

## Trade Facilitation in the Bali Package: What's in it for Africa?

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### Key messages

The agreement at the 9<sup>th</sup> WTO Ministerial Conference in Bali provides a timely lifeline for the multilateral trading system.

Trade facilitation (TF) is vital for Africa's own competitiveness as it will reduce costs for traders.

The key challenge to intra-African trade is NTBs that stifle the movement of goods, services and people across borders.

Complementary measures (on investment promotion, value added activities, NTBs, SPS, etc.) are needed to benefit from TF.

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The adoption of the 'Bali Package' at the 9<sup>th</sup> Ministerial Conference of the World Trade Organization (WTO) on 7 December 2013<sup>1</sup> generated abundant euphoria among negotiators, development agencies, WTO Secretariat's officials and other interested parties. The WTO claims that the Bali deal will create an extra US\$1 trillion in global trade. But with dust settling from the Ministerial meeting, we briefly examine here what the Bali Package really means for developing countries, especially those in Africa.

### Resuscitating the DDA

Firstly, the mere fact that 159 Members achieved consensus in Bali is an impressive feat in its own right. The Doha Development Round had come to be characterised by polarisation especially between the major developed countries and the emerging economies of the South. The agreement in Bali provides a timely lifeline for the multilateral trading system, whose credibility was slowly being eroded. At the launch of the Doha Development Agenda (DDA) in Qatar in 2001 there was much optimism about how it would help correct the imbalances in the global trading regime. However, the DDA became bogged down by intractable differences resulting in numerous missed deadlines. As a result, most countries have resorted to bilateral and regional trade pacts. Paragraph 1.9 of the Bali Declaration "reaffirms (Members') commitment to the WTO as the pre-eminent global forum for trade."

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<sup>1</sup> <https://mc9.wto.org>

## Trade Facilitation a Major Take Away from Bali

Essentially, the Bali package contains a subset of issues from the broader DDA. Of particular interest in the Bali Package is the trade facilitation (TF) component because it holds tremendous potential for African countries and complements a lot of the infrastructure investments that are being undertaken across the continent particularly in the transport sector.

The least developed country (LDC) package contains best endeavours rather than binding commitments. Among others, it reiterates members' commitment to providing duty-free-quota-free (DFQF) market access to LDCs. Upon closer examination, the benefits of DFQF might prove superficial for various reasons, including the less than 100% coverage, effects of preference erosion and non-tariff barriers (NTBs) which are of equal, if not, bigger concern than tariffs for LDCs. DFQF on its own does not work, as we have seen with the European Union's everything-but-arms (EBA) scheme and the United States' African Growth and Opportunity Act (AGOA). Overall, there has been little improvement on the LDC package since the 2011 Ministerial Conference.

The agriculture negotiations only yielded an interim mechanism necessitating further negotiations in order to nail down a lasting solution. For African countries, therefore, the Agreement on Trade Facilitation seems to be the main take away from Bali.

Trade facilitation is vital for Africa's own competitiveness as it will reduce costs for traders. While tariffs have progressively fallen, the key challenge to intra-African trade is NTBs that stifle the movement of goods, services and people across borders. To use a clichéd example, it has often been said that shipping a car from Japan to Abidjan costs US\$1500, but shipping the same car from Abidjan to Addis Ababa costs US\$5000.

There are 16 landlocked countries on the continent. For these countries, the average customs transaction involves 20-30 steps, 40 documents, 200 data elements and re-keying of 60%-70% of all data at least once.<sup>2</sup> It therefore comes as no surprise that trade facilitation bottlenecks such as border crossing procedures, cumbersome documentation, regulations and NTBs such as police checks, account for 14% of trade costs in Africa's landlocked countries, compared to a developing country average of 8.6%.

Trade facilitation measures in the coastal and transit countries also have spill-over impact to the hinterland countries. Due to such positive externalities some trade facilitation reforms and investments need to be viewed as regional public goods. The Kazungula Bridge and the Chirundu One-Stop Border Post are just two examples. Although the Kazungula Bridge connects Zambia and Botswana, most traffic is in transit to the Democratic Republic of the Congo (DRC) thereby spreading the benefits to a broad region.

