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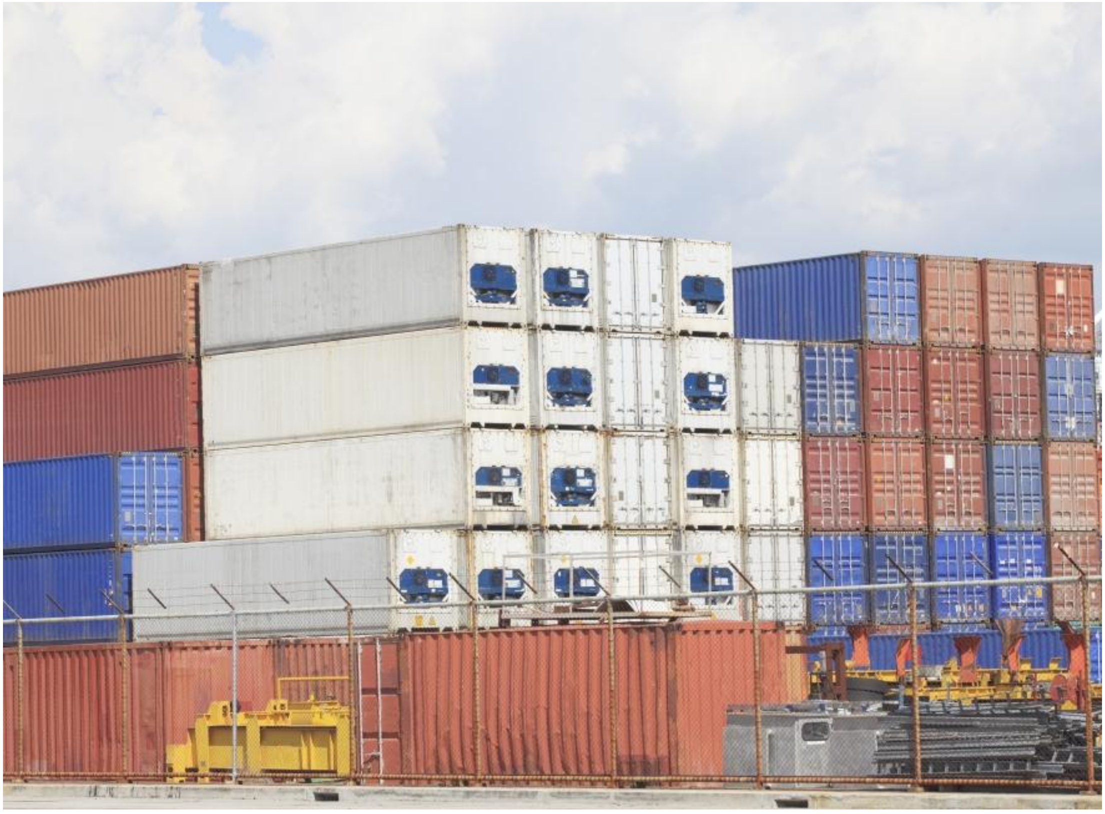

Conference report

Trade facilitation for African economies

Thursday 24 – Friday 25 October 2013 | WP1259

In association with:

TRADE OUT OF POVERTY

CROWN AGENTS

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Poverty reduction, economic growth, job creation and distribution of wealth are fundamental to unlocking economic and social potential in African countries. This Wilton Park conference, in association with the All-Party Parliamentary Group on Trade Out of Poverty (TOP) considered whether a multilateral agreement on trade facilitation at the WTO Ministerial in Bali in December 2013 could provide African nations and the global trading system with the tools to deliver that potential, and whether the challenges to sustainable and inclusive economic development can be overcome.

Trade facilitation is undeniably a development issue, but the estimated trillion dollar boost to the global economy would be felt beyond the continent's borders. Alongside the economic benefits of trade openness, the potential human development improvements in many of the world's Least Developed Countries (LDCs) in the fields of security, health, education and environmental sustainability could be a catalyst for significant development outcomes and inclusive prosperity. Removal of both tariff and 'behind the border' barriers could also boost intra-continental trade by improving access to global supply and value chains for African businesses and enabling them to achieve export competitiveness.

However, real barriers to achieving multilateral union exist – what can be done to secure agreement? The potential benefits that trade facilitation could yield need to be assured by adequate support at international policy levels, as well as at the grassroots, with robust 360^0 country analysis, capacity building, technical assistance and institutional strengthening. Partnerships with traditional donors and new stakeholders will be essential in delivering effective programmes to support African countries in harnessing the potential of global trade facilitation.

