing Business Database, World Bank

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

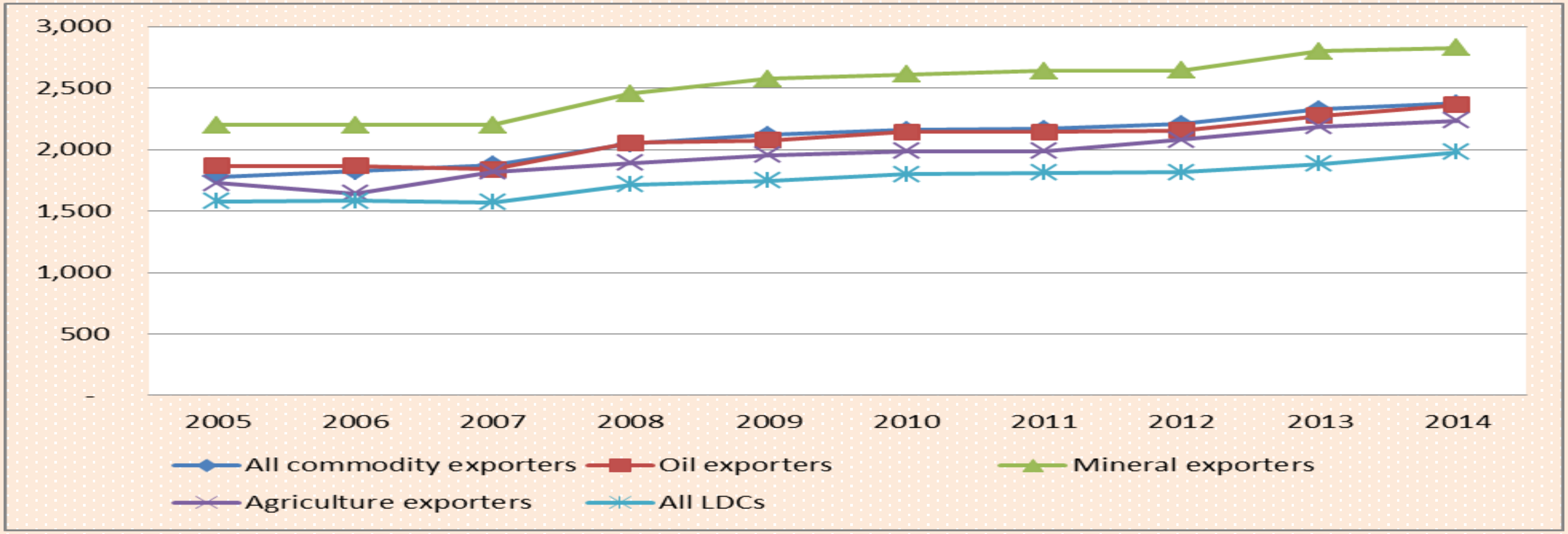


Source: World Bank

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)

