

Borders and Beyond: The Gains from Improving Transport and Reducing Barriers to Trade

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Key Questions About Trade

1. Is openness to trade good for economic welfare in a country?
2. What are the barriers that prevent more trade?
3. By how much would trade volumes rise if we could remove those barriers?

Is openness to trade good for economic welfare in a country?

- If I want to eat at “Restaurant A” instead of “Restaurant B”, why would we let a government hinder me?

Is openness to trade good for economic welfare in a country?

- If I want to eat at “Restaurant F” instead of “Restaurant H”, why would we let a government hinder me?
- Possible answers:
 1. The government cares more about Restaurant H than it does about me.
 2. The government can use its muscle to help me get a better bargain from Restaurant F.
 3. Production at Restaurant H features strong economies of scale. So when government forces me (and others) to buy from them, they will expand, and after that expansion I would actually prefer Restaurant H to Restaurant F.

Is openness to trade good for economic welfare in a country?

- If I want to eat at “Restaurant F” instead of “Restaurant H”, why would we let a government hinder me?
- Possible answers:
 1. The government cares more about Restaurant H than it does about me. **Protection as redistribution.**
 2. The government can use its muscle to help me get a better bargain from Restaurant F.
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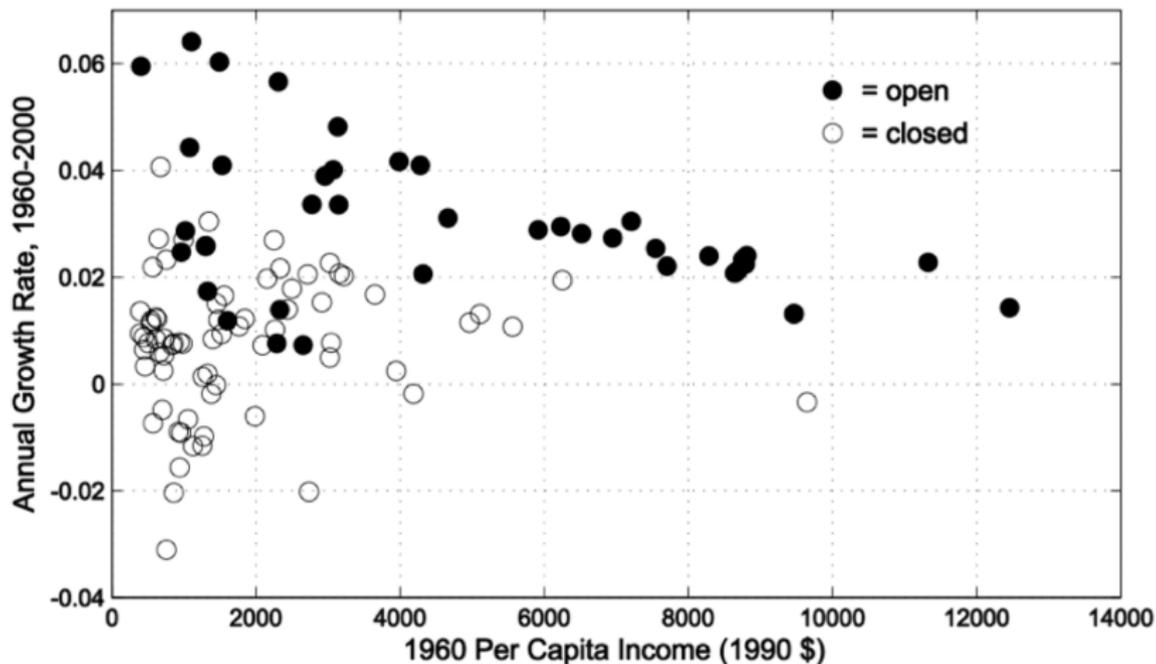
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Is openness to trade good for economic welfare in a country?