Trade facilitation is vital for boosting intra-African trade, which is estimated at between 10% and 16% depending on your source. Analytical studies indicate that the creation of the Continental Free Trade Agreement (CFTA) accompanied by more efficient customs procedures and reduction in delays at African ports would more than double intra-African trade within a decade.<sup>3</sup>

Cognizant of these potential benefits, several African countries have initiated programmes to modernise their customs at the ports of entry and along transit corridors along the guidelines of the Revised Kyoto Convention (RKC) of the World Customs Organization. The benefits of such initiatives are evident. At the Chirundu OSBP between Zambia and Zimbabwe clearance times for commercial trucks have been reduced from five days to a single day with those cleared under the fast lane facility taking at most five hours at the border. The clearance time for passenger coaches has been halved from two hours to under one hour, thereby facilitating the movement of people, including small-scale traders in the region. Improved trade facilitation reforms have also helped raise government revenue through improved collection of import duties based on enhanced efficiency in border management.

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<sup>2</sup> World Trade Organisation Trade Facilitation: [www.wto.org](http://www.wto.org)

<sup>3</sup> Assessing Regional Integration Report V shows that intra-trade would double from 10% in 2012 to 22% by 2022. However, in the absence of attendant TF measures, the CFTA would only raise intra-African trade to 15.5% within the same period.

## The Bali Value Added

If countries are already implementing TF measures unilaterally, the question arises as to what is the value-added of the Bali deal?

Firstly, a binding TF agreement under the WTO will push countries to undertake trade facilitation reforms in keeping with their commitments. There are a number of countries that have been lethargic in undertaking customs reforms and other trade facilitation measures even though such reforms could boost national and regional competitiveness. Such tardiness can have serious negative consequences for the successful and efficient operation of regional transport corridors. In some instances, there is little buy-in amongst the key government agencies to undertake such reforms. The binding agreement on TF, once it enters into force, will help to lock in reforms.

The Agreement on Trade Facilitation contains obligations on publication of information on a number of issues including documents and forms on import, export and transit procedures, duties and taxes, fees imposed by governments in connection with importation or exportation; import, export or transit restriction and appeal procedures, among other items. There are also provisions related to a range of RKC issues such as advanced rulings, pre-arrival processing, risk management, post-clearance audit, authorised economic operators, and establishment of single windows, *inter alia*. It goes without saying that these provisions will benefit traders by ensuring availability of information and encouraging transparency. The Agreement also contains generous flexibilities for developing countries under which they have the option to identify provisions which they can implement upon entry into force (category A), after a transition period (category B) and after a transition period upon provision of technical assistance and capacity building (category C). Where plausible, members can switch items from category B to C.

Moreover, the Bali Agreement on TF encourages development partners to provide assistance and support in this area. This was not without contention- as African countries had hoped for more concrete commitments for technical and financial support. African countries will have to specify their capacity building needs in order to undertake specific reforms. There is always a danger of course that if support is not forthcoming as expected then the pace of reforms and implementation will be slow. Nevertheless, there are opportunities here for African countries – working in partnership with development partners such as the African Development Bank and others to develop and experiment with innovative means to finance TF reforms and infrastructure – using public private partnerships (PPPs), ICT solutions etc. We have seen encouraging evidence of this in countries like Mozambique and Ghana.

## Is there a Devil in the Bali Detail?

While all indications point to the positive benefits of a binding agreement on TF, the question still needs to be asked: whose trade will be facilitated? Arguably, countries that are export-ready will reap the immediate benefits of trade facilitation. In the case of Africa, since most countries have little to export, efficient cross-border movement of goods will result in an initial increase in imports and worsening trade balances. Expansion of exports requires investments and therefore takes a longer time to materialise. This highlights the need to prioritise value adding activities through the promotion of investment and value chain development. There is also need to address tariff peaks and tariff escalation in the global trading regime - the former prevents developing countries from exporting products in which they have a comparative advantage while the latter curtails their chances of climbing the value chain. In the absence of such complimentary measures, the benefits of the TF deal will be marginal and African countries will miss out on the alleged US\$1 trillion Bali trade boost.

Lastly, issues such as non-tariff barriers, compliance with sanitary and phyto-sanitary standards, and stringent rules of origin will continue to stifle Africa's prospects to penetrate international markets and move up the value chain. Therefore, parallel efforts have to be made to continue to address these issues both in regional and global trade.

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