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2007 Economic Growth Officers Workshop
October 17, 2007
Washington, D.C.

**Measuring and Reducing Obstacles to
Trade in USAID Host Countries**

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Outline of Presentation

Economic Development and International Trade:
How important are trade obstacles to exporters
and importers?

What are the obstacles

1. Geography? Coastal vs. Land-locked Economies
Infrastructure? Ports, terminals, & inland transport
2. Corruption? Cross-country business surveys, such as
the BEEPS Surveys for E&E Region since 1999
3. Document Preparation, Customs, and Technical
Control? Rich new evidence from Doing Business
Surveys since 2005

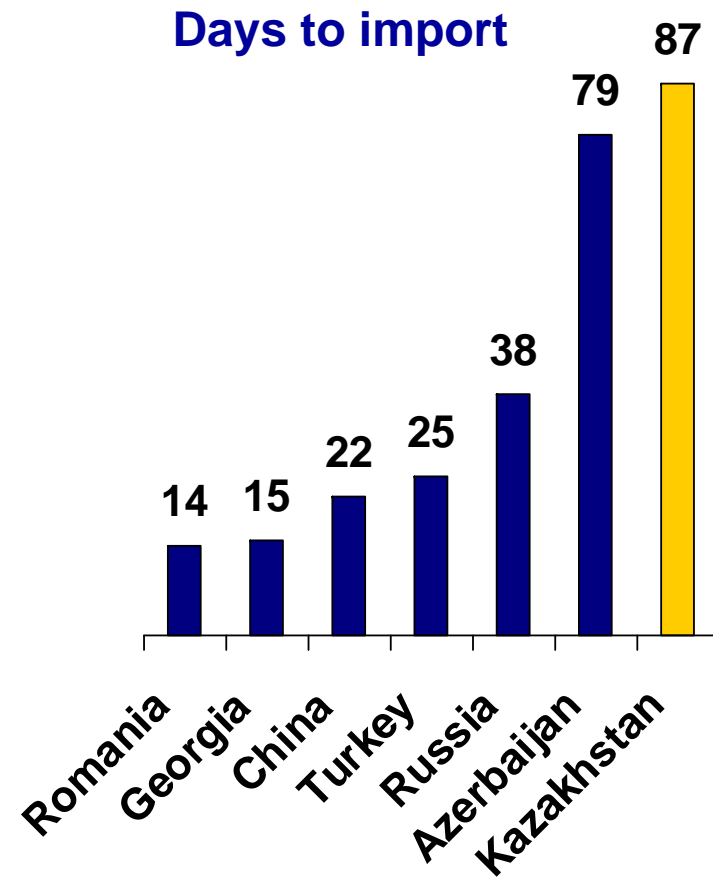
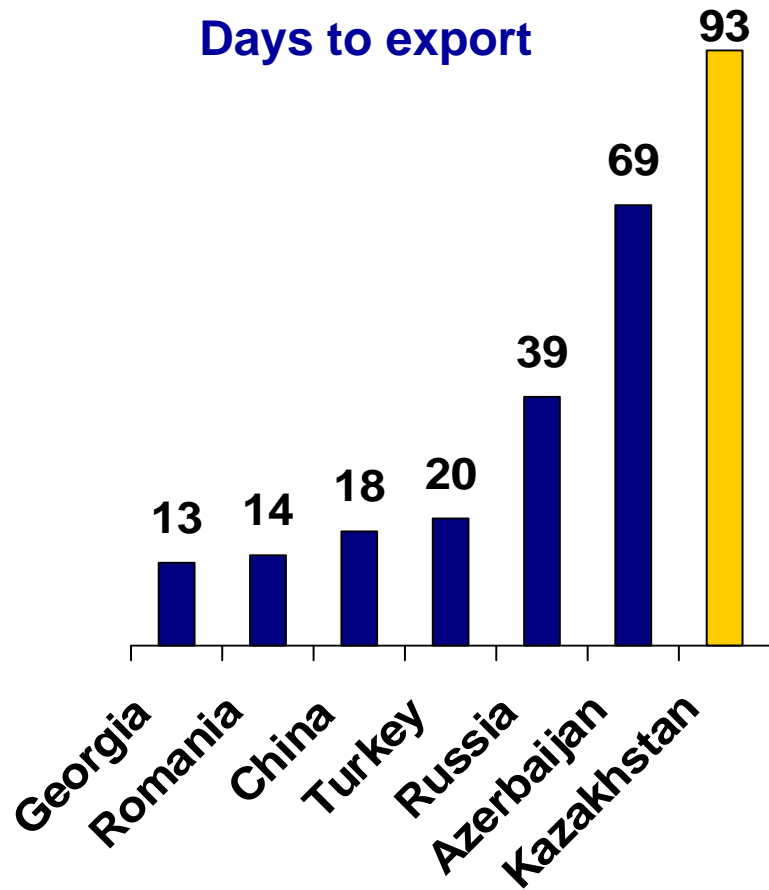
Outline of Presentation, continued

