

Policy and natural barriers to trade



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Non-tariff barriers are the set of trade distorting measures and policies other than tariffs. In a narrow sense, non-tariff measures are quantitative restrictions that are explicitly recognized as trade barriers, such as quotas. In a broader sense non-tariff measures include unfair measures or misuse of policies such as technical barriers to trade and unfair government policies. Other non-tariff barriers include illegal practices and violations of the current multilateral trade legislation.

Potential fields where non-tariff barriers arising from technical requirements could be found include Custom Valuation, which comprises the set of measures to check that the quality, price, origin, and other features of imports are in accordance with the information provided by foreign exporters; sanitary and phytosanitary measures, which are measures to protect human, plant and animal health and safety (for example, to ensure that food is safe for consumers, and to prevent the spread of pests or disease among animals and plants); and technical barriers to trade, which include technical regulations and standards that set out specific characteristics of a product – such as its size, shape, design, functions and performance, or the way it is labeled or packaged before it is put on sale.

Natural Barriers

The distinction between policy and “ natural” or non-policy barriers is not unambiguous, but natural barriers include: transport-related trade costs; infrastructure-induced increases in trade costs; additional trade costs induced by inefficient/excessive bureaucracy; and extra trade costs induced by uncompetitive trade-related services. In a general sense, natural barriers refer to all non-policy reasons why the same product can sell for different

prices in different locations. They fall primarily into two categories: (i) transportation costs; and (ii) a variety of factors resulting in lack of information on the part of buyers or sellers. Transportation costs include all direct and indirect costs related to transport, storage and handling operations. The other factors reflect among other things, the impact of communication costs and the fact that different countries have different customs and trade regulations.

Man -made barriers

These are similar to non-tariff barriers, and encompass all policies which create or add to price differences. They include policies such as import restrictions, special incentives or restrictions on export, foreign exchange policies, preferential national treatment, etc. It also includes policies, which increase the costs imposed by natural barriers, such as regulations in the transportation and communications areas that keep prices of these services artificially high.

CHALLENGES AND RESPECTIVE WAY FORWARD:

A. The Physical movement of consignment (transport and transit): High transport costs

Assessing Regional Integration in Africa (ARIA, 2004), an ECA flagship publication, shows that transport costs are high in Africa in general and in landlocked African countries in particular - averaging 14% of the value of exports compared to 8.6% for all developing countries - and higher still for many countries,

Relationship between transport cost and trade:

Transport costs of high proportion of the value of goods result in an increase of consumer prices for imported goods, and undermine the competitiveness of exports in foreign markets. Overall high transport costs limit a country's participation in international trade. It is therefore not surprising that Africa in general and sub-Saharan Africa in particular that has the highest cost rates in the world also has the lowest share of international trade. In 2000, Africa's share of world export was only 2.7 percent and sub-Saharan Africa's share of export of goods fell from 1.9 to 1.4 percent during the 1990s (African Development Bank 2003).

The Economic Report on Africa (ECA, 2004) shows a strong negative impact of transport cost on trade, especially for landlocked countries. Keeping distance constant, transport costs for landlocked countries are on average US\$ 2000 higher than for non-landlocked ones, an estimated 35% difference.

The factors that contribute to high transport costs in Africa include: (a) inadequate infrastructure network as mentioned elsewhere in this paper; and (b) inefficient transport operations as follows:

a) Inadequate transport infrastructure

African countries recognized the importance of transport infrastructure in general and regional transport infrastructure networks in particular to their development prospects as far back as the 1960s, just after most of them attained their independence. As a result, several transport infrastructure development initiatives have emerged over the years. One of the most

ambitious of these initiatives is the Trans African Highways network², conceived in the early 1970s.

However, several years after its conception, missing links still exist in the TAH network, especially at border areas. An analysis of 103 cross-border TAH links (TAH sections leading to border posts) shows that 33 % are unpaved roads in various conditions - good, fair and poor, 16% are paved roads in poor condition and 38% are paved roads in good or fair condition. This clearly illustrates the poor state of physical integration between African countries. This is significant to intra-African trade because the physical condition of cross-border links generally affects traffic levels and the quality of transport services between countries. Improved land transport linkages reduce transport costs, which in turn promote economic activity and cross-border trade.

b) Poor interconnection of Africa's railway networks increases delays in the transportation of goods

The African rail network is currently estimated to be about 89, 380 km long, with a density of 2. 96 km per 1, 000 sq kms. Three railway gauges predominate in Africa, i. e. 1. 067m, 1. 000m, and 1. 435m, thus causing limitations in the physical integration of the railway networks in various sub regions. The interconnections of the network is relatively poor especially in Central and Western Africa, and the available rolling stock is still very low compared to other regions of the world. Disjointed railway networks results in frequent loading and off-loading of goods, which increases delays and transport costs.

