

# **The Trade Facilitation Agreement enters into force -**

## **Implications for Africa**

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# Preface

Successive Rounds of Multilateral Trade Negotiations culminating in the Uruguay Round in 1994, succeeded in dramatically reducing tariffs and other barriers to international trade, but trade costs remain high due in part to administrative burdens and inefficient customs procedures. In a world increasingly characterized by globalized manufacturing, just in time production and integrated supply chains, there has been growing recognitions of the need for global trade rules to facilitate trade.



# Background – The WTO ...among many functions and objectives.



- Global trade policy making body;
- permanent Forum global trade negotiations;
- Credited for the high level of tariff liberalization so far achieved globally;
- Credited for trade policy reforms, policy lock-ins and global policy harmonization

## **The WTO and Trade Facilitation...**

- So what do these achievements imply? In very simple terms...Trade Facilitation
- In other words, the whole essence of what the WTO stands for, is Trade Facilitation

# The Road to Bali: preparing the stage

First major focus on TF

– **Singapore Ministerial 1996**

Directive to undertake exploratory analytical work on simplification of trade procedures

**Doha Ministerial**

Narrowed the scope to review, clarify and improved relevant aspects Articles V, VIII and X of GATT 1994 – to expedite movement, release and clearance of goods, including Goods in transit

**Key point...**

scope broadened by the provision of effective cooperation between Customs and other appropriate Authorities on TF and Customs procedures

# From Bali with Love....something to celebrate

- The TFA, first major Agreement to be concluded since the Uruguay Round and therefore considered a Landmark Achievement
- Especially so for a WTO whose relevance is increasingly becoming suspect
- Bringing some measure of confidence back into the Multilateral trading system, when the WTO esteem seemed at its lowest ebb
- Helped rekindled faith in the WTO
- **Importantly**, clarified/improved 3 Articles of the GATT 1994 (Articles V, VIII, X) considered inadequate to meet the needs of modern day business world

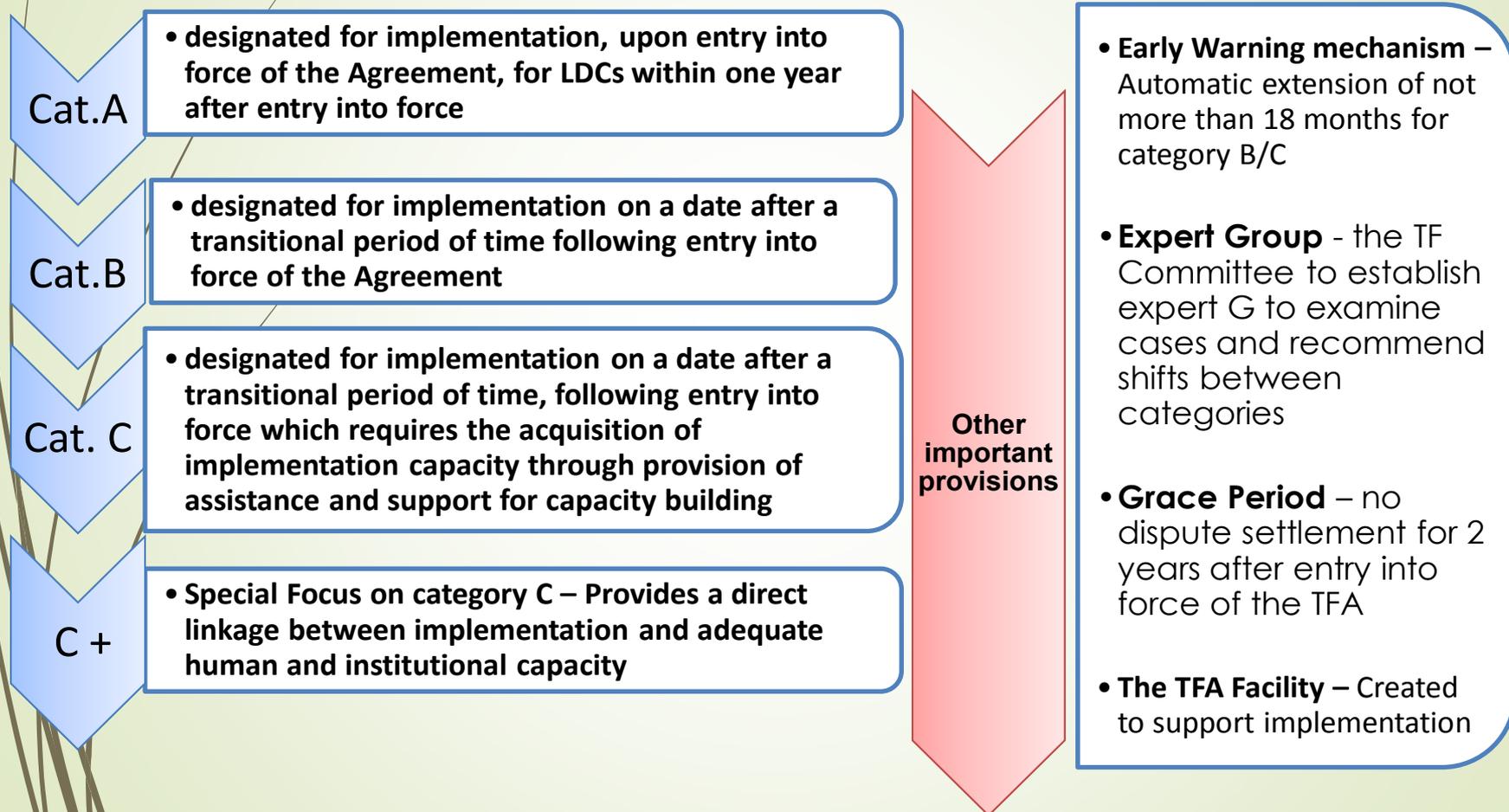
**Overall objective** – reducing costs and increasing volume of trade among WTO members, raise GDP growth rates, promote job creation, diversify exports, increase customs revenue, expand trade opportunities for small and medium sized enterprises

