

Trade Opportunities and Constraints: Towards a Strategy

**Jaime de Melo
FERDI
and
International Growth Centre**

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Outline

- I: Discover Trade Opportunities, internal and external
- II Lessons from Rwanda entering the EAC
- III Moving ahead: 2 prerequisites (reduce transport costs+ stable real exchange rate)
-+ 3 «pillars»
 - Pillar I: Build Institutions to Deliver Public Goods needed for Trade by (learn by doing, get data...)
 - Pillar II: Join a REC (or several): EAC (and COMESA?).
 - Pillar III: Prepare for WTO membership benefits (\approx 5-10 yrs.)
- Some steps (policy and research)

Trading costs with Uganda(2010)

- Informal Trade from Uganda is important: Only timber exported from Sudan (in 2010)
- Significant gaps in food prices between Juba and Ugandan cities (3 to 1 for maize, 2 to 1 for beans)
- Unit transport costs per km. behind-the-border (from border to market) about 40% higher in Sudan than in Uganda (lacking 'hard' infrastructure).
- Border-related costs (limited opening hours; poor customs infrastructure and staff capacity...)
- Miscellaneous formal and informal payments in SSDN (nuisance payments every 7 to 15 km... on road to Juba)

Investment to Tackle Externalities and Alleviate Isolation

- ❑ Ethiopian mfg: Firms with 50 workers 10 times higher labor productivity than firms with 5 workers or less
- ❑ Isolation with small firms under self-sufficiency: no competition and no economies of scale
- ❑ Growth from new activities (the 'global value chain' is still far away as impossible to get goods from abroad)
- ❑ New activities require pioneer investor either through 'self-discovery' or gathering information along the way.
- ❑ But learning process does not accrue to pioneer himself, so pioneering under-supplied relative to social benefit.
- ❑ Case studies: no silver bullet for exporting success !...

II Lessons from Rwanda in the EAC(I)

- #1. Improvements in trade regime largely unilateral decisions: transparency + some reduction in protection + trade facilitation
- #2 .Excellent management of aid funds (20% of GDP) through targets in performance contracts.
- #3. Moving to CET stimulated exports (up by 5-10% because of lower tariff on inputs)
- #4 Moving to CET increased costs of living for the poor (3.8% decline in real income).
- Most important for SSDN: Monitoring of NTBs

