South Africa's role as the Gateway into sub-Sahara Africa: Threats and concerns from a trade facilitation perspective

SAAFF Congress 2015

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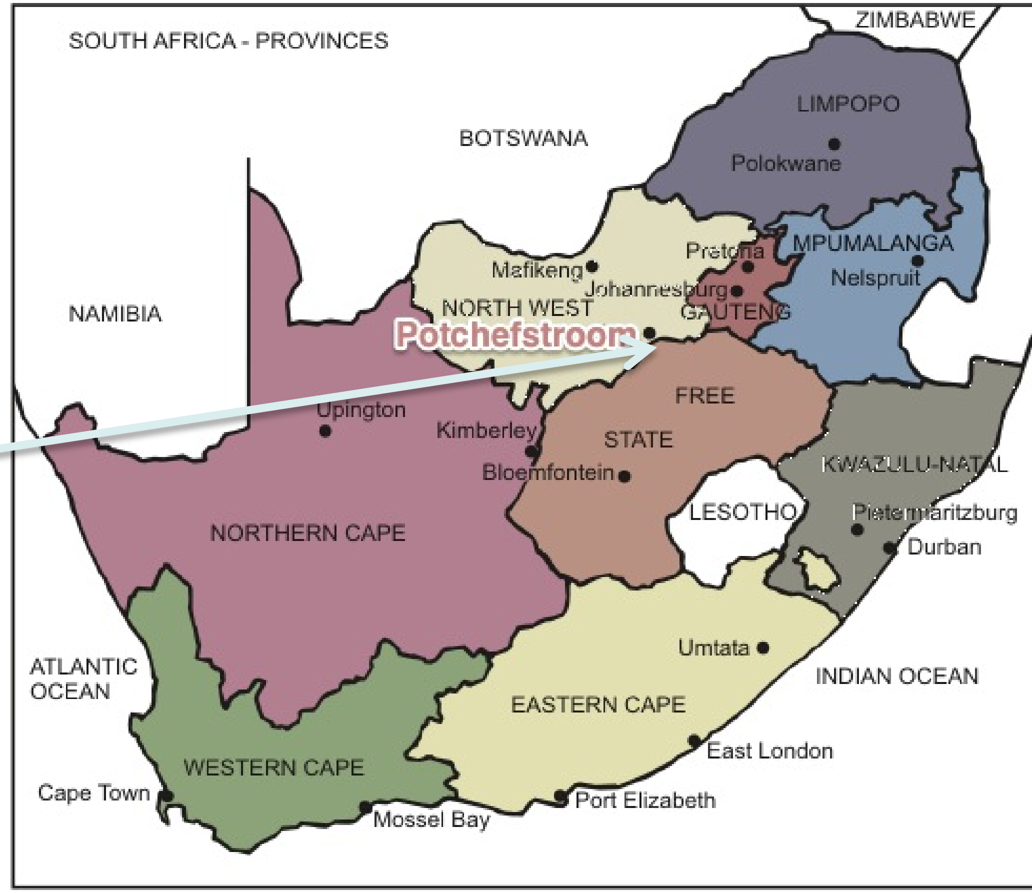

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Introduction

South Africa became gateway due to factors such as:

- Strong institutions
- Large formal sector
- Strong services sector
- Sound legal system
- Strong industrial base
- Good ports, airports, infrastructure
- SA served as landing base for investors / MNCs to later expand into riskier African countries

Introduction

Benefits of being a gateway into Africa:

- Attracts investment (FDI) by large MNCs wanting to expand into southern Africa
- Technological spill-overs (R&D)
- Employment and skills development
- Economic growth and development in the region
- Could lead to regional value chains

Challenges

- A general consensus of SA economic policies (NDP, NIFP, IPAP) is the need to develop a stronger export focus / drive by:
  - skills development,
  - South-South cooperation
  - a stronger focus on regional integration and
  - market expansion into Africa

BUT:

- South Africa is facing challenges politically and economically (slow economic growth, labour market issues, policy uncertainty, declining state efficiency, high tax rates)
- South Africa’s exports underperforming

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Challenges

- Different factors drive investment by MNCs: proximity to market, cost of moving goods, potential growth rates, business tax implications and risk and security

