

# The Importance of Trade Facilitation in Regional Integration in Africa

Seminar on *‘The Role of Trade Facilitation:  
Promoting Market Integration, with a Focus on Africa’*  
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Anthony Kleitz  
Deputy Director , Trade and Agriculture Directorate, OECD



- I. **General importance of trade facilitation (TF)**
- II. **Nature and extent of Africa's need for TF**
- III. **Why a regional approach may be advantageous for Africa**
- IV. **What regional TF measures can be most effective?**  
**-- Some examples of regional TF in Africa**
- V. **The challenge facing 'Aid for Trade'**



## I. General Importance of Trade Facilitation



- “ **TF expected to benefit world trade significantly, especially for developing countries**
- “ **Positive impact on economic development and poverty reduction**
- “ **Expansion of global supply chains makes trade more important in the production processes**
- “ **Reducing complex border procedures lowers trade transaction costs (TTCs) as well as the risk of smuggling and corruption; foreign investors are encouraged.**



## II. Nature and extent of Africa's need for TF



**Africa's share of world exports dropped to 0.9 % in 2006**

**High TTCs deter formal trade and trigger informal trade**

**"Direct costs: expenses related to the supply of documents and payment of fees and charges**

**"Indirect costs: expenses generated by delays or unpredictability (spoilage; loss of opportunities)**

**"Precise effects depend on quality of border processes, type of company and type of goods**



**Informal cross-border trade in sub-Saharan Africa represents a significant proportion of regional trade:**

- . **Southern Africa: for maize, informal flows in 2006-7 represent 31% of total maize trade (WFP);**
- . **Uganda: USD 231.7 million in 2006, equivalent to 86% of formal exports flows to 5 neighbouring countries;**
- . **Horn of Africa: informal cross-border trade in grains and livestock has been 30 times formal trade, and 95% of total trade in these products.**



## Key characteristics of informal trade



- “ **Mainly concerns SMEs and individual dealers, some of which are not registered at all;**
- “ **Involves an important share of female traders (esp. in Southern Africa);**
- “ **Often consists of relatively small consignments of goods;**
- “ **Goods concerned are typically agricultural or low-quality manufactures.**



## Main explanatory factors for informal trade



**High costs and inefficiencies at borders reflect governance problems and give businesses and traders incentive to avoid formal trade:**

- “ **Formal movement of goods is limited by high import or export taxes as well as import quotas or export bans;**
- “ **Formal entry or exit of goods is obstructed by complex regulations (customs, TBT, SPS);**
- “ **Access to formal foreign exchange or trade finance is limited;**
- “ **Law enforcement at the border is weak.**



## Why a regional approach may be advantageous to Africa (1)



- “ **Multilateral progress on T F has been slow: DDA and Kyoto Convention;**
  
- “ **Neighbouring countries may effectively address TTCs jointly through:**
  - . **cost sharing;**
  
  - . **administrative economies of scale;**
  
  - . **pooling of technical skills ;**
  
  - . **enhanced political commitment (peer pressure).**



## Why a regional approach may be advantageous to Africa (2)



- “ Greater consistency of reforms across countries can add to the benefits;
- “ Regional TF cooperation can contribute to development, e.g. Ghana's Growth and Poverty Reduction Strategy;
- “ Regional TF measures are usually applied MFN and therefore not trade-distortive.



## IV. What regional TF measures can be most effective to increase trade?



- “ **Border procedure transparency and predictability;**
- “ **Simplified, reduced, harmonised documentary requirements;**
- “ **Simplified, expedited customs release and clearance;**
- “ **Mutual recognition of certification and testing;**
- “ **Improve border agency cooperation;**
- “ **Joint infrastructure projects.**



## Example : achievements under COMES A



- “ **Common valuation system**
- “ **Single customs declaration document**
- “ **Regional licensing of transit carriers**
- “ **Licensing of clearing agents**
- “ **Third party motor vehicle insurance scheme**
- “ **Joint customs training**
- “ **Simplified trade regime for low-value transactions**



## Other examples of TF progress through regional African efforts



- “ **Upgrading ICT capabilities (automated processing of documents, single windows and electronic exchange of information, as in Kenya);**
- “ **Joint border posts, e.g. through the East African Trade and Transport Facilitation Project;**
- “ **Strengthened SPS conformance, e.g. SADC program for Tanzania to control contagious bovine diseases;**
- “ **Time release studies diagnose the situation and improve revenue collection;**
- “ **Transportation corridors, e.g. Trans-Kalahari Corridor.**



## V. The Challenge Facing 'Aid for Trade'



Cooperation between WTO and OECD on A4T began following the Hong Kong WTO Ministerial 2005:

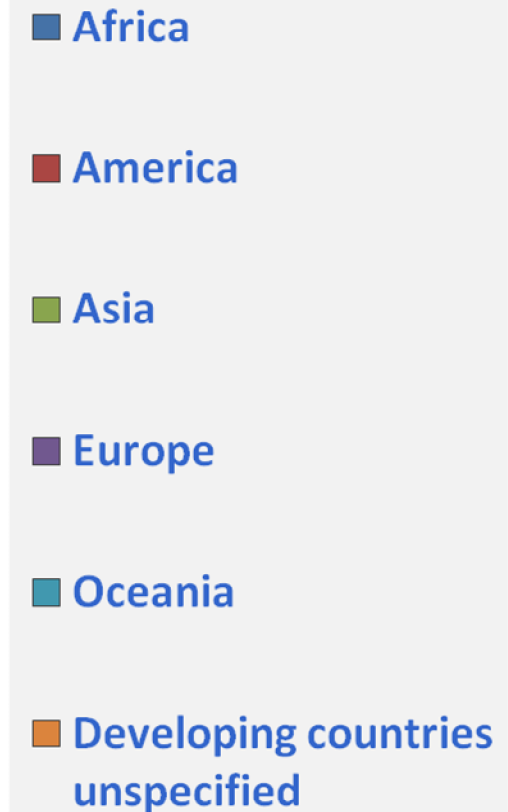
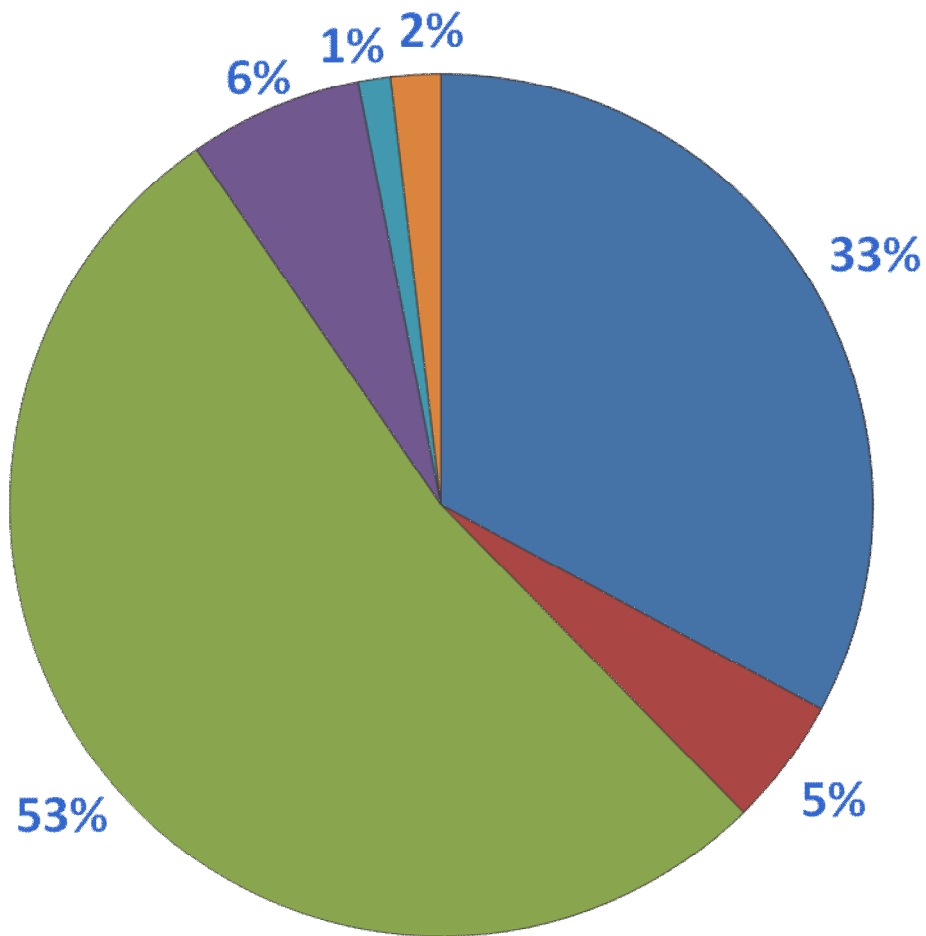
- Monitors aid commitments and provides guidance to donors and recipients on improving aid effectiveness .

Annual commitments to Africa 2002-2007 for trade facilitation and related infrastructure averaged \$ 4 billion – about 1/3 of aid commitments to all regions for TF over that period; yet Asia received over 1/2.

The challenge remains to provide adequate focused aid and technical assistance to Africa that will significantly reduce TTCs.



## Aid for Trade by region in 2002-2007 for trade facilitation and related infrastructure (%)





**For further information please consult:**



**Caroline Lesser and Evdokia Moisé-Leeman, *Informal Cross-border Trade and trade Facilitation Reform in Sub-Saharan Africa* (OECD Trade Policy Working paper No 86., February 2009).**

***Overcoming Border Bottlenecks: the Costs and Benefits of Trade Facilitation* (OECD Trade Policy Studies, 2009).**

***Regionalism and the Multilateral Trading System* (OECD, 2003).**

***Review of Technical Assistance and Capacity-Building Initiatives for Trade Facilitation* (OECD, 2006).**

**[www.oecd.org/trade/facilitation](http://www.oecd.org/trade/facilitation) (English)**

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**Contact:**

**[anthony.kleitz@oecd.org](mailto:anthony.kleitz@oecd.org)**