- Major Findings from Doing Business 2007
 - Document preparation, customs, and technical control are the main causes of trade delays in most developing countries
 - Such processing delays have been quickly reduced where a combination of measurement and political will has been applied -- e.g., Serbia, Georgia, Romania, Egypt

Why are trade obstacles important to exporters and importers?

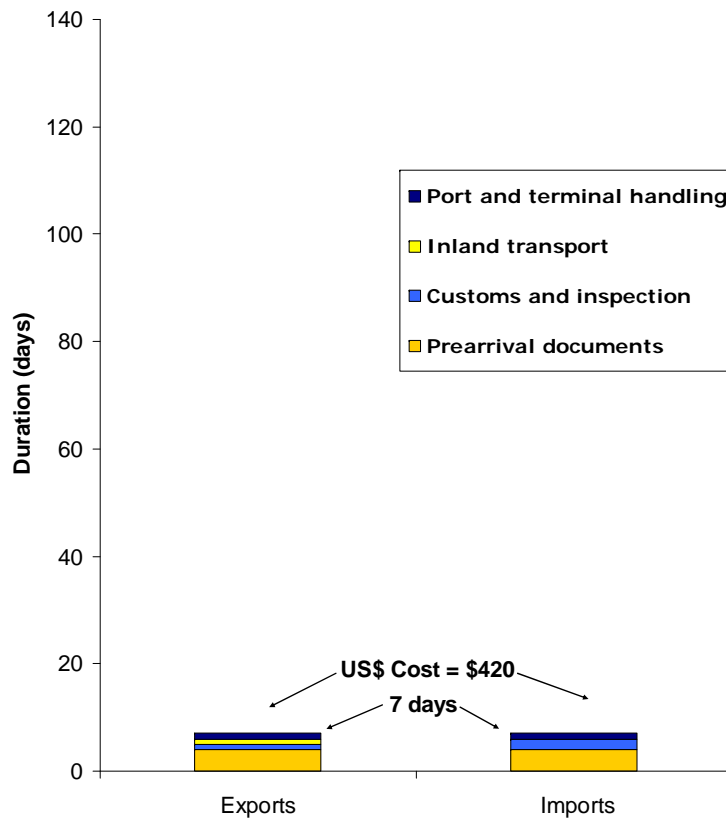
- For exporters, Djankov et. al. believe
 - Delays in shipment borne by the exporter will affect the number of exporting firms and the value of exports.
 - Cross-country evidence for 146 countries in 2005 >> among developing/emerging market countries:
 - 10% increase in “days to export” =>
 - 8-12% reduction in value of exports.
- For importers:
 - Improving the cost and reliability of shipments reduces inventory costs? Some evidence from surveys of manufacturers in the 1980s.
 - But recent DB evidence has not yet been explored.