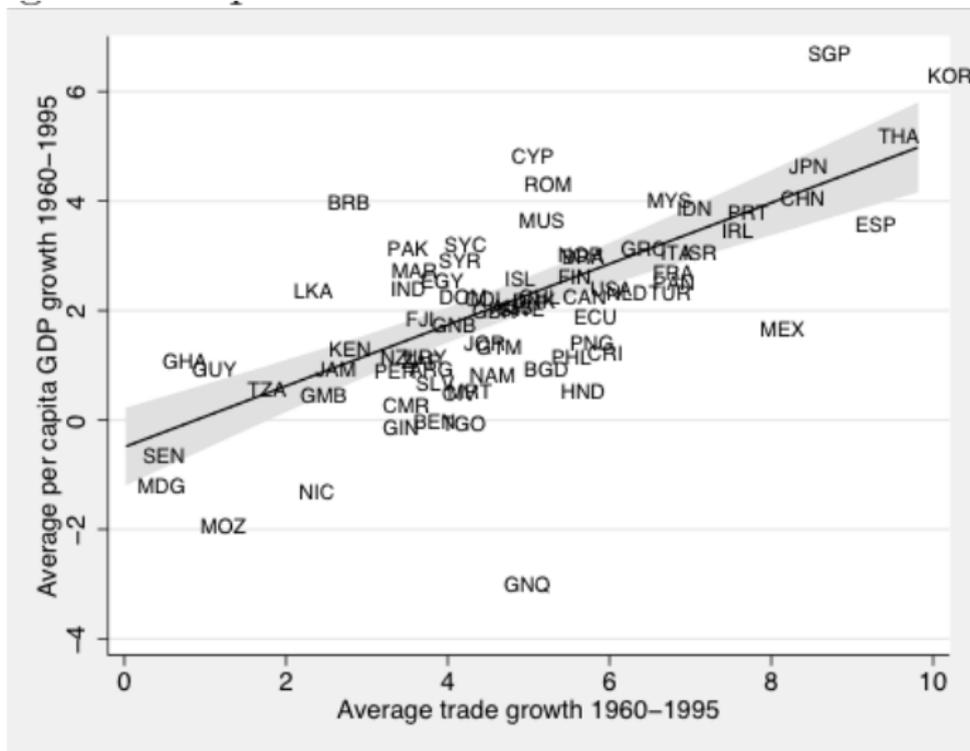
Lucas (2007)

FIGURE 2 : INCOME AND GROWTH RATES, 112 COUNTRIES



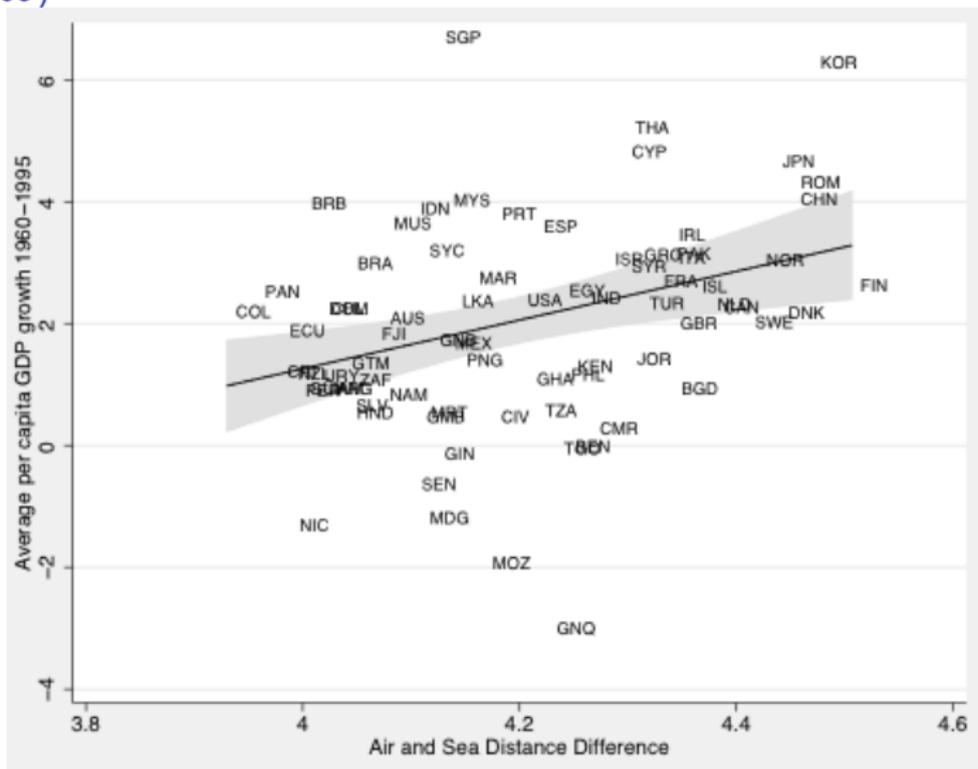
Is openness to trade good for economic welfare in a country?

Feyrer (2009)



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Is openness to trade good for economic welfare in a country?

Feyrer (2010)—Change in sea travel distance from opening/closing of Suez Canal



What are the barriers that prevent more trade?