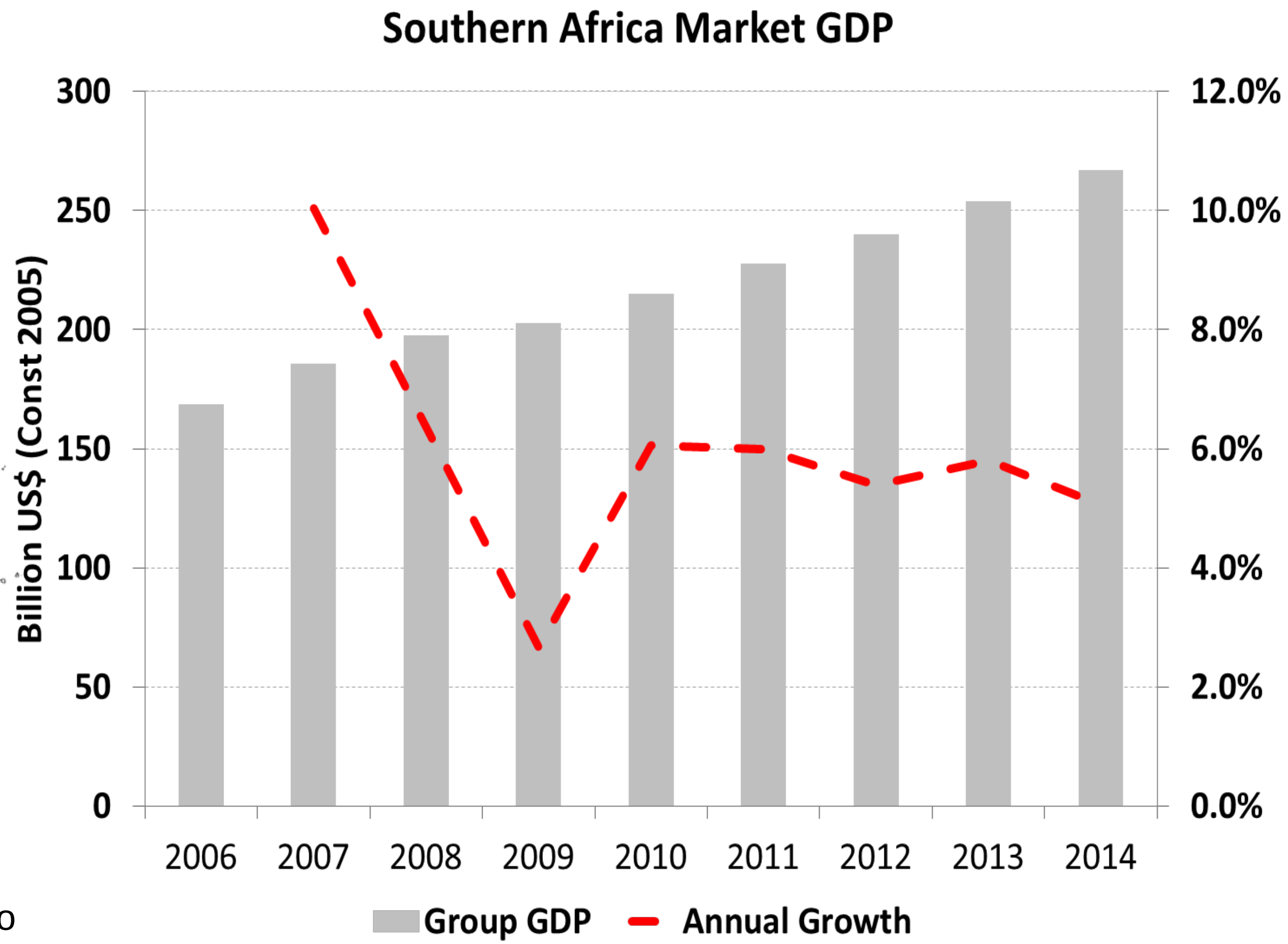
- SA battling to balance the needs of investors due to economic and political challenges
  - Internal factors: political issues, economic conditions, exchange controls, high costs at Durban port, congestion, cost of power, crime and corruption
  - External factors: developments in other African countries such as Angola, Mozambique, Kenya, Tanzania and rest of EAC are rapidly making them more competitive (developing banks, border posts, ports)

Challenges

- Domestic issues are driving trade costs higher
- In turn, high trade costs affect how firms can connect into GVCs
- Many international MNCs are starting to move goods into Africa through other ports, bypassing South Africa