Key points

- Regional integration is essential for improving trade. African states should have more autonomy over decisions that affect them. Cooperation between states can provide a collective voice, increasing negotiating power at global meetings.
- Borders must become more efficient to reduce the time and costs incurred when crossing them – an issue particularly damaging to smaller businesses, and one that requires diplomatic cooperation.
- More investment is needed in infrastructure and research to improve goods transportation and develop efficiency improvements. Better technology and data would create better policy decisions. The private sector should be more involved.
- Global cooperation is still vital. Openness is not enough on its own as other costs are still high. Bali represents an opportunity to revitalise international trade agreements. An agreement should be realistic and reflect existing best practice.

The potential benefits of trade facilitation

1. Trade being beneficial for all economies is not disputed. However, African economies are far from fulfilling their trading potential. A key reason for this is the bottleneck created by a lack of trade facilitation.

> "Africa is far from fulfilling its trading potential"

2. The Millennium Development Goals (MDGs) don't reflect the importance of trade. Economic activity, developed through trade, can become the main route for sustainable development and helping countries grow out of poverty.
3. Multinationals source their parts and materials from across the world. How can African countries attain a larger share of this trade?
4. African economies could integrate more easily with global supply and value chains if they were more evenly balanced. The perception is that African trade is limited to natural resources and that value is always added outside of Africa, (e.g. not all cocoa producing countries export chocolate). High transportation costs and tariffs can be a disincentive to adding value as these factors can make it impossible to be competitive.
5. Trade can create remarkable results. Singapore is reliant on imports but is an economic success because it is very effective at getting goods in and out. As a result of its trade facilitation it has become the financial centre for South East Asia, with exceptionally good institutional governance and high levels of social control.

> "African economies could integrate more easily with global supply and value chains if they were more evenly balanced"

6. Angola provides an interesting case study of what can be achieved: thriving railways; export of oil, gas and diamonds; production of oil likely to reach 2 million barrels a day by 2017; mineral discoveries, a proposed stock exchange and a customs modernisation programme. While uneven distribution of wealth is a cause of social tension, growth is good, inflation is low and real progress has been made in relation to governance. It is expected to become a middle income country in approximately 3 years' time.
7. All of this has been achieved in Angola despite 3 decades of war and relatively low education levels. It has also been achieved even though the language is Portuguese, which sometimes makes regional engagement difficult.

Improving the outcomes of trade facilitation by boosting domestic capacity

8. A significant challenge to the trade objective is funding for SME investment; technical assistance should be about helping individuals and their businesses, not just about high level policies. Informal and micro funding financial vehicles need to be brought into the system. There also needs to be fair distribution of wealth within countries once they become successful.
9. There must be a focus on which banking and investment programmes are needed to generate and support SMEs, including agriculture. The WTO takes a top-down rules approach, whereas promotion of trade requires a bottom up approach.
10. The Fairtrade movement is designed to allow all producers to fulfil their potential. Minimum prices are designed to give farmers the confidence to take risks, taking them from passive participants to social entrepreneurs through scaling up. The Fairtrade community includes producers, retailers, traders and consumers. Globally 1600 organisations are certified as Fairtrade, a 16% increase from 2012. The vast majority of Fairtrade producers are in Africa.

> "assistance should be about helping individuals and their businesses"

11. Traditionally Fairtrade has concerned exports, but it is now looking at consumption in local markets. The focus is sustainable assets, not producing today to the detriment of future generations. Fairtrade has encountered challenges around taxation: the Ghanaian government, for example, wanted to tax the 'community premium'.
12. The African diaspora is an untapped resource. There are 4.5 million Africans in the UK alone, and they are keenly interested in their home countries. Diasporas are investing

in Jamaica and other parts of the Caribbean, and Ethiopia is benefitting from remittances. It may be possible to encourage investment by diasporas through matched funding.

13. Post-secondary education needs greater focus; it isn't covered in the MDGs. Tata has Colleges of Technology, and provides training as part of its international Corporate Social Responsibility, so perhaps this could be replicated in African states.
14. African economies will only be able to play a full part in the global supply chain through investment in science and technology. In Ethiopia 70% of university places are connected to science and technology. At the same time, the consequences of youth drifting away from rural communities to urban areas must be recognised and addressed.
15. African governments must enter into dialogue with the private sector. Zambia has included private sector representatives in its delegation for Bali and others could follow.
16. Business related regulations need to be harmonised, eg for businesses to grow they need to be mobile, and therefore the process for obtaining work permits should be made easier and more predictable.
17. Work is needed on Memorandums of Understanding. The costs of implementation could be relatively low, whilst the returns are likely to be high. However there must be clarity and confidence around the benefits that will arise from the investment needed.