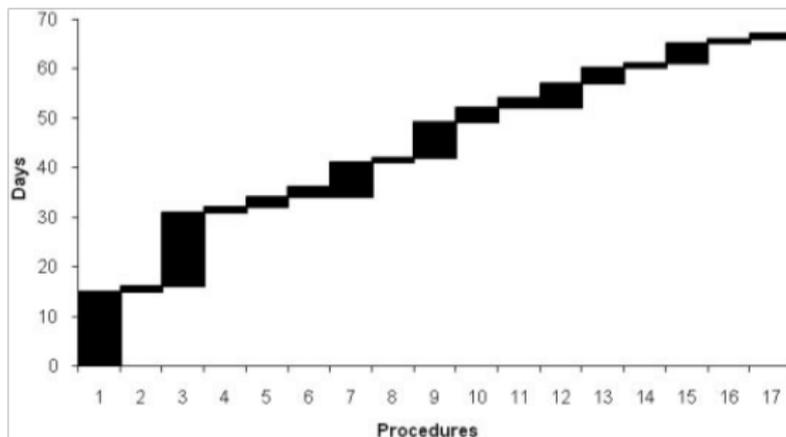
- Policy barriers:
 - Tariffs
 - NTBs (e.g. quotas, biased standards)
- Transport costs:
 - Poor infrastructure
 - Inefficient technologies used in transport sector
 - Transport firms exercise market power, charge high markups
- Administrative hurdles:
 - Customs delays, compliance costs, paperwork
 - Corruption

What are the barriers that prevent more trade?

Administrative Hurdles

Djankov, Freund and Pham (2010), “Doing Business” surveys

FIGURE 1.—EXPORT PROCEDURES IN BURUNDI



List of Procedures

- | | |
|---|---|
| 1 Secure letter of credit | 9 Transportation from border to port |
| 2 Obtain and load containers | 10 Terminal handling activities |
| 3 Assemble and process export documents | 11 Pay export duties, taxes, or tariffs |
| 4 Preshipment inspection and clearance | 12 Waiting for loading container on vessel |
| 5 Prepare transit clearance | 13 Customs inspection and clearance |
| 6 Inland transportation to border | 14 Technical control, health, quarantine |
| 7 Arrange transport; waiting for pickup and loading on local carriage | 15 Pass customs inspection and clearance |
| 8 Wait at border crossing | 16 Pass technical control, health, quarantine |
| | 17 Pass terminal clearance |
-

What are the barriers that prevent more trade?

Administrative Hurdles

Djankov, Freund and Pham (2010), "Doing Business" surveys

TABLE 1.—DESCRIPTIVE STATISTICS BY GEOGRAPHIC REGION
REQUIRED TIME FOR EXPORTS

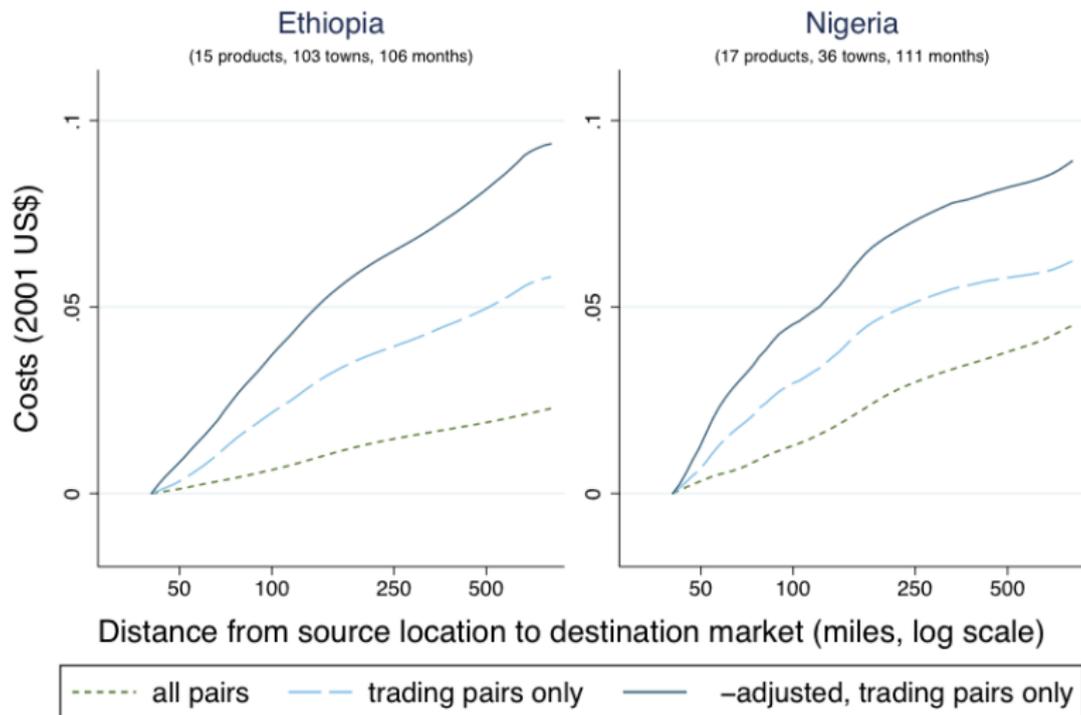
	Mean	Standard Deviation	Minimum	Maximum	Number of Observations
Africa and Middle East	41.83	20.41	10	116	35
COMESA	50.10	16.89	16	69	10
CEMAC	77.50	54.45	39	116	2
EAC	44.33	14.01	30	58	3
ECOWAS	41.90	16.43	21	71	10
Euro-Med	26.78	10.44	10	49	9
SADC	36.00	12.56	16	60	8
Asia	25.21	11.94	6	44	14
ASEAN 4	22.67	11.98	6	43	6
CER	10.00	2.83	8	12	2
SAFTA	32.83	7.47	24	44	6
Europe	22.29	17.95	5	93	34
CEFTA	22.14	3.24	19	27	7
CIS	46.43	24.67	29	93	7
EFTA	14.33	7.02	7	21	3
ELL FTA	14.33	9.71	6	25	3
European Union	13.00	8.35	5	29	14
Western Hemisphere	26.93	10.33	9	43	15
Andean Community	28.00	7.12	20	34	4
CACM	33.75	9.88	20	43	4
MERCOSUR	29.50	8.35	22	39	4
NAFTA	13.00	4.58	9	18	3
Total sample	30.40	19.13	5	116	98