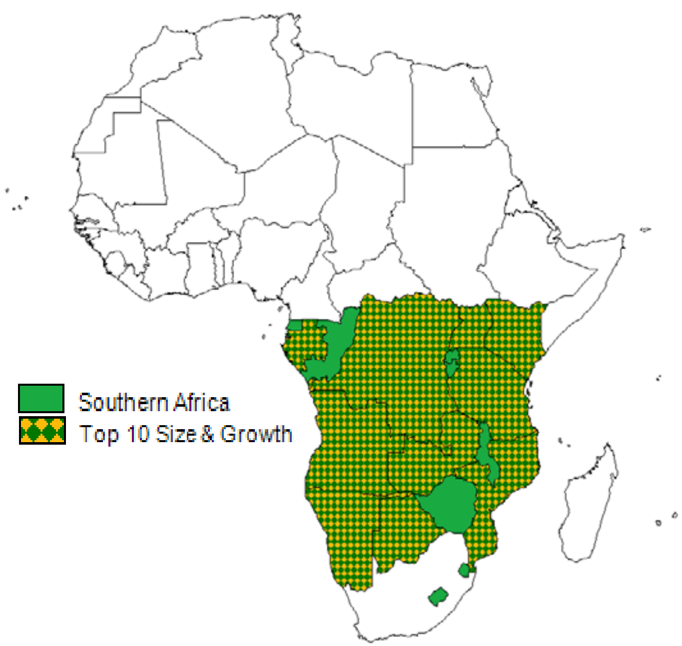
- What does the figures show regarding SA's trade with southern Africa?

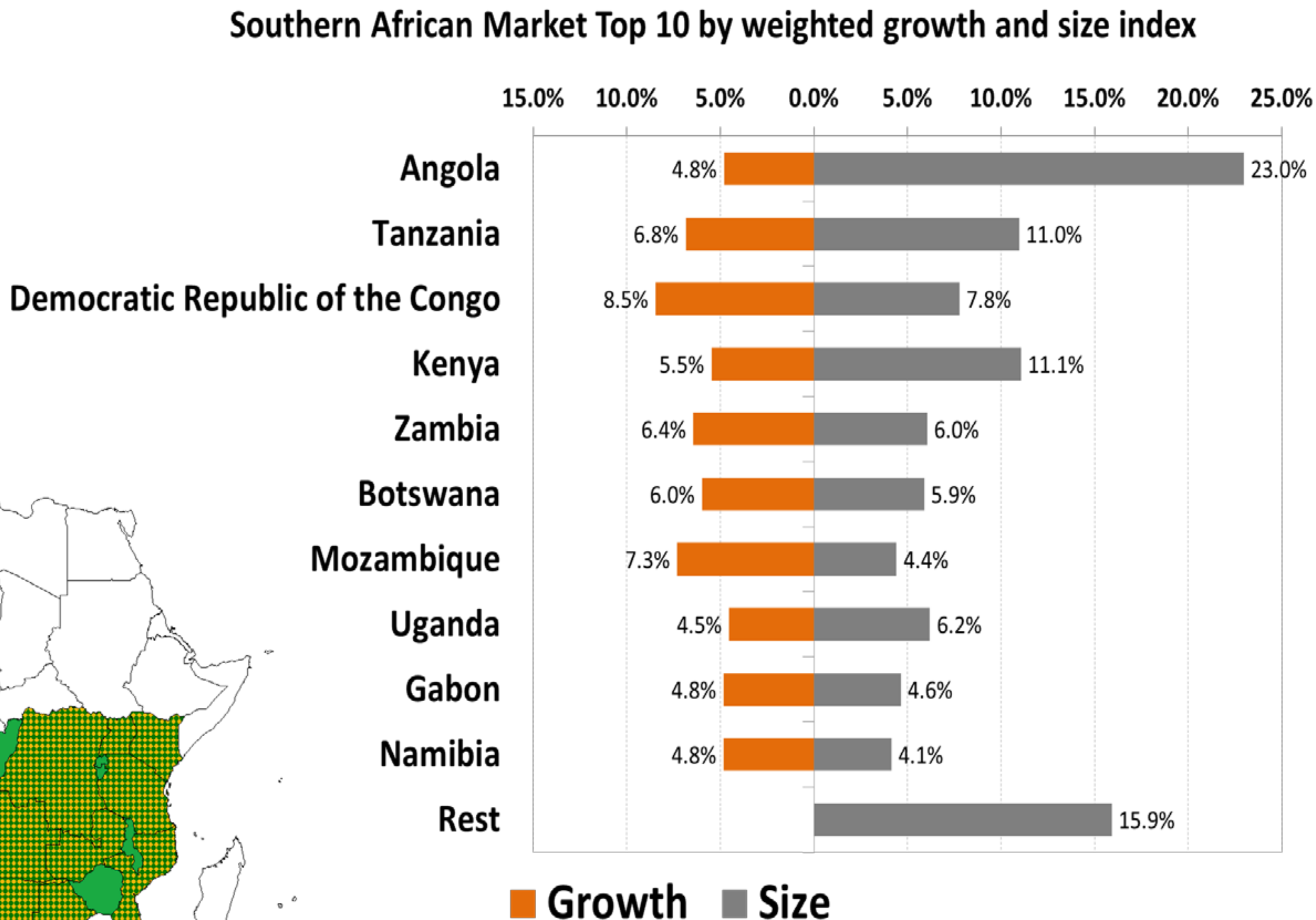
Economic size and growth of southern African market