III Moving ahead

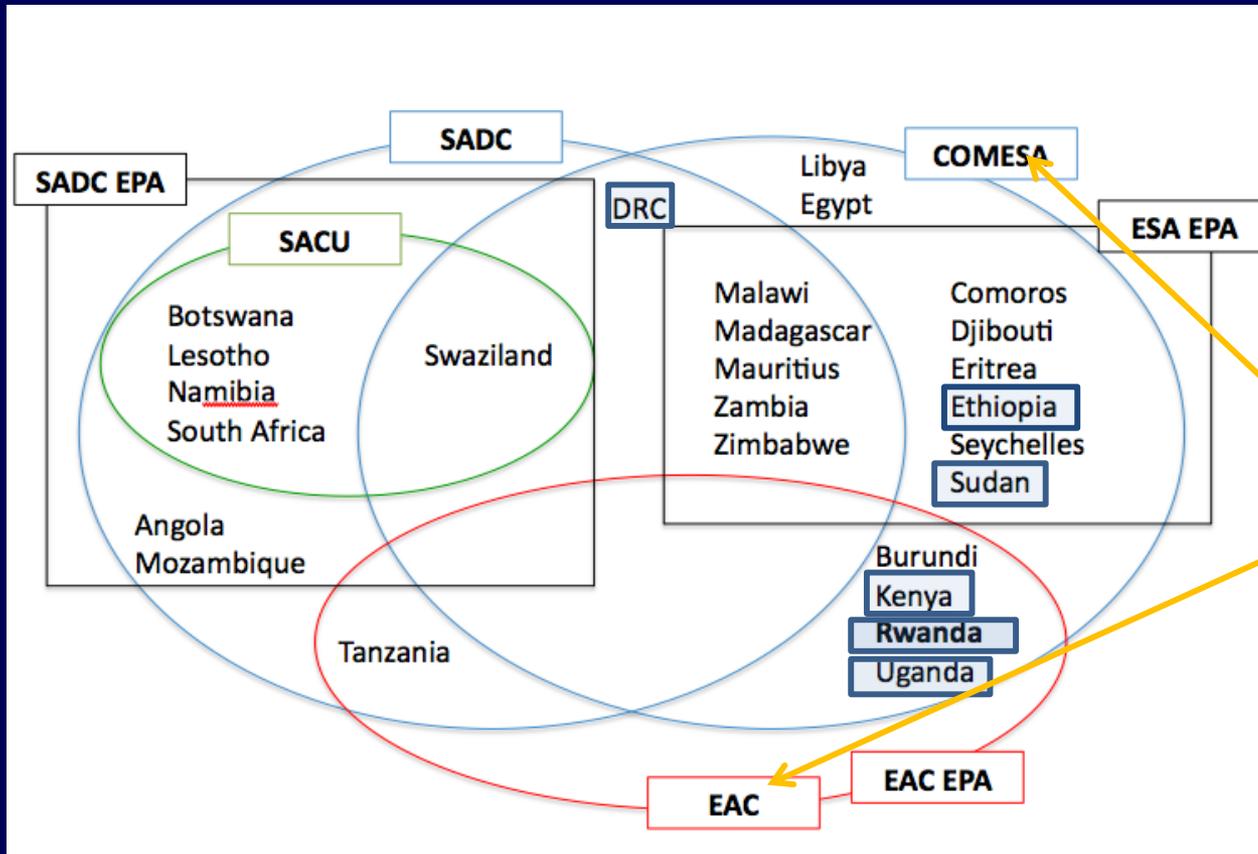
Prerequisites

- stable and «competitive» real exchange rate
- reduce transport costs (hard and soft infrastructure aspects)

Pillar I (overall): Building Institutions

- Build Trade-facilitation institutions that are WTO-compatible (arts. V, VII, VIII, X)
- Join EAC (and perhaps COMESA). Quickest way to reduce behind-the-border trade costs. Also gives needed external restraint on domestic policies
- Set up WTO-compatible institutions (get funding from the world community (EIF, bilaterals, IDEAS, eventually ACWL for legal advice)
- Apply to WTO which will bring benefits down the road

Pillar II: The Regional Integration Challenge



- All are quasi-CU
 Three-band tariff
 0%-10%-25%
- Exception lists
 - Different tariff nomenclature
 - RoO to continue (no revenue sharing scheme)

Tripartite FTA: COMESA-EAC-SADC: opportunity to re-negotiate complex RoO, develop infrastructure, harmonize, carry out trade facilitation)

Alternative Memberships for SSDN

	EAC	COMESA
ECONOMIC		
(1) Scale and Competition	++	++
(2) Trade Diversion	?	?
(3) Tariff Revenue	-	-
(4) Trade Facilitation	+	?
Transit	?/+	?
Harmonization	?/+	?
(5) Cooperation	+	?
(6) Deep integration	+	-
Free Movement of labor		
.Right for Establishment		
Free Movement of Services		
Free Movement of Capital		
POLITICAL		
(6) Security	+	?
(7) Bargaining	+	+
(8) Policy lock-in	+	?/+

Pillar III: WTO Membership: Distant but worthwhile Gains(I)

- ❑ Application process provides public goods (transparency; learning about trade; momentum on AFT)  so start process now !
- ❑ Membership could raise growth temporarily (≈ 5 years) resulting in permanent income 20% higher
- ❑ Membership requires unanimity (SSDN should not worry about North Sudan acceding first).
- ❑ Build WTO-compatible customs administration (5 yrs instead of 10 for accession?)