Time to Export and Import, 2006

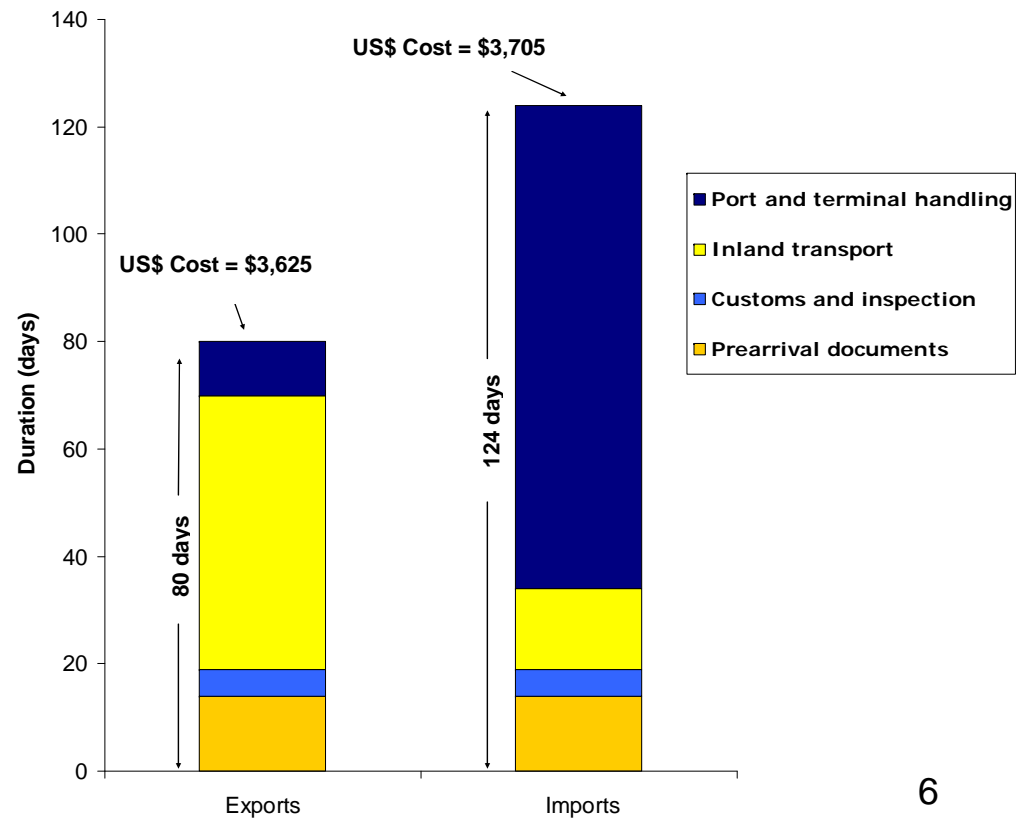


Obstacles to Trade – Geography: Coastal vs. Land-locked Economies

Finland, 2006 Trading Across Borders

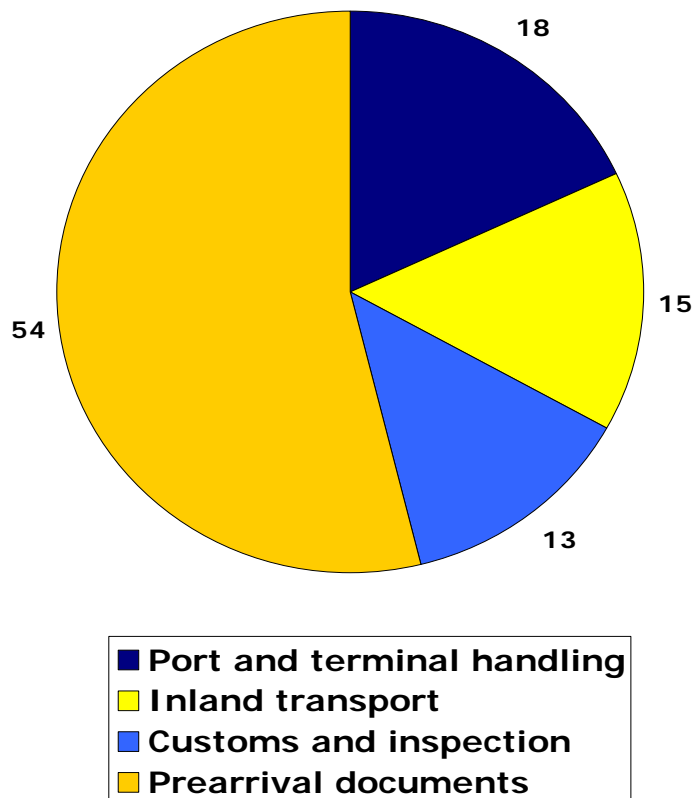


