Speed Money in the Asia Pacific

Border Crossing Times, Corruption, and Trade

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Outline

Time has Commercial Value...

- Empirical work suggests that time can act as a significant trade barrier.
  - Hummels (2001): One additional day of transport time reduces the probability of the US sourcing from a country by up to 1.5%.
  - Djankov, Freund & Pham (Forthcoming, REStat): One additional day's shipping time reduces trade by 1%.

Time has Commercial Value...

- Three reasons (at least) why some producers care about the time it takes to move goods across borders:
  - Perishable goods: fresh fruit, cut flowers, etc.
  - Production networking: mimization of inventory costs requires speedy movement of parts and components.
  - Response to demand shocks: the “lean retailing” model of Evans & Harrigan (2005.)

So Some Firms Will Pay for Speed

- Assume that the “official” time it takes to move goods across the border is given, and slow.
- Customs agents perform a gatekeeper role:
    - No side payment: apply the official time.
    - Side payment: apply a quicker time than the official time.
- Assuming different levels of time preference, firms will self-select into bribers and non-bribers: slow border crossing times create an incentive for corrupt payments.

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Preview of Main Results

1. Firm-level data from the World Bank's Enterprise Surveys support the hypothesis that longer border crossing times are associated with more prevalent trade-related corruption.
    1. Identify bribers vs. non-bribers.
    2. Identify firm-level border crossing times.
2. The relationship between trade times and corruption is particularly strong in the Asia Pacific