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Who profits from trade facilitation initiatives? Implications for African countries☆

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Abstract

Extensive research has demonstrated the existence of large potential welfare gains from measures to facilitate trade — reduce trade costs — for African countries in particular. However, concerns have been expressed by policymakers regarding the distribution of the benefits and costs of trade facilitation. We use firm-level data for a large number of developing countries, in Africa and the rest of the world, to assess the claims that it will be mostly large firms that benefit from trade facilitation and that trade facilitation may result in a deterioration of the trade balance. We find no evidence for either argument. Our results suggest that trade facilitation can be beneficial in a range of countries, including those that are primarily involved in value chains as suppliers.
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1. Introduction

The time it takes to get goods from a producer to a buyer is an important determinant of trade costs (Hummels and Schaur, 2013). According to the World Bank's annual Doing Business report, on average it takes three times as many days, nearly twice as many documents and six times as many procedures to

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trade in many African countries than in high income economies (Djankov et al., 2010). Every extra day it takes in Africa to get a consignment to its destination is equivalent to a 1.5% additional tax (Freund and Rocha, 2011). Without action to reduce transport costs from remote areas, improve connectivity and facilitate the movement of goods, services and people across borders, specialization opportunities cannot be fully exploited, if at all, and the potential gains from trade will not be maximized. High trade costs are one reason many African countries have a very narrow export base, whether measured in terms of the number of products that account for most revenue earned, the number of export markets or the number of companies that export (Cadot et al. 2011, 2013). New products often account for just a very small share of total exports.

Participation in international production networks and pursuit of greater "vertical specialization" (focusing on specific tasks that are part of an international supply chain) offers an effective channel for even very poor countries to diversify production and start manufacturing for the international market, either by adding value to traditional exports or providing value added services to foreign buyers and foreign-owned companies that invest in the country. Morris and Fessehaie (2015) argue that economic upgrading and capturing a greater share of the value of production in African countries can start with a focus on leveraging natural resource endowments, both non-renewable and renewable (minerals, agribusiness, tourism) and strengthening local supply capacity. These are the additive value chains referred to by Kaplinsky and Morris (2015), in contrast to the vertically specialized value chains of Asia. Particular issues arise in this context with the distribution of value added—and rents—along the value chain. Nonetheless, there are significant opportunities for a steep increase in supply chain trade (SCT) in Africa and compelling reasons to expect the pattern of intra-African trade and investment to change significantly in coming decades if a SCT supporting policy environment is put in place (UNECA, 2013; UNCTAD, 2013; Pesce, Karingi and Gebretensaye, 2015). Much has already been happening. Growth in horticulture exports has been particularly apparent in Africa over the last decade, as smallholder producers become integrated into horticulture value chains. Horticulture exports from African countries increased more than six fold during the 2000s, with the share in global exports doubling from 3% to 6%. Some African LDCs — e.g., Uganda and Ethiopia — have realized very high growth in both export unit values and market shares (Goger et al., 2014). Agri-business and related processing encourages locally based supply chain growth, with the farm sector producing the inputs that are needed in manufacturing activities such as food processing, textiles, apparel, leather and footwear (World Bank, 2013; ACET, 2014).

Harnessing such opportunities requires not just a supportive investment environment but targeted action to lower trade-related operating costs, including transport, trade facilitation and logistics services. Slow and unpredictable land transport keeps most of Sub-Saharan Africa out of manufacturing value chains (Christ and Ferrantino, 2011). A country cannot become a major exporter without also importing; export competitiveness depends on the ability of firms to import intermediates that are produced by "upstream" parts of a supply chain or that not available locally. Promoting greater participation in value chains requires reducing the "thickness of borders" (World Bank, 2012): actions to facilitate the cross-border movement of goods, services and technical personnel.

Trade facilitation can give a significant boost to supply chain trade and export diversification. Although the up-front costs can be substantial — depending on how broadly trade facilitation is construed — research finds that these are significantly outweighed by the benefits. For economists trade facilitation is therefore a "no-brainer" and the recent WTO Agreement on Trade Facilitation (TFA) (WTO, 2013) an unambiguously welfare improving initiative as long as it is effective in lowering trade costs. While foreigners will benefit from national trade facilitation efforts, a lack of trade facilitation simply increases the prices of imports and reduces the profitability of exports (for a given world price the exporters gets a smaller share if it has to incur red tape costs and plan for delays). Not taking action to facilitate trade implies a country allows its terms of trade to deteriorate.

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