• Enhancing access to energy (electricity) to reduce trade costs

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High trade costs matter for LLDCs

- Determine competitiveness of LLDCs’ exports
- Important for improving productivity
- Key determinant of foreign direct investment
- Deny LLDC firms access to technology and immediate inputs – prevent entry into GVCs
- Overall effect of high trade costs – reduced ability of LLDCs to fully harness trade for their growth, poverty eradication and overall sustainable development.
- Reducing trade costs significantly increases trade flows
Main Components of trade costs

- Total trade costs are all costs incurred in getting a final good to a final user – other than the cost of producing the good itself.
- It includes: transportation (both freight costs and time costs); policy barriers (tariff and non-tariff costs); information costs; costs associated with use of different currencies; contract enforcement costs; legal and regulatory costs; and local distribution costs (Anderson and van Wincoop (2004)).
World Bank Doing Business

- Trading across borders cost to import or export a 20-foot container
- Cost and time indicators take into account 4 components – document preparation; customs clearance and inspections; inland transport and handling cost; and port handling
LLDCs’ average costs to export are much higher and have been increasing.
LLDCs’ average costs to import are also much higher and have been increasing.

Cost to Import (US$ per container)

- LLDC
- Transit
- World

Data points for years 2005 to 2014 showing a steady increase in import costs.
Time to import (days)
Time to export (days)
• Database captures trade costs in its wider sense, including not only international transport costs and tariffs but also other trade cost components discussed in Anderson and van Wincoop (2004), such as direct and indirect costs associated with differences in languages, currencies as well as cumbersome import or export procedures.

• Measured as additional ad valorem (tariff) equivalent trade cost.

• Data shows trade costs for LLDCs increased over the period 2000-2012 except in a few countries.
LLDCs’ Aggregate structure of LLDC exports, low diversification

- Primary commodities, exc. Fuels, 25.75
- Fuels, 55.90
- Manufacturing, 13.02
- Pearls, precious stones & non-monetary gold, 5.10
- Other, 0.23
Can increased access to electricity help reduce the high trade costs?
OECD/WTO 2015 Aid for Trade Monitoring

For trade in goods – the key sources for high trade costs

1. Transport infrastructure
2. Border procedures (trade facilitation)
3. Non-tariff measures including standards
4. Access to trade finance
5. Network infrastructure including power, ICT

For trade in services

1. Network infrastructure (ICT, power)
2. Access to trade finance
3. Non-Tariff Measures (including standards)
4. Border procedures (trade facilitation)
5. Transport infrastructure
Important role of access to electricity

- Access to and continuous supply of electricity is important for the LLDC firms and SMEs to achieve the non-tariff measures/standards.
- Continuous power supply is needed for enhanced productivity – 8 to 10 outages per month drives production costs up.
- Continuous supply of power is also needed for trade facilitation at the border and between the borders.
- Aid for Trade financed projects in 4 sectors that are closely related to cutting trade costs; transport and storage (29%), energy generation and supply (21%), agriculture (18%) and banking (10%).
- Case stories show clear results.
Policy implications

- Increased access to energy is important in reducing the trade costs of LLDCs
- Scale up access to electricity particularly from renewable resources for firms especially the SMEs
- Need for targeted policies to ensure the smooth and continuous provision of uninterrupted energy to support trade facilitation measures
Thank You