Improving outcomes through regional cooperation

18. There are positive examples of regional integration, which can generate economies of scale and improve access to markets. The East African Community has increased trade between its five member countries.
19. There should be greater focus on boosting intra-African trade. For example, if Ethiopia is exporting leather, should surrounding countries prioritise the development of related industries?

"The road to Bali shouldn't be from Geneva, it should be from Africa"

20. There must be a focus on moving the debate from Geneva and Brussels to African capitals. The road to Bali shouldn't be from Geneva, it should be from Africa. African countries must encourage their different ministries to agree on matters relating to trade so that there is consistent voice.
21. African countries need to engage with each other to resolve their conflicts and disagreements, so that they can thump the table together at Bali. Even the language of the debate has been crafted by people on the outside who are looking at Africa. Africans should look to themselves first for solutions rather than looking to outsiders.
22. Some measures are expensive to put in place and may be expensive to maintain. Some are relatively inexpensive but require a sustained political commitment. Regional trade agreements can become a way of increasing political will for the latter.
23. Pan African institutions face challenges because of the ethnic diversity within Africa, but these problems must be overcome. There is something to learn from Japan, which is simultaneously traditional yet modern.

Borders: enhancing efficiency to reduce costs

24. Many African countries are landlocked. This makes open and efficient land borders even more vital to trade facilitation efforts.
25. Waiting times at borders and bridges is still a significant problem in Africa, especially for perishable products. It can cost up to $400 per day to keep a truck at a border. It takes 30 days to travel from one end of Africa to the other, half of which is spent at borders, offloading produce for inspection, filling out forms or other administrative processes. The World Bank describes Africa's borders as 'thick.'

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26. Africa lacks infrastructure, critically undermining fluid trade. ICT and technology are also deficient, despite the growth in mobile telephones and UN focus on the problem.
27. Investment is particularly needed in the software and hardware necessary to support the borders, roads and ports which link products to their markets. Tracking systems are required in order to monitor goods in-transit. Without this, goods can get diverted to customers or countries for which they are not intended.
28. There needs to be investment in research. There should be a data revolution driven by quality statistics, to support evidence based policy decisions.
29. In most countries customs is computerised and cloud-based. However there can be as many as 13 agencies operating either side of the border. This reflects the widening of customs' functions, eg the addition of security measures. There are often standalone systems for terrorism and drug enforcement, and phyto-sanitary standards may not be computerised. Combing the needs of all of the involved organisations onto one IT system requires political will as well as money. Complications may arise if the country which needs to make the investment will not experience immediate or direct benefits itself.
30. In Africa, 70% of goods are moved by road because of a decline in the railways. Some of the new roads being built aren't of sufficient quality for the loads they will need to carry. Poor road maintenance means that it can be unsafe to transport some goods by road, but countries that impose stronger regulations become less competitive. Despite this, Tanzania has banned 7 axle trucks and Kenya has imposed a 48 ton limit.
31. Building railways can have environmental advantages because a train may only use 25% of the fuel used by a vehicle.
32. The development of a copper belt in Zambia has led to $8 million being invested in roads and railways to link with neighbouring countries.
33. There has been talk of replacing unreliable ferries on Gambia's rivers for over 40 years, and the African Development Bank is considering whether to make this investment.
34. There needs to be a reduction in the time it takes to clear customs, especially as the goods of small and medium sized enterprises (SMEs) are more likely to be checked than those of multinational Corporations. Changing customs and borders procedures requires training and investment but can reap enormous benefits.
35. Improvements can be achieved by using a 'single window', where country exit and country entry only involve a single bureaucratic process. 'Behind the border pre-clearance' (goods cleared before they get to physical borders) and 'one stop border posts' (single facility operated jointly by adjoining countries) can also be beneficial. Reducing the cost of clearing customs can be more challenging because countries' often rely on these revenues.
36. In Tunisia a reduction in cargo delays from 10 to 3.3 days helped generate 50,000 full-time jobs. In Ethiopia, customs reform increased imports and exports by 200% and tax revenues by over 51%. The Revised Kyoto Convention[1] has had positive outcomes, eg customs reform in Eastern and Southern Africa.
37. One potential way to tackle corruption at borders is for the personnel undertaking inspections to differ from the personnel who take payments or manage queues.

Improving outcomes through global cooperation

38. Aid can have a disproportionately positive impact on trade costs, eg a 1% increase in aid may lead to a 10% decrease in trade costs. The European Union (EU) is the largest provider of aid for trade, eg funding provided by the European Development Fund. In fact EU aid pays for itself as it supports exports from the EU to Sub-Saharan Africa. The WTO also has an aid for trade initiative.