Burundi, 2006 Trading Across Borders

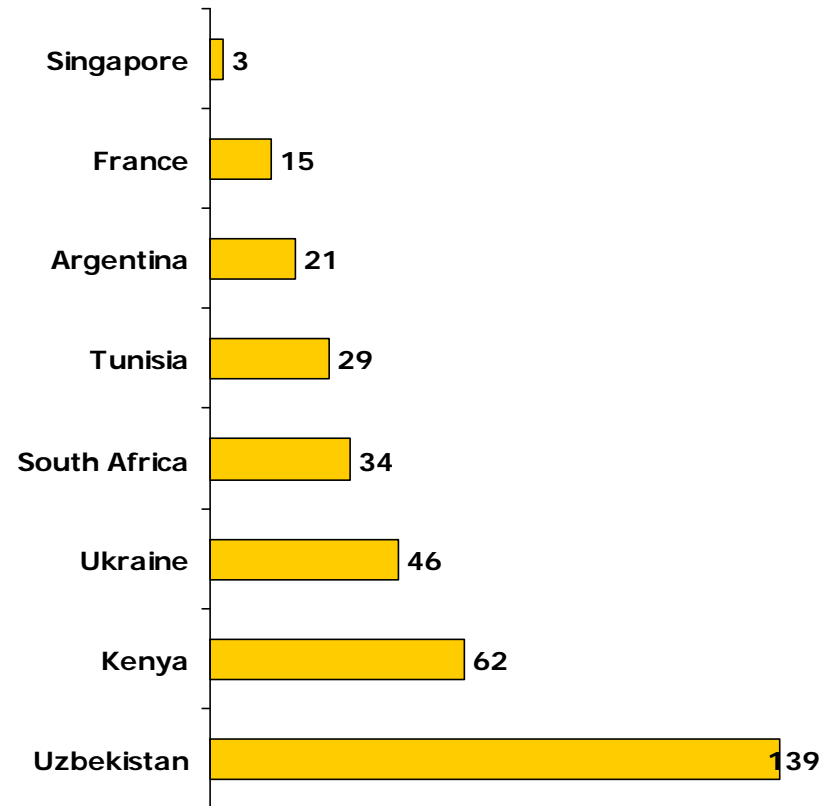


DB Data on Trading Across Borders

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



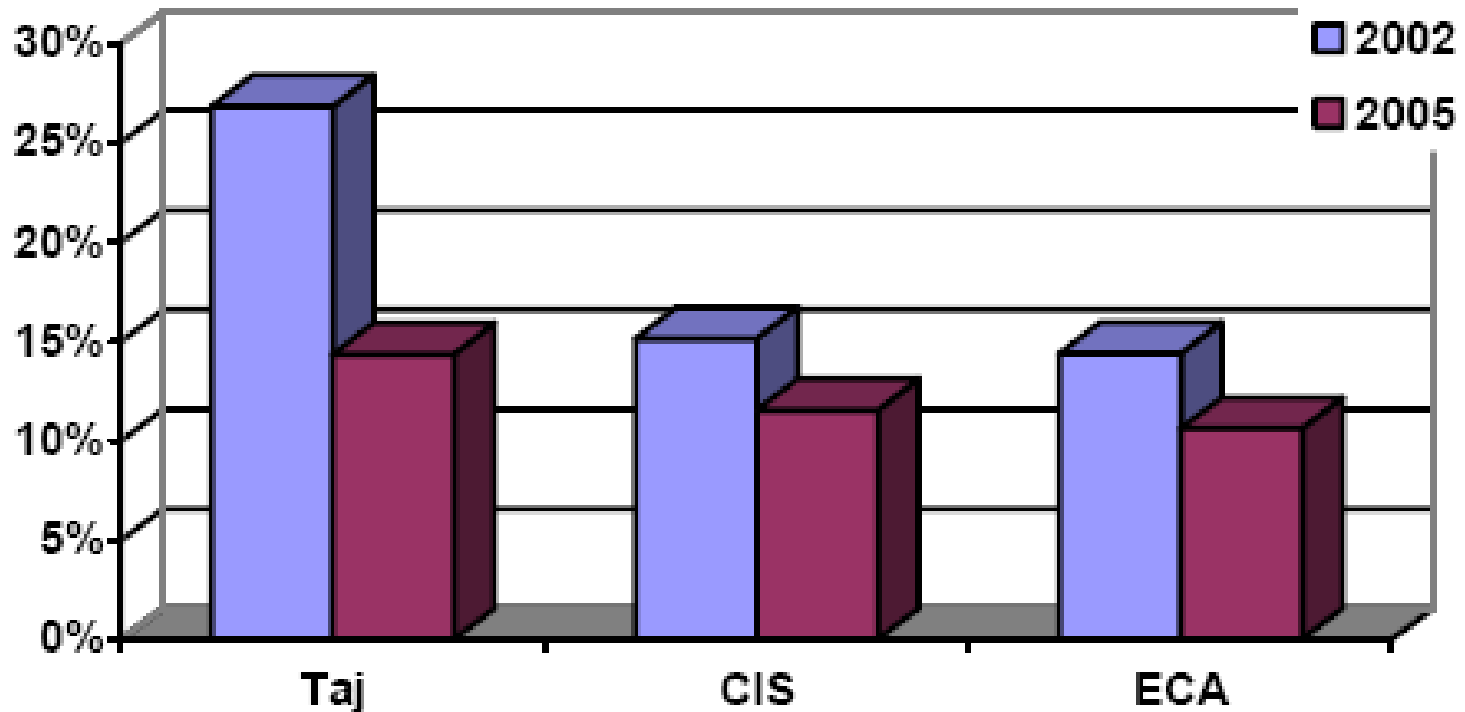
How many days are required
to import (2006)



