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FRONT COVER

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Africa's expensive borders

By Rod Hunter
Friday, October 10, 2008

WASHINGTON:

The world's finance ministers, gathered here this week for the annual World Bank and International Monetary Fund meetings, will rightly lament the collapse of global trade talks and Africa's halting development progress.

But what Africa needs far more urgently than a trade deal is to clear the customs red-tape, corruption, transport monopolies and the like that keep the continent disconnected and destitute.

To be sure, completion of the World Trade Organization's Doha Development Agenda, which fell apart in July over agriculture, could usefully improve market opportunities for Africans.

A Doha deal would lower tariffs and cut into rich country farm subsidies that distort markets where Africans could compete.

And developed countries have pledged some $15 billion in "aid-for-trade" once Doha's done to help poor countries capitalize on trading opportunities.

While trade liberalization is always welcome, Africa's main problems are not other countries' tariffs. The global trend toward unilateral tariff cuts and the duty-free access granted the poorest countries through rich country preferences already ensure that African exporters face low tariffs.

A greater obstacle than tariffs is the high cost of moving products across Africa's borders. These costs, caused by impediments such as customs bureaucracies, informal barriers, regulation and monopolistic transport services, are higher in sub-Saharan Africa than anywhere else in the world.

First, the red-tape is bewildering, with the average customs transaction involving 40 paper documents and 200 data elements, and much repetition.

Second, customs delays in sub-Saharan Africa are the world's longest. While it takes one day to clear customs in Estonia, it takes 30 days in Ethiopia. Each day of delay at customs has been estimated to add nearly 1 percent to the cost of goods.

Third, informal barriers and divergent transport standards compound delays and costs. The 2005 Blair Commission for Africa recounts that truckers encounter one checkpoint per 14 kilometers between Lagos to Abidjan, leading to multiple pay-off demands along the way. Rules on truck length and axle numbers vary across borders, thwarting efficient transcontinental trucking.

Fourth, backwards transport regulation leads to high prices and poor service. Deregulation exposing coddled sea transport monopolies to effective competition could reduce freight costs by 25 to 50 percent.

Just how much do Africa's trade costs matter? The effective rate of protection imposed by these costs is higher in many cases than that provided by tariffs.

For example, while many sub-Saharan African exports to the United States face tariffs as low as 0 to 2 percent, trade costs typically exceed 10 percent of product value.

A new World Bank study shows that improving trade facilitation in Ethiopia half-way to the level in South Africa would equate to a 7.5 percent cut in tariffs faced by Ethiopian exporters.

Trade costs are an even greater challenge for the 15 landlocked countries that are home to 40 percent of Africans. The Blair Commission notes that these isolated inland countries on average incur transport costs that are 50 percent higher and have trade volumes more than 50 percent lower than similar coastal countries. Some cases are far worse: transport costs impose the equivalent of an 80 percent tax on Uganda's clothing exports.

In short, Africa needs a pro-poor trade agenda that tackles these trade costs through simplifying customs procedures, increasing transparency, removing roadblocks and corruption, improving regulatory frameworks and injecting competition into transport services. Here's how to do it:

Aid-for-trade pledges. Developed countries need to fulfill their aid-for-trade pledges without waiting for the uncertain completion of the global Doha trade talks. Developed countries should also prioritize trade facilitation reforms in their bilateral aid programs.

Private sector and foundations. No one knows better what's required for supply chain management and cross border trade than international businesses. Manufacturers and retailers could play a key role in working with African countries to identify and implement process changes necessary to join the global economy, while creating new investment and efficiency opportunities for themselves. By the same token, foundations and other nonprofit organizations could move swiftly to support on-the-ground reforms, while official donors work to reorient their aid programs.

Coordination. Donors and African countries should consider creating a platform for coordination involving all participants, including the private and nonprofit sectors, to prioritize work, share best-practices, avoid duplication and track progress. The World Bank, the world's premier development body with a wealth of expertise and strong leadership, might be a good platform.

African ownership. Most important of all, Africans need to assume ownership for reforms. Trade facilitation is far cheaper and faster than building roads and ports. But it requires political will, especially when taking on bureaucracy, corruption and ensconced transport monopolies.

Trade facilitation is not a silver bullet. Much else needs to be done for Africa to overcome its economic, health and security challenges. Yet a targeted trade facilitation agenda could have an immediate and meaningful impact on growth prospects for Africans. And unlike the Doha trade round, it doesn't require the agreement of 153 disputatious trade ministers.