Relationship between infrastructure and trade

There is a direct relationship between infrastructure quality and trade. Poor infrastructure is reflected in higher direct transport costs and longer delivery time. An improvement in a country's infrastructure can make a big difference to the cost of trading. A study by Limoa and Venables (2001) shows that if a country's infrastructure improved such that the country moved from being at the mid-point (median) among 64 countries to being among the top 25 per cent of those countries, this would reduce transport costs by an amount equivalent to 481 kilometres of overland travel and 3, 989 kilometres of travel by sea. It would also increase trade volumes by 68 per cent, which is equivalent to being 2, 500 kilometres closer to other countries.

Exploring the potentials of air transport services(opportunity)

The inadequacy of land transport infrastructure and services in Africa provides an incentive to improve the efficiency of air transport in the continent. This is particularly relevant with regard to the enhancement of intra-Africa trade and the continent's trade with other regions of the world, especially for trade in fresh and high value products.

It should however be acknowledged that efforts have been made in recent years to improve the efficiency of air transport in Africa. For example, the Yamoussoukro Decision adopted in 1999 was major breakthrough in the sector. The Decision resulted in speeding up the liberalization of access to air transport market in Africa, and has also brought airport space management reforms. However efforts need to be made to ensure that the Decision is fully implemented.

Inefficient transport operations

Inefficiency of transport services is manifested in several ways including: high vehicle prices, poor market information, existence of transport cartels, poor knowledge of operating costs, poor operating practices, and poor routine maintenance, all of which lead to high vehicle operating costs and low vehicle utilisation. Transport operators usually transfer the burden of high vehicle operating costs to consumers by raising fares. Similarly, operators increase fares to offset low revenues due to low vehicle utilisation.

Numerous Roadblocks

The phenomenon of roadblocks poses a serious challenge to trade in Africa. It results in excessive delays and substantial increase in transport costs. The Economist (December 2002) reported 47 roadblocks between Douala and Bertoua in Cameroon, a distance of about 500kms. Nearly all ECOWAS member states also maintain numerous checkpoints, where drivers are sometimes subjected to administrative harassment and extortion .

Police escorts, limited use of containers and multimodal transport operations

Added to the numerous checkpoints is the risk of goods being diverted from their intended destination. To solve this problem, some countries such as Kenya and Cameroon have introduced a transit monitoring system in the form of police escorts. However, transport operators in Kenya complain bitterly about these escorts because they contribute to delays and result in additional costs – the police usually escorts convoys of trucks and the journey only begins when several trucks are ready to depart. Operators also have to pay for the security provided by these police escorts. A more

efficient way of preventing the diversion of goods into the domestic market of transit countries could be the use of containers. Indeed, elsewhere in the world, the growth of containerization has given a new impetus to the door-to-door movement of goods under the responsibility of Multimodal Transport Operators (MTOs). MTOs represent an integrating factor of international transportation and, thus, for the expansion of trade since they ensure the non-interrupted flow of goods from origin to destination. However, the use of containers remains limited in Africa.

Variations in technical standards for vehicles

The proliferation of rules and regulations hampers international transportation of goods in Africa, as it leads to uncertainty and a multiplicity of forms and procedures. For instance, variations in approved technical standards for vehicles in different sub-regions of Africa block free competition between transport operators. Similarly, transport operators would not be able to load their trucks to the maximum payload if they decide to do business across ECOWAS, CEMAC, COMESA since each of these sub regions apply different axle load and weight limits.

Variation in transit charges

Transit charges constitute an additional burden for transport operators in Africa. At present, there are divergences in transit costs among member states in different African sub regions, resulting in lack of transparency and high road user charges. However, COMESA has taken the lead in the harmonization of transit charges at the sub regional level. In lieu of national levies imposed on transit traffic, the following charges have been adopted:

B. Import and Export Procedures

The key problems that plague customs operations in African countries are well known and include, excessive documentary requirements; outdated official procedures; insufficient use of automated systems; lack of transparency, predictability and consistency in customs activities; and lack of modernization of, and cooperation among, customs and other governmental agencies.

Excessive documentary requirements and outdated official procedures

According to estimates by UNCTAD, on average customs transaction involves 20-30 different parties, 40 documents, 200 data elements 30 of which are repeated at least 30 times and the re-keying of 60-70 percent of all data at least once. Frequently, documentation requirements are ill-defined and traders are not adequately informed on how to comply with them, thus increasing the potential for errors. This problem is even worse at borders, especially as border posts and customs offices, in most cases, are physically separated. In essence, there are two complete sets of controls for each border post, with each having a multitude of forms and documents to be filled and checked.

Insufficient use of automated systems

The lack of or insufficient use of automated processes and information technology is a major source of delays, costs and inefficiencies, as paper documents are usually presented at the time of border crossing, and verification of the information submitted takes place at that time. African countries have recognized the need to simplify and speed up customs

procedures by use of automated systems. Other African countries have also introduced the use of the Automated System for Customs Data (ASYCUDA).