WTO Membership: Distant but worthwhile Gains (II)

- ❑ Losses from non-membership? Small, as guarantee of MFN not likely to be important.
- ❑ Attracting FDI? Unlikely that WTO-rule sensitive FDI will be forthcoming (usually opaque bilateral deals in mining outside WTO realm).
- ❑ Customs valuation agreement: requires training to implement (fraud + human capacity limitations).
- ❑ Trade facilitation Doha negotiations not moving, even negotiations on freedom of transit (art. V)

Some Steps (1): Policy

- Invest in internal trading by reducing transport costs...
- Help firms discover trade opportunities... [horizontal and vertical policies]
- Prepare accession to the EAC (and Comesa)
- Engage international community to support trade capacity building
- Begin work on WTO accession

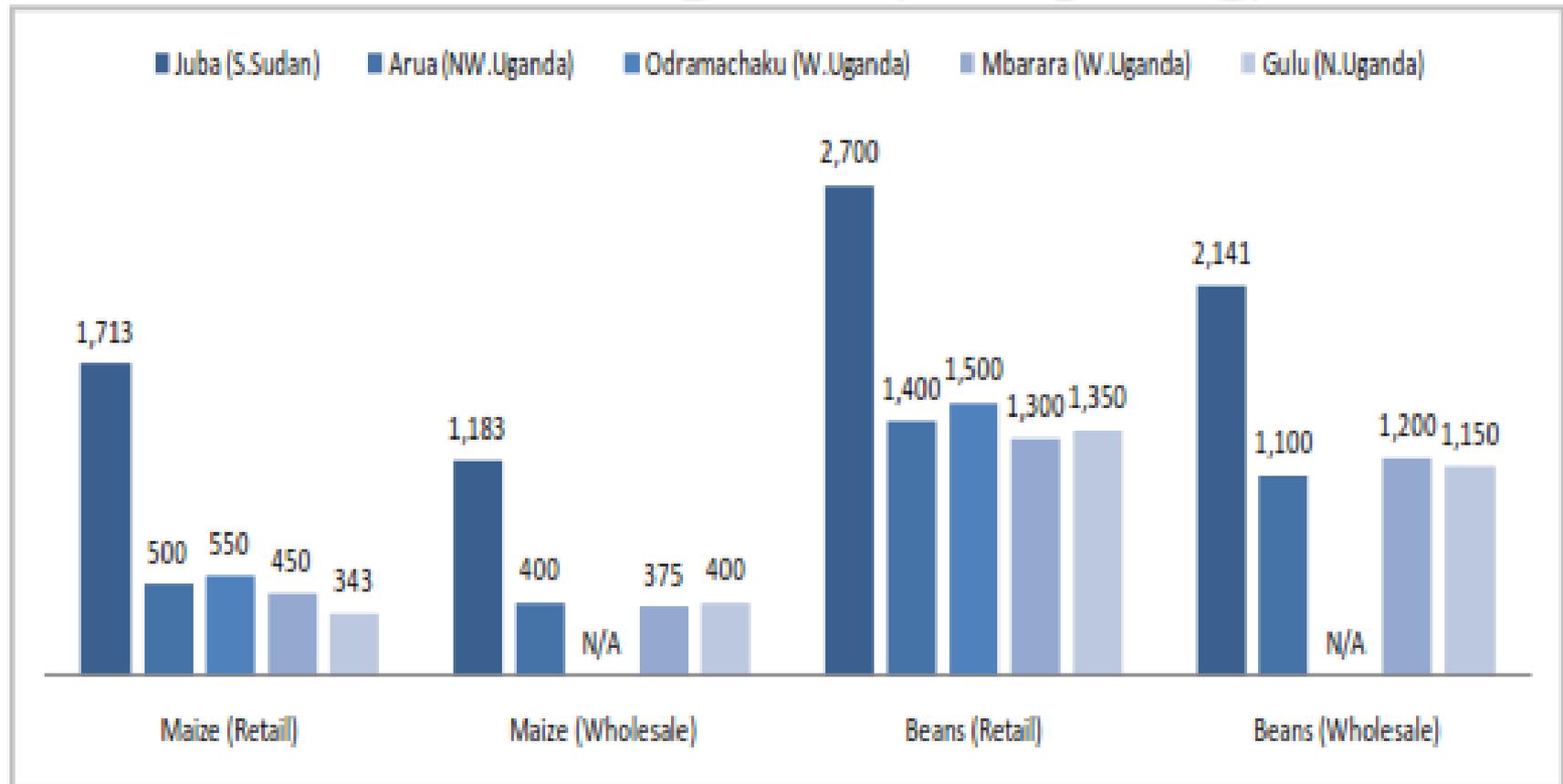
Some Steps (2) : Research

- ❑ Build real exchange rate indices and follow the real exchange trajectory (export surges require sustained real exchange rate depreciation)
