

How Transaction-Level Customs Data Could Benefit the Cause of the AfCFTA

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The African Continental Free Trade Area (AfCFTA) holds much promise for the economic future of the African continent. This continent-wide free trade area aims not just to liberalise the overwhelming majority of intra-African trade, but also to forge agreement on trade in services, trade disputes, border management, digital trade, and intra-African payments settlement. The implications are wide ranging, but what is certain is that real pecuniary and other gains await the countries of Africa should the agreement succeed in its goals.

Ultimately however, there is usually a gulf between the hype of international cooperation and the reality of the implementation of what are, in essence, complex and ground-breaking agreements. Although economic analysis tells us of a certainty that the net gains from deepening intra-African integration will be positive, an outcome that does not entail some adjustment pain is not possible. This is because tariff walls inevitably protect domestic industry from the rigours of international competition and their removal will expose certain uncompetitive industries and corporations to this competition, to their prejudice.

Secondly, tariffs provide revenue. According to the OECD, non-VAT consumption taxes (of which tariff revenue is the main source) in Africa are nearly double those for the OECD average¹. Due to the nature of their economies, African governments collect a far greater proportion of consumption taxes and corporate taxes than individual taxes and other tax types. The AfCFTA, with its goal of eliminating tariffs on 90% of goods², will involve the loss of a portion of tax revenue that has already seen reductions due to other trade liberalisation processes. An added complication is the impact that the Covid-19 pandemic

¹ <https://taxfoundation.org/africa-tax-revenue-oecd-report-2020/>

² <https://www.tralac.org/documents/resources/infographics/4276-afcfta-comparative-tariff-offer-analysis-march-2021/file.html>

has had on public finances worldwide³. The contractions in business activity have led to negative shocks to tax revenues, while in many cases the demands on the fiscus have risen. Africa has not been spared of this crisis.

The upshot of this is that tariff liberalisation in the AfCFTA could be a protracted and at times difficult process. Progress needs to be monitored, and monitoring requires good research and information feedback. Good information and research needs to be based on good data, where 'good' in this respect means not only accurate, but also comprehensive and up to date data.

The primary source of global merchandise trade data is UN Comtrade. This data covers 200 reporting countries, 54 years and more than 6000 products⁴. Comtrade data is also provided in other portals such as Trade Map⁵, WITS⁶ (which also combines it with WTO tariff data) and UNCTAD Stat⁷, among others. Comtrade data is disaggregated to the 8-digit level (tariff line), is available at a minimum time resolution of quarterly and (for imports data) contains the name of the origin country, as in the country from which the goods were shipped.

By contrast, transaction level data sourced from a commercial provider such as ImExDBusiness⁸ contains all of the above information plus the origin country (the country in which the imports were manufactured), the exporter and importer company names, the total taxes paid on the transaction (including sales taxes, duties, levies and surcharges) as well as product volume details such as weight, quantity and unit. In addition, since the data is per-transaction, the actual date of the transaction is included. There is no aggregation either by time period, product category or volume.

The table below summarises and compares the two data sources by information content. The transactions data sourced was for Uganda, for several months in 2019, from ImExDBusiness.

³ <https://www.oecd.org/coronavirus/policy-responses/tax-and-fiscal-policies-after-the-covid-19-crisis-5a8f24c3/>

⁴ <https://comtrade.un.org/>

⁵ <http://www.trademap.org>

⁶ <https://wits.worldbank.org/>

⁷ <https://unctad.org/statistics>

⁸ <https://www.imexdbusiness.com/detailed-worldwide-imports-and-exports-databases/>

	UN Comtrade	Transaction-level
Product disaggregation	8 digit	11 digit
Minimum time resolution	Quarterly	Daily
Currency unit	US \$ (no African LCU)	LCU
Origin country	Trade country	Trade country and origin country
Exporter details		Company name
Importer details		Company name and ID
Tax paid	(MFN and preferential rates can be sourced from WTO)	Actual total tax paid, includes VAT and duties
Volume		Quantity of items and quantity unit
Weight		Net and gross weight

When it comes to the border taxes paid, UN Comtrade data can be combined with WTO tariff data to link the tariff line to the promulgated MFN or preferential rate. In the case of transaction-level data, this particular data set contains the actual total taxes paid, but this total includes the tariff as well as other taxes. Although it is possible to determine a particular country's sales tax rate – for example, Uganda's VAT rate is 18%, the only way to separate the additional taxes/tariffs paid for any transaction is to deduct from the total the MFN rate plus the VAT rate.