Obstacles to Trade – Corruption?

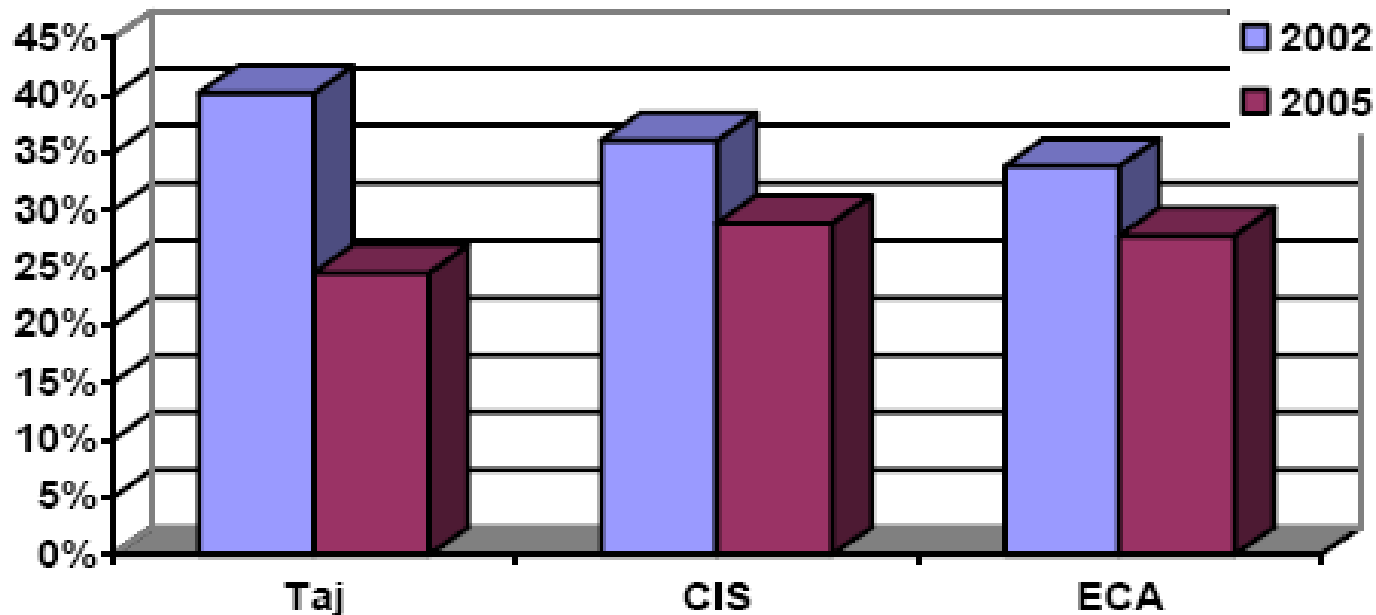
Unofficial Payments for Customs

Percent of firms that stated that bribery is frequent for customs



Or is compliance with Customs regulations a greater problem?