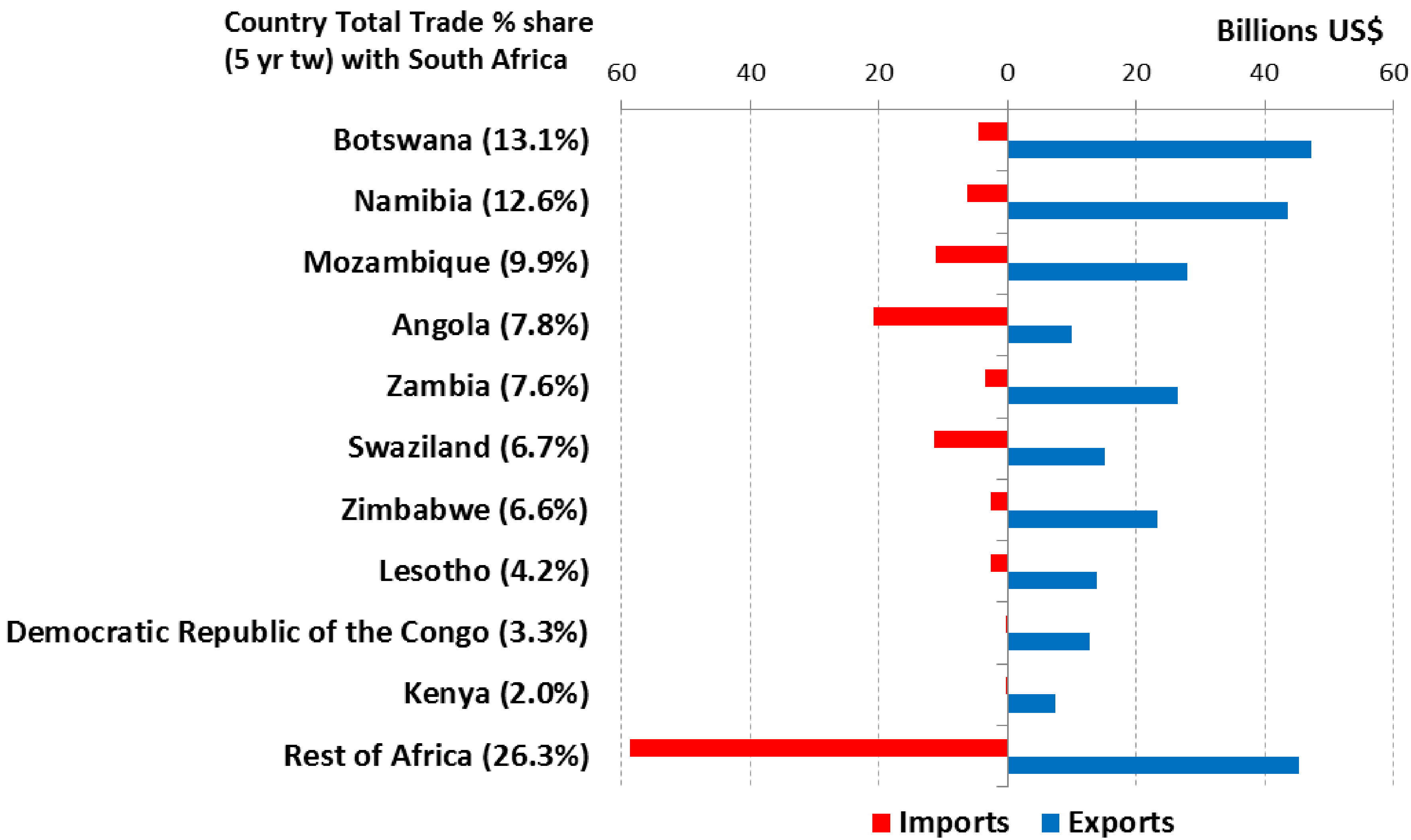
Angola
Botswana
Burundi
Congo
Dem. Rep. of the Congo
Equatorial Guinea
Gabon
Kenya
Lesotho
Malawi
Mozambique
Namibia
Rwanda
Swaziland
Tanzania
Uganda
Zambia
Zimbabwe