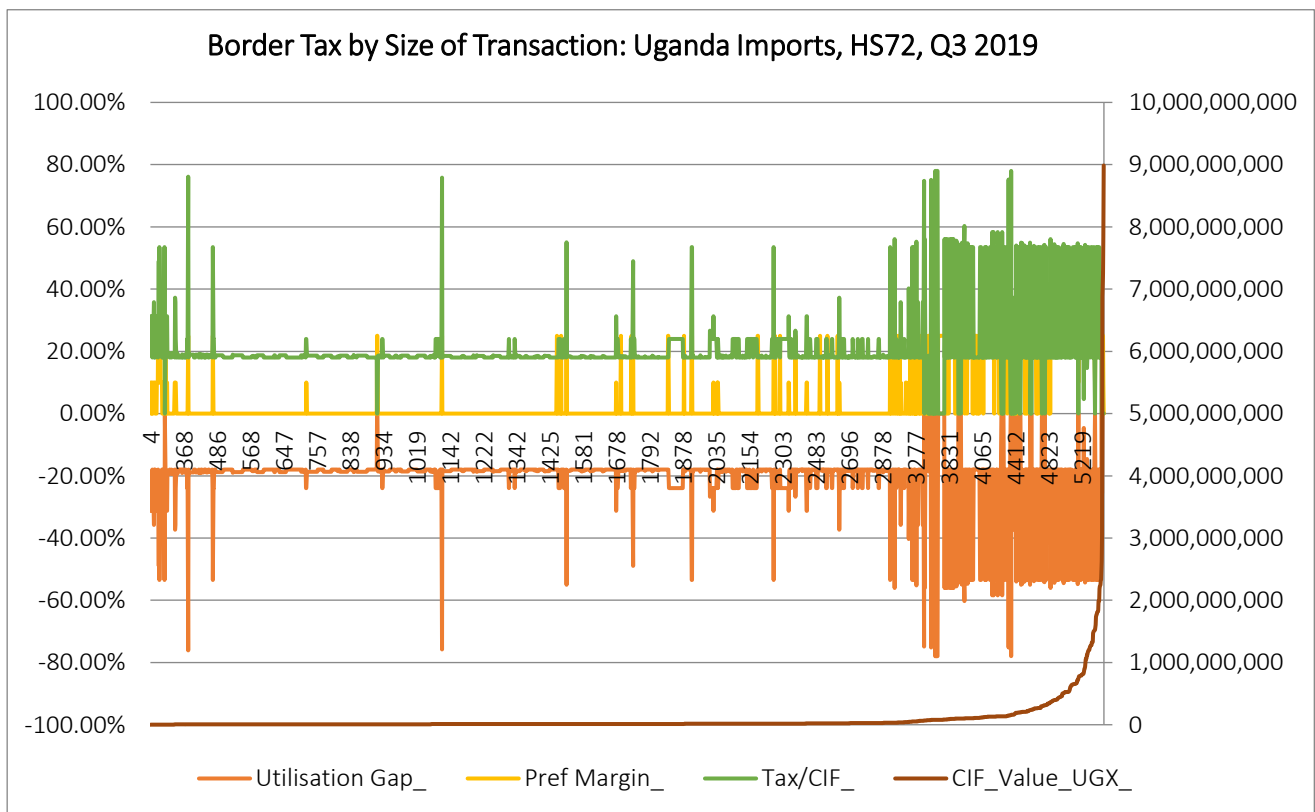
For the Ugandan transaction level data used in this research, certain transactions were duty-free but paid 18% VAT, others paid more than 18% and some paid 0% total taxes, implying that they were exempted from VAT. Generally, imports from EAC partner Kenya paid only VAT, i.e., they were effectively duty-free, although some paid more than this (effectively surcharged) and a few were exempted from VAT. For non-PTA trade partners, the importer paid VAT, the MFN rate and in some cases also surcharges. However, even some of the transactions from non-PTA trade partners paid zero total taxes, i.e., they were exempted from VAT.

For example, over a three-month period in 2019, Uganda charged zero border tax on 53 transactions in the HS72 category (iron and steel) from non-PTA partner countries such as China, India, Turkey, New Zealand, South Africa, Sweden, France, Malaysia and the UAE. Over the same period, there were 195 transactions in the same product category from Kenyan exporters that were taxed at greater than 18%,

some as high as 78%. This data reveals that in practice, preferential trade areas may not always work in favour of their members and may also at times favour non-members.

Why this should be the case cannot be determined from the data alone, but transaction-level data allows scrutiny according to the tariff line and the exporting and importing countries. Reasons could include failure to satisfy rules of origin requirements (ROO), penalties, false declarations, under-invoicing, rent-seeking⁹ or perhaps corruption. Suffice to say that it establishes that it is necessary to examine transactions themselves to determine the actual level of utilisation of a preferential trade area. The promulgated tariffs and declarations by trade authorities and ministers are not enough.

It is also possible, using transaction-level data, to analyse patterns in the relationship between the size of the transaction and the utilisation/tax paid. The case used is Uganda’s imports from EAC PTA partner, Kenya, for quarter 3 in 2019 for product category HS 27 (iron and steel). The figure below plots the tax paid (tax/CIF), preference margin, utilisation gap (difference between the preferential tariff and the actual border tax paid, including VAT) and the CIF value in Ugandan currency. The horizontal axis lists the number of the transaction, ranked from smallest (1) to largest (5506).



⁹ In some cases, officials may be incentivised by their management to maximise the taxes charged.

Instead of a random plot, what emerges is a fascinating pattern: at the bottom of the transaction ranking (smallest value transactions), border taxes exceed the preference tariff (18% including VAT), but for most of the higher value transactions beyond this small range the duty paid is zero. This pattern is interrupted for the highest approximately 22% of the transactions, where the border tax again exceeds the preferential tariff for most of these higher value transactions.

This pattern is reversed when plotting transactions for Uganda's imports from non-PTA partners – the ROW and other African countries (data not shown). In the case of these countries' exports to Uganda, the border tax percentage is excessive for small value transactions but 'expected' (i.e. at MFN rates including VAT) for higher value transactions. And for certain very large value transactions (from China, Russia and India), the total border tax is zero, meaning even VAT has been waived.

In conclusion, this discussion of a sample of Uganda's transaction-level import data from a range of countries reveals the extent of detail and insights obtainable from this type of data. The AfCFTA will only be a free trade area if goods are in fact traded at duty free rates among its members. This is the very foundation of a preferential trade area and the other dimensions of cooperation and integration – services trade, labour markets and infrastructure – will only be fully realised once free trade is realised. The rhetoric of the AfCFTA is mutual-liberalisation, shared benefit and policy harmonisation. In practice, hard data at the transaction level is needed to enable monitoring systems to determine how free trade actually is.