39. Market access is a prerequisite to competitive markets, but access it is not enough on its own. Economists know that lowering tariffs improves trade, but this requires negotiations at diplomatic level. 75% of the tariff reductions that have been made in the last 30 years have been made unilaterally. African trading costs are much higher than those of other regions, regardless of tariffs.

40. A positive outcome in Bali would strengthen and revitalise the WTO. If no agreement is reached it could be a very serious blow to the standing of the organisation and international trade discussions as a whole.

41. The expectations for the new trade agreement are high, both in terms of trade gains and income gains. However, the benefits that African economies were supposed to reap from previous trade agreements were exaggerated; overall liberalisation has not achieved the expected benefits.

"The expectations for the new trade agreement are high"

42. It may be better to avoid ambitious commitments as this risks a damaging failure; bite size measures which benefit a greater range of countries may be preferable. China should play a key role in helping get the agreement through.

"It may be better to avoid ambitious commitments as this risks failure"

43. The agreement should reflect existing best practices, ie trade measures that countries would want to take even if there was no codifying agreement. An international agreement is likely to inspire activity even if countries could take action unilaterally.

44. Has Africa had enough influence over the agenda? African countries may be reluctant to address the issues for a number of possible reasons: they do not want industrialisation; they are worried that the agreement may threaten special and differential treatment; they fear of losing policy leverage; they fear that implementing the agreement will become a condition of aid.

45. Freedom of transit, formalities connected with importation and exportation, and publication and administration of trade regulations will be discussed at Bali, but is this scope too narrow? Import and transit requirements, advance rulings on classification and valuation, fairer and more transparent appeals processes for customs decisions, and disciplines on customs fees would all help the fight against corruption.

46. The WTO doesn't have direct powers over corporations, which leaves a gap in terms of ensuring ethical trading, and preventing tragedies such as Bhopal and the Rana Plaza building collapse in Bangladesh.

47. Trade facilitation agreements are legally binding, and this certainty is intended to improve traders' confidence. However there is recognition that not everybody benefits to the same extent from trade agreements, although all countries benefit to some degree. In trade negotiations nobody gives anything away for free. LDCs and developing countries want the developed world (EU and US) to forgo export subsidies in key agricultural sectors.

"In trade negotiations nobody gives anything away for free."

48. The categorisation of commitments in the agreement is significant. Category A commitments are to be implemented immediately; Category B commitments have a transition period; Category C commitments are conditional upon the provision of financial assistance and support for capacity building. Among the fundamental issues to be resolved at Bali are which commitments should be legally binding. It is also unclear as to which issues require multilateral agreement, rather than unilateral adoption.

49. Developing countries which fail to implement a commitment can be subject to dispute settlement, but they may be unable to access help with the process because the donors they rely upon do not belong to the WTO. For this reason, donors should also be subject to legally binding commitments. LDCs want commitments around technical assistance, and they want assurances that the timeframes for this assistance will match the timeframes they are allowed for implementation.

50. Rules of origin and trade preferences need to be addressed as they can be misused as protectionism. Moving from a double to a single rule of origin has implications for

"Developing countries fear WTO enforcement and being unable to implement the new agreement"

exports, eg when the EU relaxed rules of origin it led to exports from the US to the EU. There is an expectation that emerging countries will not use rules of origin.

51. Developing countries are most likely to benefit from the trade agreement if it is flexible, and if technical and financial assistance are made available. Despite reassurances, developing countries fear WTO enforcement and being unable to implement the new agreement because of a lack of resources, including knowledge.

52. There are fears of regression on trade issues because of negative experiences, such as the impact that counter-terrorism measures had on food exports or the effects of the dysfunctional ban imposed on maize exports from Zambia. There are examples of companies being sued for breach of contract after being constrained by trade rules.

53. Whatever the deal done in Bali, it can only ever be the start of the story. There needs to be a post-Bali roadmap. However the agreement looks, whether it actually works in practice will depend upon political will and this can only be generated by demonstrating to countries that they will actually benefit from making changes.

Suggested next steps

- The aid, debt and trade agendas should be brought together more often
- Trade and secondary education should be included in the post MDGs agenda
- Private sector stakeholders should be more involved in the debate
- Continued regional cooperation is necessary to break down the barriers to trade, particularly for border facilitation and customs collaboration
- Improved research and information sharing would be beneficial to decision making and it could support a culture of evaluation
- The role of diaspora as an underused source of expertise, experience and finance could be explored in greater depth
- A 'Doing Business Better' fund for developing countries that implement the agreement may be valuable, particularly if it can demonstrate real results
- The benefits of Bali should be presented more prominently with outreach to civil society and the media. Expectations should be managed and kept realistic.

Liz Richards / James Farrar
Wilton Park | November 2013

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[1] A blueprint for modern and efficient customs and controls.