- ❑ Infrastructure: Draw on research on hard and soft (e.g. road investment in low-density Malawi required huge subsidy to break even with 1 bus on the rural road)
- ❑ Proximity control methods (quick and cost-effective) to measure impact of major events for countries with little data. Measures of export proximity space closely correlated with outcomes of policy interest.

ANNEX

...the border is thick..

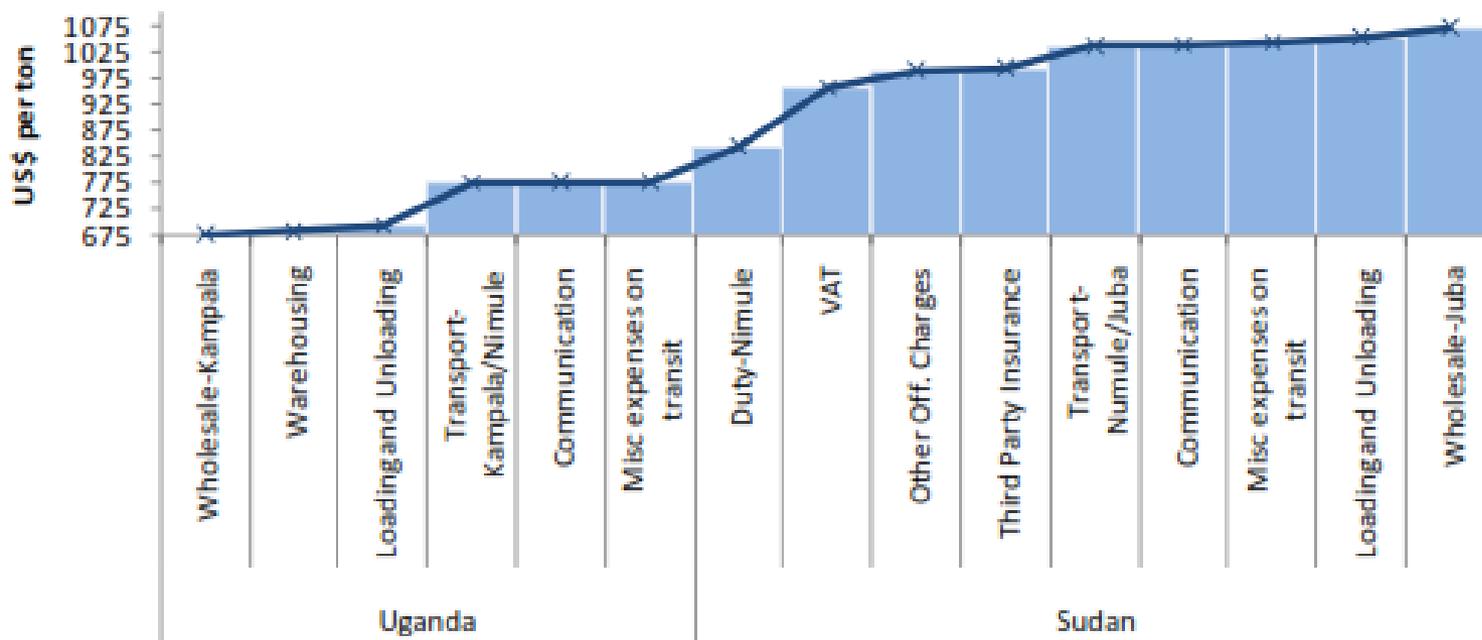
Figure 3: Prices of Agricultural Products in South Sudan and Uganda (US\$ per kg)



Source: Original data collection as in Asebe (2010)

Cost per ton: Transport & logistics (\$145= 52+93); duty and other charges in SDN (\$218)

Figure 4: Costs of Trading from Kampala to Juba: Case of Beans



Source: Original data collection as in Asebe (2010)

The Plight of Being Landlocked

Figure 4.8: Worldwide distribution of trade costs and Ease of Trading Index



Source: World Bank (2009).