## **Icing on the cake... A mile stone achieved**

- 22 February, TFA comes into force. 110 members finally submit instruments of acceptance to the WTO

## Key highlights of the TFA- the Deal Maker – SDT Provisions - of critical interest to Africa and other developing & LDCs

Unique opportunity for each developing/Least Developed countries to establish their own implementation Agenda based on respective capacities and needs



**Point of Note:** the flexibilities provided under the TFA signal a response to criticisms against the Uruguay Round best endeavor S and D provisions and therefore a more creative approach to dealing with S and D provisions.

## After Bali, Assessing benefits, what the analyses Indicate...

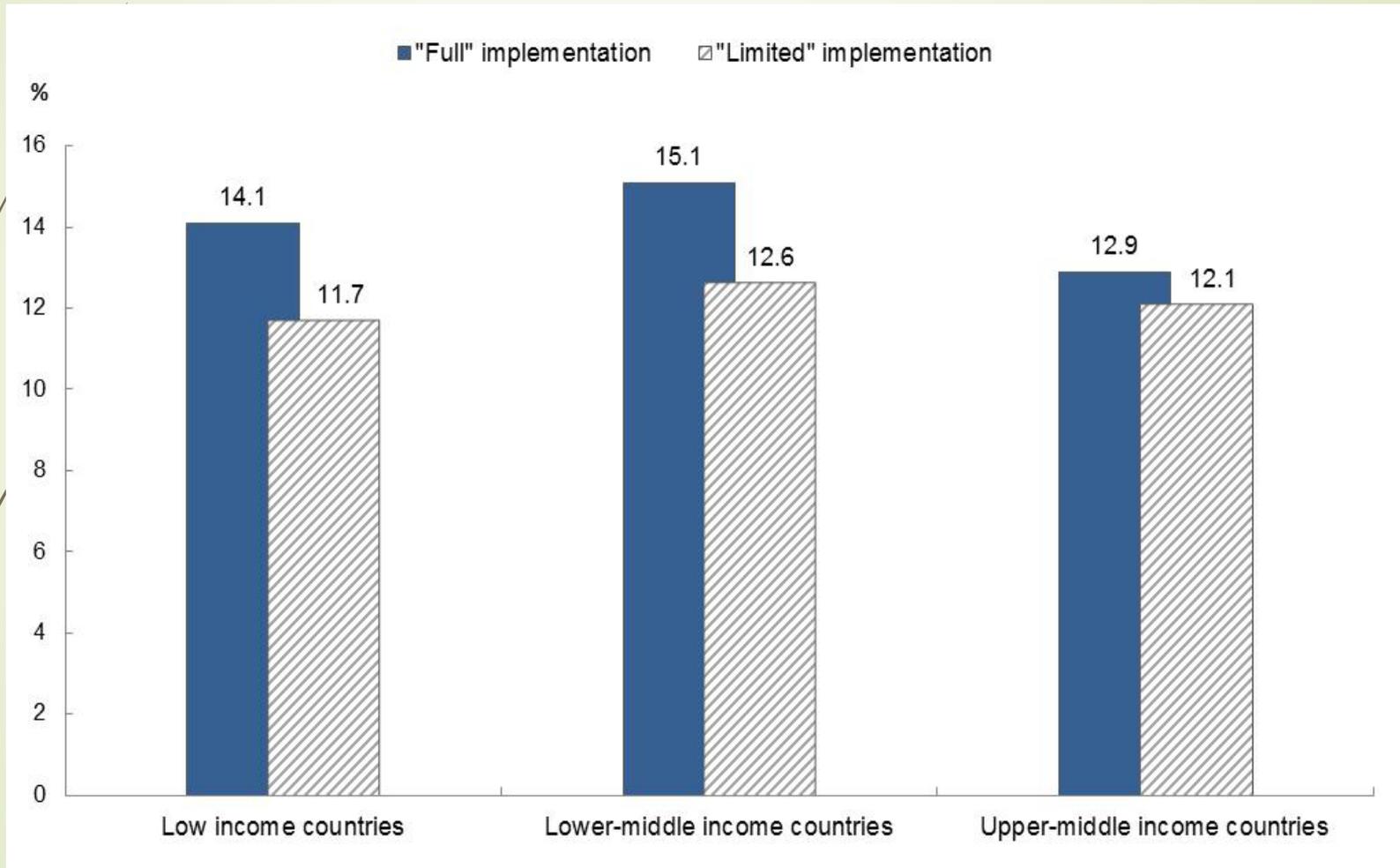
the TFA, if well implemented could create USD 1 Trillion global trade, add 21 million new job and lower the cost of doing international trade by 10 – 15%. – the Petersen Institute for International Economics

- estimates show 14.1% of total costs reductions for low income countries, 15.1% for lower middle income countries and 12.9% for upper middle income countries.. **See Graph for implications of full and partial implication**
- The highest impacts are still exerted by the same types of measures in almost all cases:
- for LICs indicators (Documents), (Automation), and (Information Availability) (3%, 2.4% and 1.7% respectively)

for LMICs (Documents), (Procedures) and (Automation) (2.7%, 2.3% and 2.1%);

for UMICs (Procedures), (Automation) and (Advance rulings) (2.8%, 2.3% and 1.3%).