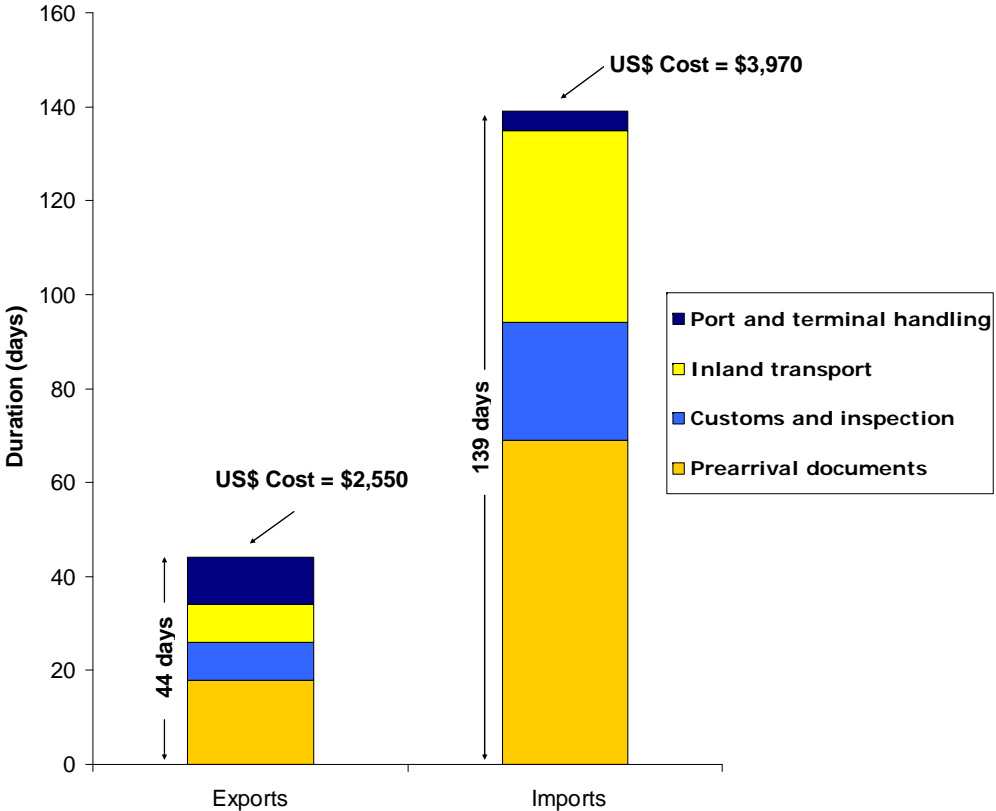
Custom Regulations as a Problem Doing Business
Percent of firms indicating custom regulations as a problem doing business



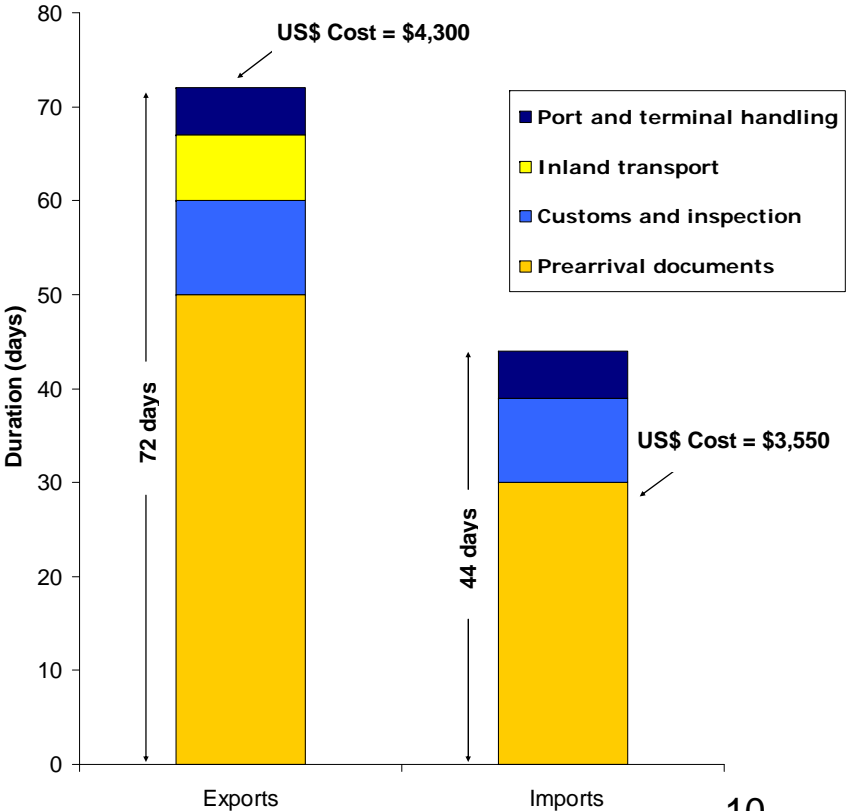
Source: BEEPS 2002 and 2005.

