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Measuring and Reducing Obstacles to Trade in USAID Host Countries: What do we know? Why is it important?

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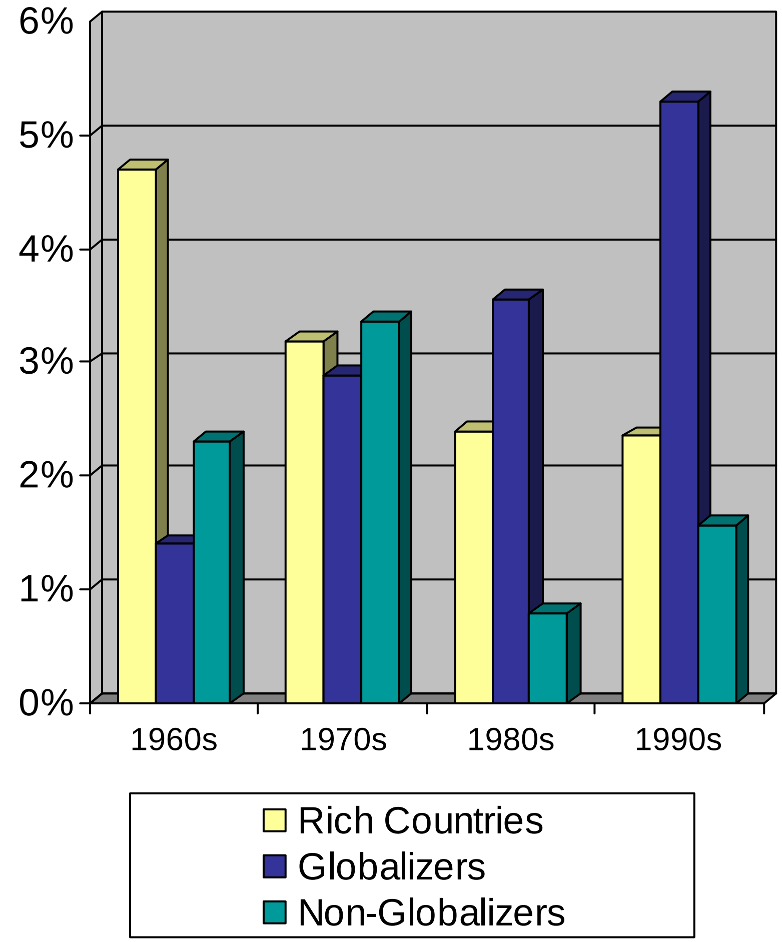
Links Between International Trade and Growth

- **Trade increases growth**
  - 24 “globalizers” (including Bangladesh, China, Hungary, India, Malaysia) doubled their trade as a share of GDP during the1980s-1990s
  - In the 1990s, per capita income in globalizers grew at 5.3% rate, while “non-globalizers” lagged behind
- **Main effects**
  - Aligns resource allocation with comparative advantages
  - Raises productivity and competitiveness
  - Ties a country into global production networks

Real Per Capita GDP Growth



Source: Dollar and Kraay, “Trade, Growth, and Poverty,” June 2001

What Policies and Procedures Lead to Greater Openness to International Trade?

- Sachs and Warner (1995) approach to estimating openness:
  - Average tariff rate below 40 percent
  - NTBs covering less than 40 percent of trade
  - Black market exchange rate premium below 20 percent
  - Absence of socialist/planned economic system
  - Absence of an extractive state monopoly on major exports

- Are these still the main problems that need to be fixed?

For exporters what other trade obstacles are important? Evidence on time delays from the *Doing Business* surveys since 2005:

- Djankov, et al.: Delays in shipment that are borne by the exporter will affect the number of exporting firms and the value of exports.
- Consider a sample of 146 countries in 2005; exclude effects of income, distance to market, contiguity, language, and whether land-locked
- For developing/emerging market countries, 10% increase in "days to export" => 8-12% reduction in value of exports.

Source: Djankov, Freund, and Pham , "Trading on Time," December 2006
http://www.doingbusiness.org/Documents/TradingOnTime_DEC06.pdf

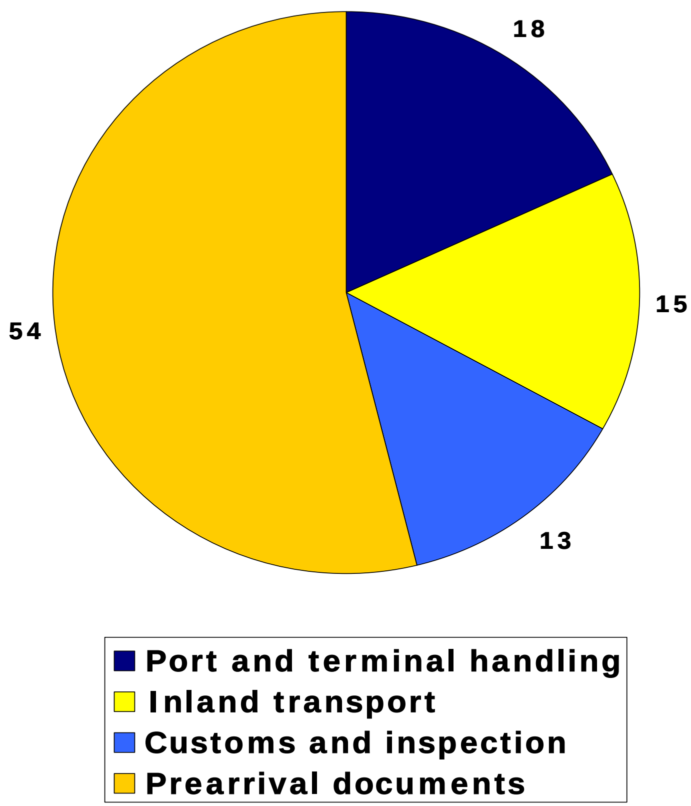
Why are trade obstacles important to importers?