# After Bali: Assessing Key Benefits – what the analyses indicate...II



Source: OECD

## So what's in it for Africa?

- countries already undertaking autonomous reforms bordering on implementation of the TFA, implementation not starting from the scratch. WTO, UNCTAD, UNECA, studies
- TF vital for global trade, even more so for Africa's own competitiveness and fuller integration into the global economy - will reduce bottlenecks and related costs for traders.
- While tariffs fallen progressively, key challenge to intra-African trade is non-tariff barriers that stifle the movement of goods, services and people across borders

Studies reveal that shipping a car from Japan to Abidjan costs US\$1500, however, shipping the same car from Abidjan to Addis Ababa would cost US\$5000.

16 landlocked countries on the Continent. For these countries, average customs transaction involves 20-30 steps, 40 documents, 200 data elements and re-keying of 60%-70% of all data at least once

## So what's in it for Africa (II)?

- TF bottlenecks - border crossing procedures, cumbersome documentation, regulations, including police checks account for 14% of trade costs in Africa's landlocked countries, compared to a developing country average of 8.6% - AfDB
- Costs prohibitively higher for some landlocked countries - Malawi, Chad, Rwanda' where transport and non-tariff barriers add about 56%, 52%, and 46% respectively to trade costs. In Benin truck drivers cross 12 checkpoints and pay \$63.85 in bribes for every 100km.
- TF measures in the costal and transit countries also have spill-over impact to the hinterland countries.