Lack of transparency, predictability and consistency in customs activities

Lack of transparency and predictability is a major source of uncertainty as regards costs and time involved for international trade transactions. When the necessary information on applicable regulations is not readily available, trade operators have to spend resources in order to obtain information. Enterprises operating in an environment that is not transparent need to spend more resources to obtain regulatory information. Furthermore, they will frequently have to add expenses for bribes, penalties and administrative or judicial appeals. As these additional expenses do not usually vary according to the value of the goods or the volume of sales, they serve to increase the operational costs per unit and put firms in developing countries in a weaker position than larger firms.

The key facilitation problem is not the danger to effective controls posed by practices in which irregular payments can move goods through the strictest regulatory systems, or the extra unofficial charges levied on innocent as well as fraudulent traders, but rather the logical obligation to maintain unnecessary complexities and foster endemic delays for consignments so as to justify bribes for “ exceptional simplifications”.

Lack of modernization of, and cooperation among, customs and other governmental agencies.

Customs departments and other government agencies involved in trade are often inefficiently structured internally. Common problems include

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inadequacies in physical infrastructure, training and education, inefficient emoluments of staff, and lack of co-ordination and co-operation between customs administrations as well as between customs and tax administration.

Safety and security

The need for more stringent security procedures in the face of the recent wave of international terrorism is becoming more and more important and poses a new and serious challenge to customs administration as well as to operators, especially in the maritime and air transport sub sectors. There is a growing need to balance between safety and security and the smooth flow of goods and services.

Consequences of inefficient customs administration

Overall, delays at African customs are on average longer than the rest of the world: 12 days in countries south of the Sahara, compared to 7 days in Latin America, 5.5 days in Central and East Asia, and slightly more than 4 days in Central and East Europe, adding a tremendous cost to importers each passing day at custom's warehouse (ECA, 2004). Generally, each day lost in transport delays is equivalent to a tax of about 0.5 % Border crossing delays are also linked to other trade costs as well, especially corruption in customs, and in the spread of HIV/AIDS. Reduction in border delays is crucial to reduce the incidence of sexually transmitted infection among commercial vehicle drivers.

C. Information and Communication Technology (ICT)

The African region as a whole lags behind others in the use of modern information technology in domestic as well as international trade activities.

Telecommunications services are inadequate, inefficient and very expensive, availability of mobile cellular phones is very limited, prohibitively expensive, and non-existence in some rural areas. Africa has the lowest internet diffusion in the world. However, there is a wide variation in the use of ICT across Africa, as shown by table 6.

The Way Forward:

Tackling the challenges of international trade in Africa requires a comprehensive and coordinated approach that entails improvements in infrastructure and provision of efficient and competitive services in the areas of roads, railways, ports, information and communications technology; the removal of illegal roadblocks; and the simplification and harmonisation of customs and border procedures.

Providing adequate and efficient transport infrastructure and services

Specific actions required to improve transport infrastructure include: maintaining and rehabilitating existing roads, expanding the road network to isolated areas, widening roads with narrow lane and shoulder widths, and where necessary, adjusting horizontal and vertical alignments taking into consideration the increased use of heavy vehicles; increasing the connectivity of railway sections with different track gauges; replacing obsolete and inappropriate equipment at ports with modern container handling facilities, developing container terminals at ports to facilitate efficient handling and storage of containers; developing more dry ports to serve both landlocked countries as well as interior areas of coastal countries; and training of local staff to run containerized systems that are highly

mechanized and computerized, and quite useful for multimodal transport operations.

Removing illegal roadblocks and preventing diversion of goods on Africa's roads

Without any doubt, the challenge of removing roadblocks and preventing the diversion of goods on Africa's roads is enormous. These problems are extensive, deep-rooted and inherently difficult to come to grips with. Overall, improvements have to be based on political agreements and interventions from the highest government levels. This, in fact, is a prerequisite to sustainable solutions. The New Partnership for Africa's Development (NEPAD), through its Peer Review mechanism, could play a lead role in this regard.

Speeding up customs and border crossing procedures

The problem of slow and cumbersome border procedures could be addressed by reducing the number of trade documents and copies required and harmonizing the nature of the information to be contained in these documents. Such trade documents should also be designed and standardized in accordance with international accepted standards, practices and guidelines and should be adaptable for use in computer systems.

Promoting the use of new technology

Several African countries are using automated customs systems such as the Automated System for Customs Data (ASYCUDA) or other systems like the Tunisia Trade Net for the case of Tunisia to simplify and speed up customs procedures (Box 3). However, there is a need to create training centers to

deliver courses to the principal actors in international trade to enable them use these systems effectively.