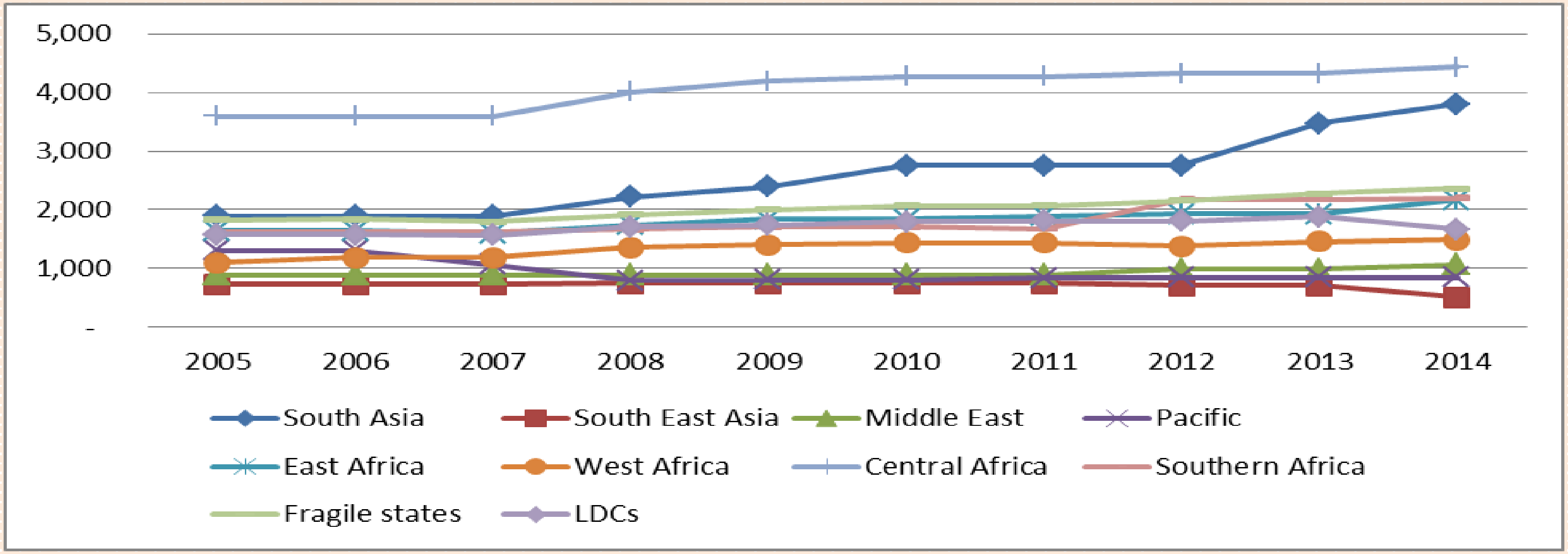


Source: World Bank

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

Country	2007	2010	2012	2014
Malawi	2.42	-	2.81	2.81
Rwanda	1.77	2.04	2.27	2.76
Cambodia	2.50	2.37	2.56	2.74
Sao Tome and Principe	-	-	-	2.73
Burkina Faso	2.24	2.23	2.32	2.64
Senegal	2.37	2.86	2.49	2.62
Liberia	2.31	2.38	2.45	2.62
Ethiopia	2.33	2.41	2.24	2.59
Nepal	2.14	2.20	2.04	2.59
Solomon Islands	2.08	2.31	2.41	2.59

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

DTIS (2002-2008)

DTIS (2013-2014)

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

Country/time-frame	Key achievements and figures
Burkina Faso (2008-2012)	• Increased transparency: Informal payments dropped by more than 50%.
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 144$^{th.}$
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

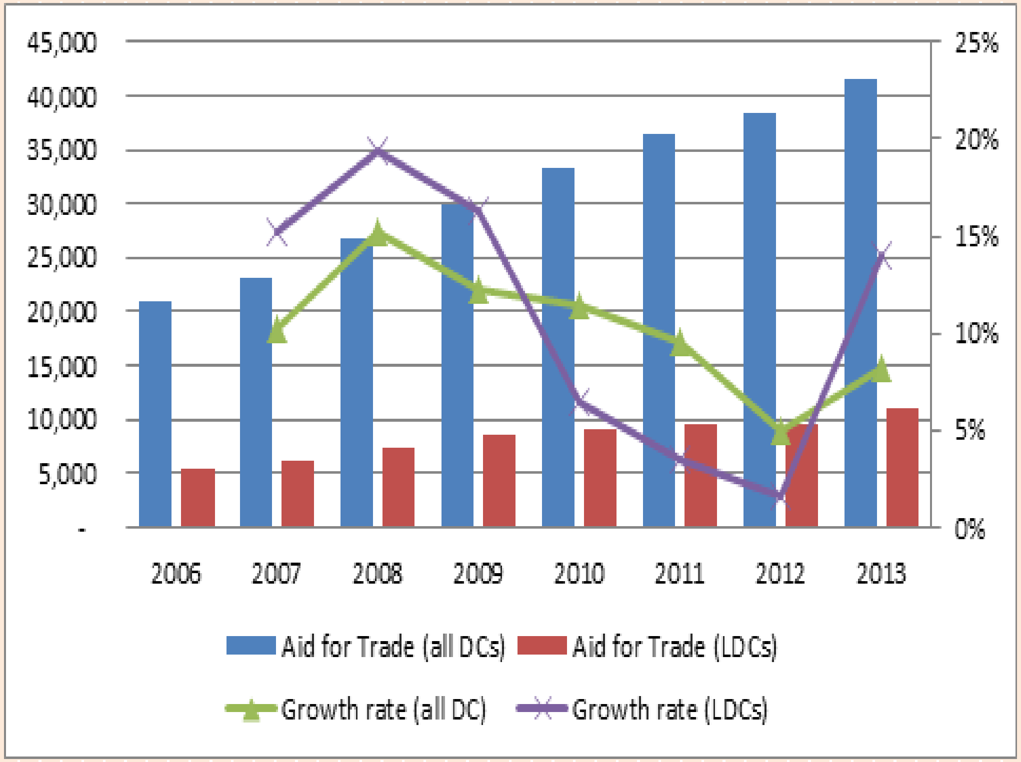
Role of Aid for Trade

- 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