Obstacles to Trade – Documents, Customs, and Technical Control

Uzbekistan, 2006 Trading Across Borders



Tajikistan, 2006 Trading Across Borders



Obstacles to Trade – Documents, Customs, and Technical Control

- They cause the longest delays
- Are they the most important?
 - Unlike transport and customs delays they do not directly tie up ‘working capital’ in transit or transport costs (vessels, trucks, and drivers).
 - But what do they do to an enterprise’s ability to respond to new orders?
- Is a long delay also more variable? How does this affect the ability of an exporter or an importer to meet customer demands?

For exporters, what 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?**

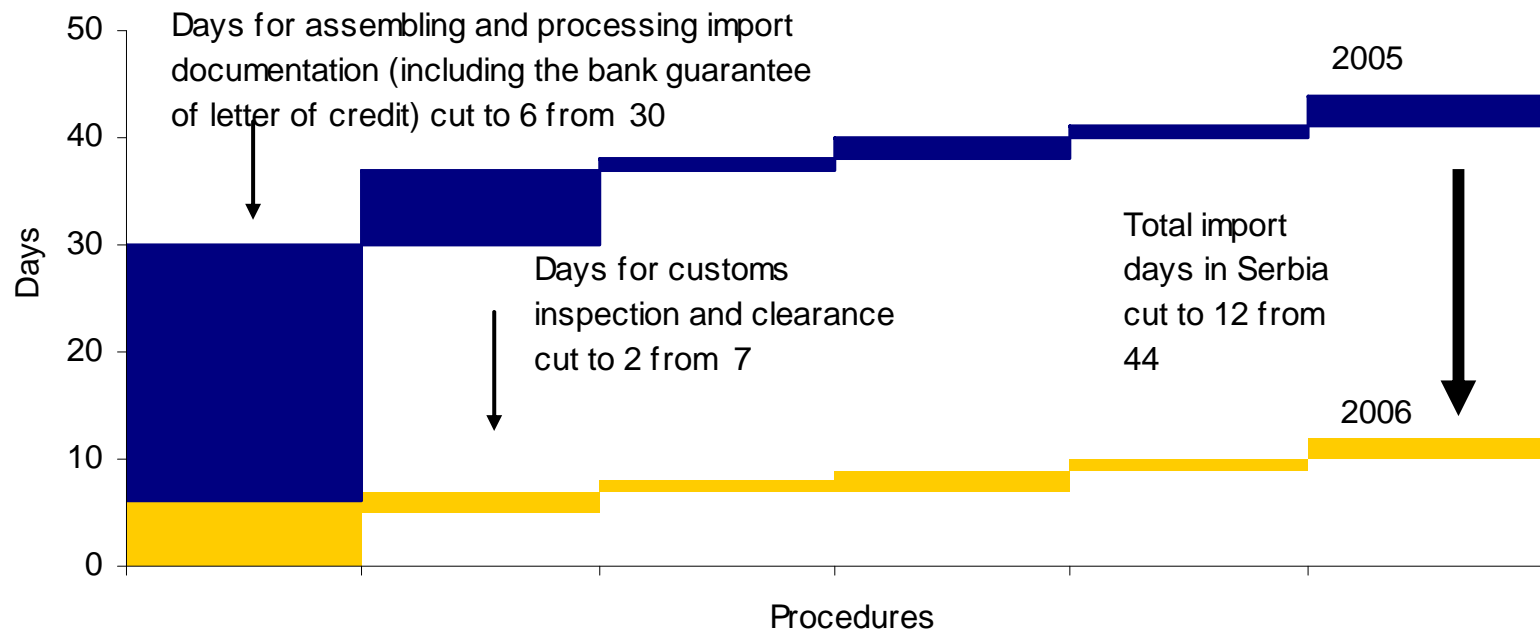
- Inventory levels in developing countries are much higher than in OECD, reducing international cost-competitiveness of their manufacturers
- Raw material inventories for manufacturers (Guasch and Kogan*, 51 cos.):
 - Worldwide average in 1983: 77 days of production
 - Leanest inventories: 39 days (Korea); 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.

Serbia: Top Reformer in Trade for 2006

(days to import)



Obstacles to Trade – Documents, Customs, and Technical Control

- Must reform be a long, slow process?
- No. Several countries have made large improvements in just one or two years – Egypt, Georgia, Pakistan, Romania, Serbia
- How did they do it?
- How much is the benefit?