AFRICA: Benefits of WTO trade deal could be elusive


Abstract (summary)

The likely developmental benefits to Africa of the WTO Bali Package.

In WTO negotiations earlier this month, member states in Bali agreed on a package of measures centred on improving trade facilitation. The negotiations were part of the WTO's 'Doha Round' of global trade talks and the potential gains from the package have been estimated at 1 trillion dollars globally. Yet it is far from clear how these gains will be realised in sub-Saharan Africa.

Full Text

SUBJECT: The likely developmental benefits to Africa of the WTO Bali Package.

SIGNIFICANCE: In WTO negotiations earlier this month, member states in Bali agreed on a package of measures centred on improving trade facilitation. The negotiations were part of the WTO's 'Doha Round' of global trade talks and the potential gains from the package have been estimated at 1 trillion dollars globally. Yet it is far from clear how these gains will be realised in sub-Saharan Africa.

ANALYSIS: Impacts.

The WTO may return to the issue of cross-border investment, but this will be controversial for foreign investors.

Purported benefits of duty- and quota-free market access to developed markets are unlikely to materialise.

The greatest benefits of trade facilitation could lie in boosting intra-regional trade in Africa.

At its Ninth Ministerial Meeting in Bali, Indonesia from December 3-7, the WTO finally claimed a victory by agreeing on its first package of trade liberalisation measures since it was set up in 1995 see INTERNATIONAL: WTO deal signals new era of regionalism - December 10, 2013. The 'Bali package' is especially important for developing
countries as it mostly contains a selection of issues from the broader Doha Round negotiations, which were launched in 2001 to help foster development by integrating countries with low global trade participation rates -- such as in sub-Saharan Africa -- into the process of globalisation.

This rare success was won by side-stepping the more contentious negotiating topics of trade in services and trade-related intellectual property rights, and instead focusing on the 'low-hanging fruit' offered in the form of trade facilitation to establish common customs standards, helping ease the flow of goods through borders globally.

**Benefits of trade facilitation.**

Estimating the gains from trade facilitation is not straightforward and depends on a set of assumptions:

*Definition.* Trade facilitation could involve indirect variables such as the quality of infrastructure and transparency of regulations as well as more direct factors such as port efficiency and the customs environment. The broader the definition, the greater the benefits.

*Outcomes.* The degree to which transaction costs associated with cross-border trade can be reduced is unlikely to be standard across all countries.

*Timeframe.* Similarly, although countries may now be legally bound to raise customs and regulatory standards, there are no effective sanctions against procrastination.

*Beneficiaries.* The question of how the benefits of trade facilitation will be split between exporting and importing countries remains outstanding with concerns already being raised that most of the potential gains will flow to net-exporters in the context of Africa.

Nevertheless, Gary Hufbauer and Jeffrey Schott of the Peterson Institute of International Economics in Washington have estimated that adopting trade facilitation measures could add around 1 trillion dollars to global output and result in the creation of 20 million new jobs. These benefits are predicted to flow disproportionately to developing countries -- although the question of how Africa specifically will fare was left unanswered.

**Results for Africa.**

However, a similar exercise had been performed by Manchester University's Tomasz Iwanow and Colin Kirkpatrick for Africa in 2007, based on a gravity model of trade. Their measure of trade facilitation included:

- the number of documents required for trans-border shipment;
- the amount of time taken to clear customs; and
- the level of charges incurred.

Using these measures, they compared the level of associated costs for each country with their export performance and found that a 10.0% improvement in trade facilitation could generate a 2.5% increase in manufactured exports, confirming that better trade facilitation would be positive for the region.

A broader definition of trade facilitation, in the context of Africa, yielded more impressive results.

A 10% improvement in the regulatory environment, measured in terms of contract enforcement and general ease of doing business, could raise manufactured exports by 5%.

A similar improvement in the provision of infrastructure, measured in terms of paved roads, rail network and access to telecommunication, could also increase manufactured exports by the same magnitude.
The Bali measures are narrowly focused on direct variables such as ensuring 'modest fees' and 'convenient routes of transit'. This suggests that Africa's relative lack of complementary infrastructures -- compared with other developing countries -- could prevent many countries from realising the full benefits of the trade deal see PROSPECTS 2014: Africa's economies - November 18, 2013.

**Duplication of efforts?**

Moreover, most of the customs modernisation requirements entailed in the Bali deal are already at an advanced stage in Africa:

For the past 25 years, the UN Conference on Trade and Development (UNCTAD) has been operating a technical assistance programme aimed at automating border processes of cargo control and clearance of goods known as ASYCUDA. The programme provides computer software to simplify and standardise customs documents in order to speed up clearance, detect corruption, improve customs revenue and generate reliable trade statistics.

Of the 90 countries where UNCTAD has implemented ASYCUDA, 38 are in Africa and there is limited scope to expand beyond these countries, at least in the near-term, due to: mature capacity in some cases (South Africa, Ghana, Mauritius), stability concerns in others (Somalia, Western Sahara, Equatorial Guinea), and lack of political commitment in the rest (Angola, Mozambique).

Admittedly, the 38 existing beneficiaries have some limited scope for further improvement. For instance, decentralised versions of ASYCUDA could, in some countries, be centralised to link all national customs posts and improve real time monitoring and supervision. However this is unlikely to generate significant additional benefits for Africa as a whole, raising doubts as to whether further trade facilitation, in the narrow sense, can build on the improvements already made.

**CONCLUSION:** The WTO agreement in Bali is less likely to rejuvenate the Doha Round negotiations than it is to represent the last gasp (for now) of multilateral trade liberalisation -- and the organisation has yet to formulate its work program for 2014. It is particularly doubtful that the 159 member states will be able to agree on further measures that will deliver benefits to sub-Saharan Africa. In particular, the elimination of OECD countries' agricultural subsidies remains a distant prospect.

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