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Original article

Trade facilitation and trade participation: Are sub-Saharan African firms different?☆

Abdoulaye Seck

Economics Department, Cheikh Anta Diop University, P.O. Box 64671, Dakar-Fann, Dakar, Senegal

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Abstract

Sub-Saharan Africa is the region where firms face the greatest hurdles when it comes to cross-border trading. This paper examines how these firms, relative to their counterparts in the developing world, would respond to changes in the trade environment as a result of trade facilitation reforms. Using data from World Bank's Enterprise Surveys, the paper suggests that improving customs clearance, government regulations, trade finance, and energy and telecommunication infrastructure contributes to increasing the probability of firms' entry into exporting and importing, as well as to the extent of their trade. The results also indicate that African firms tend to respond more to a changing environment, owing to the greater constraints that they face. Exports tend to be more responsive than imports, suggesting a favorable short-term adjustment of the balance of payments. There is a sizable distributive effect, as larger and smaller firms gain differently depending on which reform and which direction of trade one considers. These results could help better understand how to harness the trade potential of sub-Saharan African firms, and they should constitute a welcome addition to the body of knowledge at a time when there is an uncertainty about the priority issues for multilateral agreements in the area of trade.

JEL classification: F13; F15; O24
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1. Introduction

Firms in sub-Saharan Africa (SSA) face far greater hurdles than any of their counterparts in the rest of the developing world when it comes to international trade. In effect, it takes the average SSA firm

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E-mail address: abdoulaye.seck@ucad.edu.sn.

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110.3 h for “border compliance” (handling, clearance, and inspections) and 98.0 h for “documentary compliance” to “export a shipment of 15 metric tons of the economy’s top non-extractive export product.”[1] These figures are respectively 97.8 and 45.4% higher than the corresponding times it takes a typical firm elsewhere to export. Money-wise, border and documentary compliance costs respectively US$ 552.6 and US$ 245.8, which are 45.1 and 23.1% larger than similar costs faced by a typical developing country firm. The figures tend to be much higher on the import side: it takes more time (between 125.1 and 165.3 h) and it costs more (between US$ 360.2 and US$ 661.1) to import a “shipment (that) consists of 15 metric tons of containerized auto parts for all economies”. They amount to between 1.43 and 2.36 times larger than the costs in the rest of the developing world.

All of these are indicative of the low quality of the trade processes, the large magnitude of the associated costs, and consequently, the low trade performance of firms in the sub-continent as opposed to the outside world. They also tell about the renewed focus on trade facilitation, the first multilateral trade agreement to be successfully concluded since the advent of the World Trade Organization more than two decades ago.

Trade facilitation that aims to “ease the flows of goods across borders” refers generally to the “simplification and harmonization of international trade procedures”, the latter comprising the “activities, practices and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade.”[2] To the extent that trade facilitation reforms are able to reduce trade costs, they have the potential to generate significant gains through greater trade participation and trade volumes of firms, as well as an increase in national income. In effect, it has been estimated that a reduction in trade transaction costs by just 1% as a result of trade facilitation would generate welfare gains that amount to US$ 40 billion, of which two-thirds accrue to developing countries (OECD, 2009). The larger gains to developing countries seem to be associated with the greater scope for improvement to the trade environment and the existence of some form of diminishing returns in investments in soft and hard infrastructure that will facilitate trade. Granted that sub-Saharan Africa lags behind the rest of the developing world as far as the quality of the trade environment is concerned, one could hypothesize that firms in the sub-continent stand to reap greater benefits from trade facilitation reforms.

The literature has produced a significant amount of both theoretical and empirical evidence that suggests that firms are poised to gain significantly. The resulting reduction in trade costs has been shown to increase the likelihood that non-exporting firms start to export. It also contributes to increase the productivity of individual exporting firms to the extent that there is a “learning-by-exporting” effect, as well as the productivity of the whole industry through a rationalization mechanism that forces less efficient firms to exit (see for instance Melitz and Redding, 2014; Bernard et al., 2006, 2003).

On the empirical side, trade facilitation indeed increases the probability that firms participate in international trade either as importers or exporters, and to the extent that they do, they tend to trade more intensely as a result of falling trade costs (see for instance Hoekman and Shepherd, 2015). Trade facilitation also contributes to (i) increase the survival rate of exporting firms in international markets (World Bank, 2012), (ii) improve trade diversification along the product lines, and consequently reduce vulnerability to foreign shocks (Dennis and Shepherd, 2011), (iii) raise the competitiveness of the whole economy (Spence and Karingi, 2011), and (iv) reduce the incidence of informal cross-border trading (Lesser and Moise-Leeman, 2009), among many other benefits.

[1] Source: Author’s calculations from the 2016 World Bank’s Doing Business data. Quotes are from the annual report.
[2] Source: WTO, at www.wto.org/tradefacilitation (accessed on 25 August, 2016).

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