Economic performance of top 10 southern African markets (excluding South Africa)

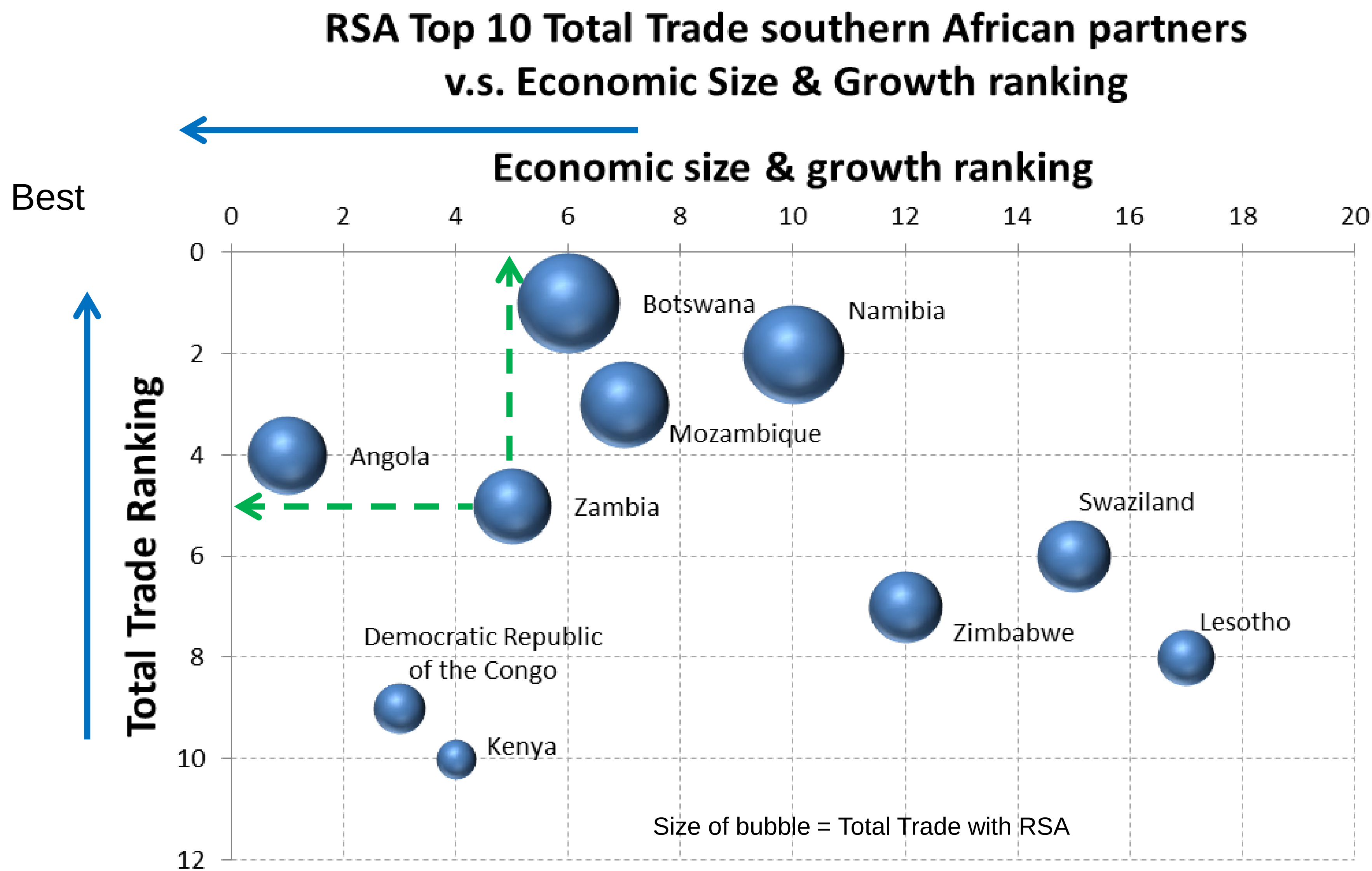




South Africa's most significant trading partners in southern Africa



Economic performance vs. total trade with SA



LPI Index 2014 (World Bank)