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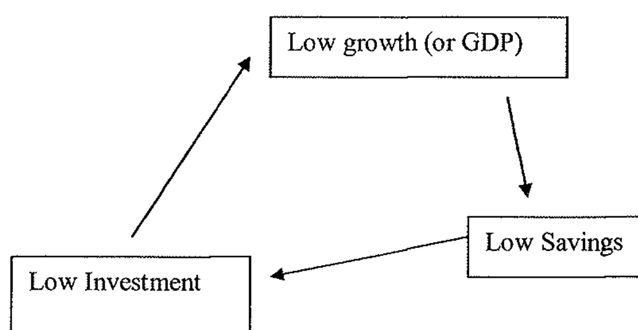
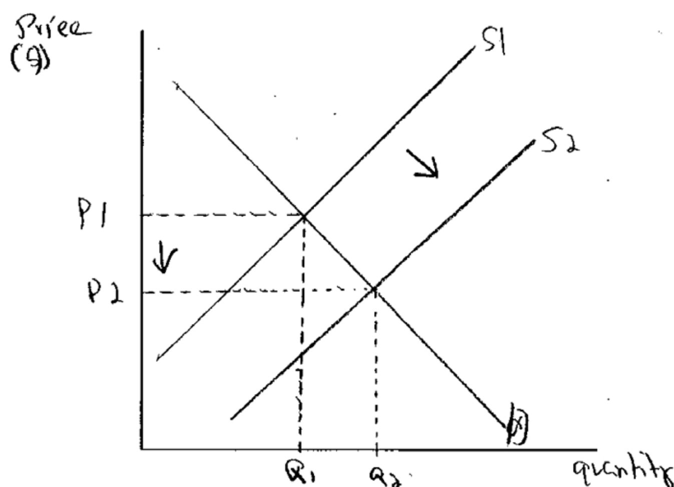
A less developed country, is a country with a developing GDP, which is lower than other, most likely, Western countries. LDC's try to develop using trade, however, it its difficult for them due to trade and development barriers., and according to the article, the removal of these barriers should be a priority.

The first barrier to development is the Poverty Cycle. Countries which are developing, usually have a high amount of poverty which obviously lowers their GDP and therefore slows, if not stops them from sustaining economic growth. The following diagram shows the results of low savings due to poverty. First of all, low savings mean that people spend almost if not all of what they have. This could be due to an unstable currency, meaning that consumers do not trust the value of the currency to stay the same for long, and therefore they spend their money as soon as they can. This low savings leads to low investment which could be for training or machinery which would increase productivity.



Besides the Poverty Cycle, there are different types of barriers. The first one is the lack of investment. An economy needs investment in order for improvements to happen. Investment would improve such things as machinery, training, and education, which in the long run would help a country develop faster. Another barrier, is poor infrastructure. Poor infrastructure causes the work output to be lower than that of the input which is obviously not good for an economy which wishes to grow. A third barrier to development, is corruption. In many Less Economically Developed Countries, the government is corrupted. With out corruption, the money given through aid, could be used to promote education, drinking water, healthcare, and other benefits which could really lift a country out of poverty. There are also trade barriers described as the "red-tape" such as protectionism in Most Economically Developed Countries. Protectionism is when a country shields their domestic goods from an international market.



Protectionism in MDCs, leads to an increase in supply for the world market due to subsities from S1 to S2, which lowers prices from P1, to P2. However, the LDC's

products are at a set price, lower than that of an MDC, but not enough of a difference meaning that the amount of imports demanded from and LDC will decrease, as more consumers stay domestic.

According to the article at hand, the World Trade Organization or WTO's aim with the 'Doha Development Agenda' was to lower tariffs and barriers to development. However, there is resistance from MDC's, who are reducing protectionism for farmers. Meanwhile, MDC's want more access to an LDC's market and their raw materials, but are unwilling to buy their goods even when there is competitive advantage. LDC's also want access to MDC markets, but withoutup their own tariffs. However, according to the article, the main barriers are the physical borders between countries, which are described as 'red tape'. This is due to the transport costs and the bureaucracy.

However, there might be some solutions to this problem which affects so many different countries. The first one, is Project Aid. Project aid is when the aid is given in a timeline form of what needs to happen, and it is taken in steps. This projet aid would be needed to infrastructure such as roads and education. Also, since most 'official' aid from organizations such as the WTO go to the government, not much of it goes down to the poorest of the population. However, if there was an increase in 'unofficial' aid such as charities, such as Oxfam, which go straight to the poor, it may be more beneficial. Also, if markets were open to LDC's products around the World. Another factor to help solve this solution would be an increase in transparency. This would mean that firms and government would be more open with their business, and therefore there would be a decrease in corruption.

If these solution were to be put in play, the consumers would benefit by having more access to better goods and services. Also, they would have better roads and better education. The government may suffer on this if they are corrupt, as corruption will decrease, and domestic producers in Africa would also suffer as they would have a much higher competition for goods, however, it seems that more people will benefit then lose out.