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Abstract: Extensive research has demonstrated the existence of large potential welfare gains from trade facilitation—measures to reduce the overall costs of the international movement of goods. From an equity perspective an important question is how those benefits are distributed across and within nations. After discussing the possible impacts of trade facilitation, we use firm-level data for a wide variety of developing countries to investigate whether it is mostly large firms that benefit from trade facilitation. We find that firms of all sizes export more in response to improved trade facilitation. 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.

JEL Classification: F13; F14; O24

Keywords: Trade facilitation, trade costs, WTO, firm-level data, developing countries, global value chains, supply chains.

Contents

Introduction

The term “trade facilitation” has a variety of context-dependent meanings. At the WTO, it refers primarily to the reform of border management processes designed to make import and export transactions easier, thus reducing the cost of trade. In other fora, such as the Asia Pacific Economic Cooperation (APEC), it refers to a broader set of policies that may have an impact on trade costs – e.g., including policy measures that affect the efficiency of transport and logistics services. This second meaning encompasses the WTO focus but goes much beyond it. In this paper we take a broad view of trade facilitation as including any policy action—including streamlining of border management processes—that tends to reduce international trade costs. Trade costs in turn refer to the full range of factors that drive a wedge between export and import prices. Trade facilitation can therefore be seen as the “technology” of international trade—the set of policies and procedures that makes it possible for exporters and importers to engage in mutually beneficial transactions and that defines the total cost of getting a good from one country into another.

Extensive empirical evidence, some of which is discussed in Section 2, suggests that trade facilitation can give a significant boost to bilateral trade, export diversification, and economic welfare. Although most papers focus on quantifying the benefits of trade facilitation, those that also take into account the investment dimension uniformly find that although the up-front costs can be substantial, they are significantly outweighed by the benefits.[1] Trade facilitation is therefore a “good deal” for countries. Although trade facilitation can be expected to have a significant net benefit for reforming countries in aggregate terms, there is a question as to how those gains are distributed, especially in the context of global value chains (GVCs) that may be dominated by large “lead” firms that are headquartered in developed nations. One possibility is that all firms in the value chain gain from better trade facilitation, because lead firms and their suppliers are all able to operate with lower costs and overall turnover expands. Another possibility that has been discussed in the literature, however, is that the gains from trade cost reductions are appropriated as rents by lead firms, because these firms have market power and/or suppliers are locked into dealing with specific lead firms. The result is that large/lead firms capture most of the gains, and workers in (owners of) supplying firms do not share in the benefits.[2] A variant of this argument that has been put

[1] As discussed below, here much depends on how broadly the concept of trade facilitation is defined and in particular whether it includes transport infrastructure.

[2] See e.g., Milberg and Winkler (2010), Barrientos et al. (2011), Berhardt and Milberg (2011), and Gereffi (2013). Mayer and Milberg (2013) make a similar argument in discussing the effects of Aid for Trade. While these strands of the research literature focus on the distributional impacts of GVCs and not specifically on the effects of trade facilitation, GVCs are directly impacted by any reduction in trade costs.

forward in the WTO negotiations on trade facilitation is that developing countries may not benefit from trade facilitation initiatives if they are large net importers. One way such concerns have been articulated by some developing country negotiators is to note that trade balances for developing countries are often in deficit, and to infer from this that lower trade costs will expand imports more than exports, thus worsening the initial imbalance (South Centre, 2011; ICTSD, 2012). This is a misconceived concern, because the overall balance of payments is not determined by trade costs but by macroeconomic variables (the savings-investment balance). Thus a reduction in trade costs cannot worsen the trade balance.[3] However, the concern could be understood in rent capture terms: that in countries that are large net importers the savings from trade facilitation are not passed on to domestic consumers and importing firms but are captured by the (foreign) firms – whether lead firms in GVCs or specialized international distributors – that are the source of the imports.

Arguments that large multinational firms – and thus, implicitly, developed countries – will capture most of the benefits from trade facilitation depend on there being a lack of competition among such firms, or at least that suppliers face substantial switching costs that effectively make it impossible to deal with other GVCs in the same sector. It is an empirical question whether all of the firms in a GVC will benefit. If most of the gains from better trade facilitation are appropriated by lead firms, we would expect to see that reflected in firm-level data. Specifically, we would expect to see that better trade facilitation is an important determinant of export behavior for large firms, but not for small ones. This paper contributes to the trade facilitation literature by testing that hypothesis with firm-level data for a wide range of developing countries, sourced from the World Bank's Enterprise Surveys project.

Although there is some variation in results according to sector, our general findings suggest that the gains from trade facilitation accrue to large and small firms alike: all size classes of firms export more in response to improved trade facilitation. There is limited evidence that small firms may not experience substantial gains from trade facilitation in the garments sector, but the data are relatively weak on this point, and the finding is not repeated in other sectors, or when the data are pooled across all sectors. Our findings therefore contribute to the policy debate on the distribution of the benefits of trade facilitation, as well as to the emerging firm-level literature on the export effects of improved trade facilitation (e.g., Shepherd, 2013).

[3] A reading of the way the balance of payments concerns have been raised in the WTO discussions suggest that the cause of the confusion is in part due to a misreading of the results in the literature on the effects of trade facilitation. Influential papers by Wilson et al. (2003; 2005) report results from gravity regressions in terms of estimated increases in a country's exports and its imports. If a country imports much more from a partner than it exports, trade facilitation measures will have a greater effect on the volume of imports than on exports. But this does not mean the overall balance of trade will be affected as the type of methodology used in these studies ignores the overall balance-of-payments financing constraint.

Against this background, the paper proceeds as follows. Section 2 reviews the empirical evidence on the benefits and costs of trade facilitation. In Section 3, we examine trade facilitation from the point of view of firms involved in GVCs. Section 4 presents our dataset and empirical results. Section 5 concludes, and discusses the policy implications of our findings.