Country	LPI Rank	LPI Score	Customs	Customs	Infrastructure	Infrastructure	Logistics competence	Logistics competence	Tracking & tracing	Tracking & tracing
South Africa	34	3.43	42	3.11	38	3.2	24	3.62	41	3.3
Kenya	74	2.81	151	1.96	102	2.4	90	2.65	60	3.03
Namibia	93	2.66	125	2.27	81	2.57	86	2.69	106	2.56
Angola	112	2.54	114	2.37	140	2.11	128	2.31	103	2.59
Mauritius	115	2.51	128	2.25	91	2.5	110	2.48	133	2.34
Botswana	120	2.49	112	2.38	125	2.23	99	2.58	127	2.4
Zambia	123	2.46	86	2.54	115	2.31	114	2.47	120	2.47
Lesotho	133	2.37	129	2.22	110	2.35	137	2.23	132	2.35
Zimbabwe	137	2.34	154	1.89	123	2.25	108	2.5	143	2.22
Tanzania	138	2.33	135	2.19	114	2.32	145	2.18	150	2.11
Mozambique	147	2.23	126	2.26	135	2.15	153	2.1	152	2.08
DRC	159	1.88	158	1.78	156	1.83	158	1.84	151	2.1

LPI Index 2014 – South Africa

Year	LPI Rank	LPI Score	Customs	Customs	Infrastructure	Infrastructure	Logistics competence	Logistics competence	Tracking & tracing	Tracking & tracing
2007	24	3.53	28	3.22	26	3.42	25	3.54	18	3.71
2014	34	3.43	42	3.11	38	3.2	24	3.62	41	3.3

Doing Business Report (World Bank)

COUNTRY	2007		2015	
	Time to export (days)	Time to import (days)	Time to export (days)	Time to import (days)
Angola	64	58	40	43
Botswana	33	43	27	35
DRC	46	66	44	63
Kenya	29	37	26	26
Lesotho	44	49	31	33
Mauritius	13	12	10	9
Mozambique	28	36	21	25
Namibia	24	20	24	20
South Africa	25	35	16	21
Swaziland	21	30	17	23
Tanzania	24	30	18	26
Zambia	53	59	51	53
Zimbabwe	52	67	53	71

Role of Trade Facilitation

- Trade Facilitation Agreement – WTO conference Bali 2013
- *"Reform of border management processes in order to ease the movement of goods across borders"*
- This includes Customs, but also coordinated multi-agency processes
- Formalised, effective collaboration between government agencies whose legislative and regulatory charters include responsibility for some aspects of operations at borders
- What is needed:
  - High-level government and business commitment to reform
  - Shared accountability by host countries and donors
  - Private sector must involved
  - Integration of other agencies other than Customs
  - Quality assurance mechanisms
  - Strategic planning for software and IT systems
- Can lead to reduction in trade cost

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Role of Trade Facilitation

- For products, trade costs include:
  - At-the-border costs (tariffs, customs and border procedures)
  - Between the border costs (transport and infrastructure)
  - Behind the border cost (product standards)

- For services, trade cost includes:
  - Limitations on e-commerce
  - Foreign ownership limits
  - Local content requirements
  - Restrictions on movement of people (visa requirements)

- Policy reform and improved trade facilitation, potentially reduce trade cost by 11-17% of total cost

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Role of Trade Facilitation

Making inroads into southern Africa is difficult:

- High and/or changeable tariffs
- Infrastructural and logistical hurdles
- Slowest border crossings in the world
  - on average 85% longer to import and 60% longer to export goods across borders compared to the world average (World Bank, 2014)
- Trade costs in Africa are almost double that of East Asia and OECD countries
- Due to: Customs and admin procedures, bureaucracy, bribery and corruption that widens borders and limits trade flows