Due to such positive externalities TF reforms/investments need to be viewed as regional public goods; e.g. Kazungula Bridge and the Chirundu One-Stop Border Post. Although the Kazungula Bridge connects Zambia and Botswana; most traffic is in transit to the DRC thereby spreading the benefits to a broad region.

## TF Linkages to the CFTA

- Vital for boosting intra-African trade now at lowly 12% - 16%, well below other regions - intra-European trade (72%), intra-Asian trade (52%), intra-North America trade (48%), intra-South American trade (26%)
- Tackling bottlenecks that cause delays in customs clearance and transit through TF measures such as customs modernization and addressing non-tariff barriers will enable Africa to trade with itself more, taking advantage of geographical proximity and improving transport infrastructure among countries.
- the creation of the CFTA accompanied by more efficient customs procedures and reduction in delays at African ports would more than double intra-African trade within a decade – UNECA Studies.

The Development Partners also actively engaged in the TF Assistance. The AfDB, World Bank, EU, USAID, TMEA, JICA.

**Yet Studies also argue that important gaps implementation remain**

# After Bali, the flip(flop) side

## The Good News

WTO/OECD/ UNCTAD Studies indicate that TF is considered priority by governments and the private sector

## The Bad News

there are clearly uncertainties about the benefits. Studies monitoring Aid for Trade show a high degree of uncertainties

## The Bad news (II)

Indeed, some mostly LDCs even anticipate higher trade costs following the implementation of the TFA

## surveys

47% indicate moderate reduction of their trade costs

39% indicate great reduction

Landlocked countries are more optimistic, of these 67% expect drop in trade costs of more than 10%

20% of small Island developing countries expect large decline

## Surveys (II)

Majority of lower and upper middle income countries foresee a moderate decline in trade costs between 0 to 10%

38% of low income countries expect trade costs to remain unchanged or even rise

## Some additional interesting highlights of crucial note...

- 1. A huge retinue of literature assessing benefits of trade facilitation exists; in contrast, only a limited number of studies have analyzed the costs likely to be incurred during implementation**
- 2. Benefits associated with trade facilitation reforms are difficult to quantify, particularly in the absence of adequate data.**
- 3. Benefits of increased revenue and trade may only materialize in the medium to long term, while implementation costs will be incurred immediately**
- 4. Other intervening factors also play critical roles such as cooperation and co-ordination between Ministries/government agencies, the private sector stakeholders**

## Some Weaknesses of the TFA

- Does not address investments in physical infrastructure (ports, roads, Rails, airports) where TF gains would most emanate
- Focuses mainly on soft policy reforms – the provisions are mostly non-enforceable optional measures
- TFA Facility though responds to critical gap, but still raises critical questions e.g. how much is put into the facility?
- How will the Fund respond to the needs of the developing and least Developed members, especially now that the TFA has come into force?
- Experience in the Uruguay Round implementation also raise questions of efficacy of the method of matching demanding countries with supplying countries, as these

# Key challenges

Work cut out, indeed the work just began

1. **first, to prove all those speculations about the huge benefits to be conferred on global trade, but more specifically for Africa**
2. **A high degree of political commitment on the part of all members, developed, developing and least developed required.**
3. **Immediate pointers problems...In spite of the huge benefits touted, the TFA comes into effect 3 clear years after Bali**
4. **WTO Survey indicates in spite of high priority attached by developing and least developed countries a great deal of uncertainty still hangs over its benefits**

# Going forward- what are the pointers...

## some disturbing signals

1. How well they have accessed the capacity building and technical assistance support. Here survey show the following
2. As at June 2015, only 60 developing countries and 5LDCs submitted category A notifications.
3. Single window, authorized economic operator, advanced rulings, test procedures and border agency co-operation seem less frequently notified.
4. Others - setting up enquiry points, establishing/publishing average release times, information exchange, protection and confidentiality – considered relatively complex and areas of priority for technical assistance

## Going forward...What should be done?

**Governments must be encouraged to notify category C notifications and take advantage of the TFA Facility in spite of the identified weaknesses**

**Setting up effective monitoring and evaluation of the TFA's economic impact, especially those of the African countries**

**Sustained national/regional efforts to pursue implementation, including efforts at mobilizing resources for investments in trade related Infrastructure**

# Going forward...Critically reflect and address the question...