Note: Seven countries belong to more than one regional agreement.

Source: Data on time delays were collected by the Doing Business team of the World Bank/IFC. They are available at www.doingbusiness.org.

What are the barriers that prevent more trade?

Transport Costs



95% confidence intervals shown. Locally weighted polynomial (Epanechnikov kernel, bandwidth=0.5). Semiparametric plots of choke prices and trade costs from the adjusted price gap regression.

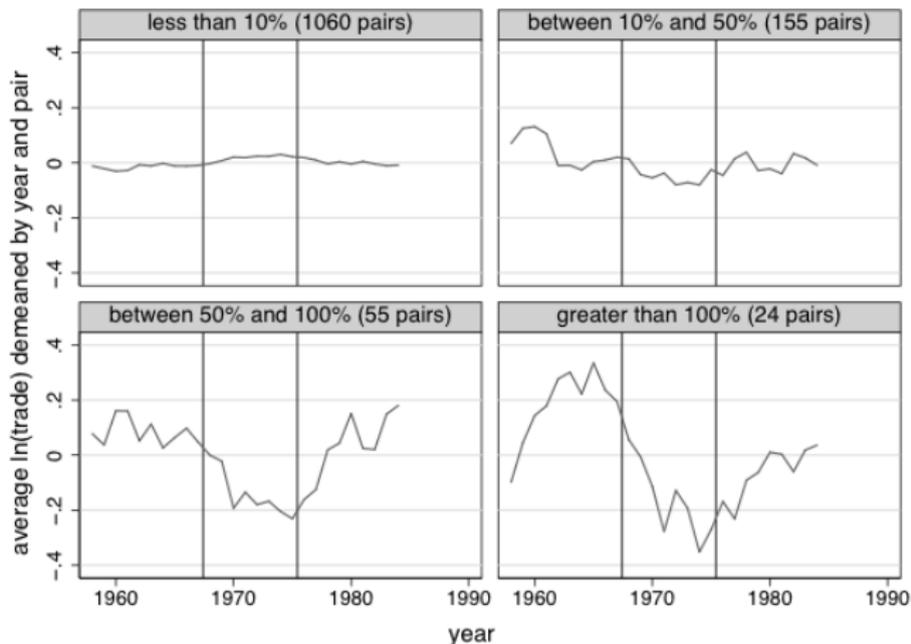
By how much would trade volumes rise if we could remove those barriers?

- A lot!
- Typical (and very robust, across many settings) estimate:
multiplier of 5-10
 - \Rightarrow Anything that acts like a 10% reduction in tariffs would increase trade by 50-100%
- Special cases of this:
 1. Massive trade volume effects of AGOA
 2. Every day of export procedure delay reduces exports by 1%

By how much would trade volumes rise if we could remove those barriers?

Feyrer (2010)

Figure 1: Average bilateral trade residuals grouped by Suez Distance Increase



Key Messages:

1. Growth in economic living standards is built on exchange—that is, on **trade**.
2. Trade with fellow citizens is fundamentally no different from trade with foreigners.
 - \Rightarrow We should be cautious about letting policy hinder exchange
 - \Rightarrow Trade is not a zero-sum game with winners and losers—when 2 parties agree to exchange, they both win
 - \Rightarrow Third-party “bystanders” to any bilateral trade might be hurt (from being left out), but that is just a basic feature of competition.
3. Barriers to trade appear to remain substantial.
4. People want to trade more \Rightarrow Removing barriers has big effects.