Notes: Sample of 180 countries with 45 countries per quartile; quartiles ranked by increasing importing and exporting costs per TEU. Left scale indicates the range in costs within each quartile (the range in costs per import container in Q1 is US\$500 to US\$1000 and in Q4 from US\$1900 to US\$6000). Horizontal broken line indicates the number of landlocked African countries in that quartile (i.e. 15 in Q4 and none in the other quartiles). The number of African countries per quartile is indicated on the right-hand scale.

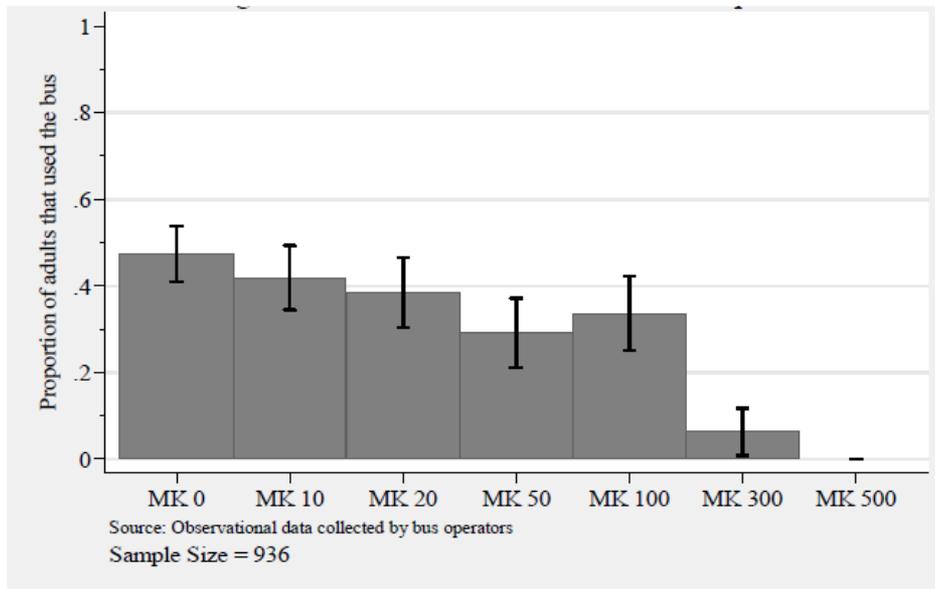
Data: 160 countries...

- Few SSA countries in the first three quartiles of Ease of Trading index
- ...and No LL African country in first three quartiles
- Range of container costs very high for SSA countries
- Ease of trading index

THE PLIGHT OF BEING SPARSELY POPULATED: RURAL ROAD INVESTMENT IN MALAWI

- ❑ Lottery on willingness to pay for bus service to a village in rural Malawi (prices below drawn from bucket for entire population (500 families))
- ❑ Sharp fall in uptake at price of 75 cents (MK=300).
- ❑ Conclusion: In very sparsely populated regions, lack of competition not always problem (SSDN?)

Figure 1: Bus Service Take-up according to Prices¹²



- Fixed costs Carrying the first passenger costs \$75; MC of 2 to 3 passengers 35 cents)
- From estimated demand via survey, a \$75 subsidy per day necessary to break even with1 bus
- ❑ So lack of competition is not the problem with need to mix subsidies with road investments /maintenance.
- ❑ Difficult to execute second phase of road maintenance initiative in SSA ("bringing roads into market place")

MK= Malawi kwacha 500MK= \$3.6