- **Cost of inventories?**
  - Inventory levels in developing countries are much higher than in OECD, reducing international cost-competitiveness of their manufacturers
  - Raw material inventories for manufacturers (Guasch and Kogan*, 51 cos.):
    - Worldwide average in 1983: 77 days of production
    - Leanest inventories: 39 days (Korea); 41 days (U.S.)
    - High inventories were held in emerging market countries: e.g., 109 to 129 days in Hungary, Iran, Peru, Egypt
  - Why do emerging market manufacturers hold such high inventories? Because delays for imported inputs are long and variable?
- **More research is needed, with new DB data now available**

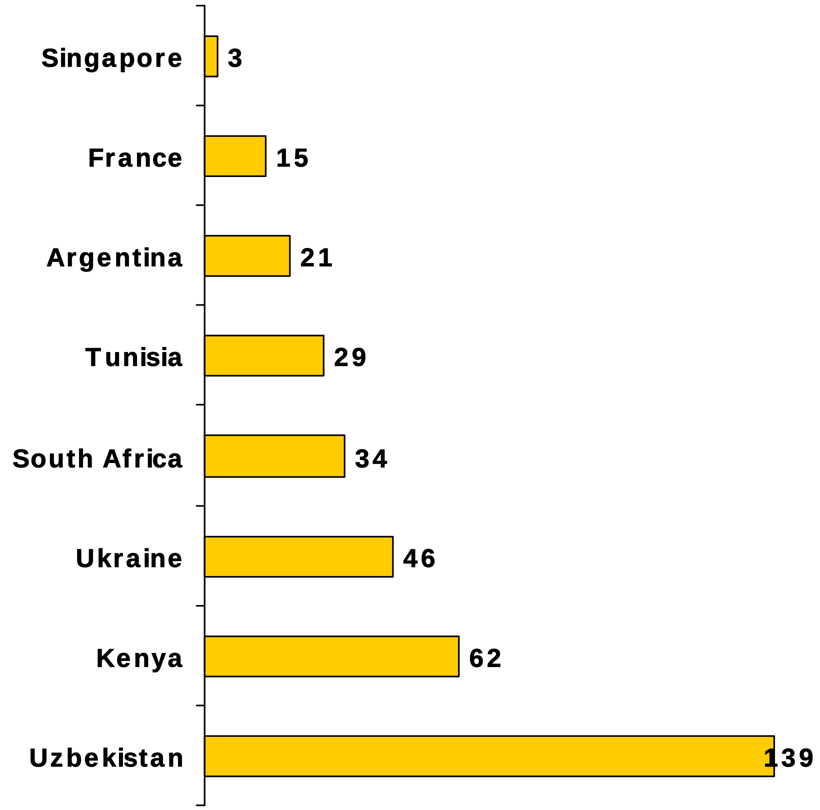
* Guasch and Kogan , “Just-in-Case Inventories: A Cross-Country Analysis," Policy Research Working Paper 3012, April 2003.

DB Data on Trading Across Borders

What source of time delay?
(% of total time, all countries)



How many days are required to import (2006)



Trading Across Borders – Data from the Doing Business Surveys*

- IFC *Doing Business* surveys, 2005 onward

  Data and methodology on the website: http://www.doingbusiness.org/

- How is the information on time and cost collected?

- Key informants in each country: mainly freight forwarders. Information also collected from traders and from customs and port authorities

* Source: IFC - Dennis, Den Otter, Van Coppenholle, "Doing Business 2007: Trading Across Borders"

Doing Business Methodology for Trading Across Borders

1. Record every step of the process, and associated time and costs.

2. Exports: from the conclusion of the sales contract to the shipment of goods from the port of departure.

3. Imports: from the conclusion of the purchase contract to the arrival of goods at the importers warehouse.

Doing Business Survey Questions for Time and Costs of Trading Across Borders

Firm:

- be of medium size with 200 employees or more
- be located in the most populous city
- be a private, limited liability company
- be domestically owned with no foreign ownership
- exports more than 10% of product, but does not operate in an export processing zone

Traded goods:

- 20 ft container load by ocean transport
- non hazardous, military, no special standards