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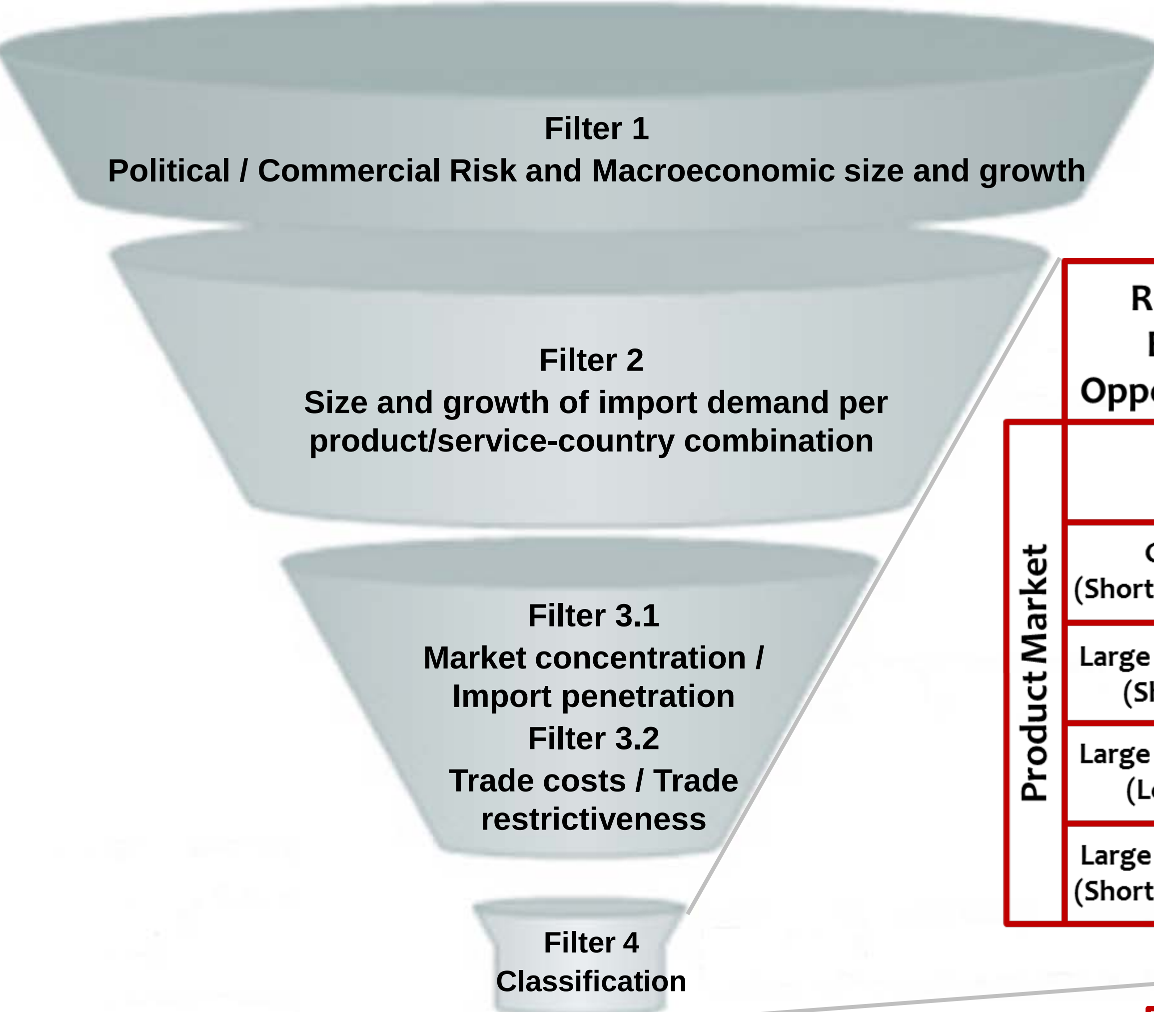
The Decision Support Model (DSM) approach
- a trade facilitation information tool and approach



	Realistic Export Opportuntities	Relative Market Share of Country: Small	Relative Market Share of Country: Intermediate – Small	Relative Market Share of Country: Intermediate – Large	Relative Market Share of Country: Large
Product Market	Large	REO1,1	REO2,1	REO3,1	REO4,1
	Growing (Short & Long term)	REO1,2	REO2,2	REO3,2	REO4,2
	Large and growing (Short term)	REO1,3	REO2,3	REO3,3	REO4,3
	Large and growing (Long term)	REO1,4	REO2,4	REO3,4	REO4,4
	Large and growing (Short & Long term)	REO1,5	REO2,5	REO3,5	REO4,5

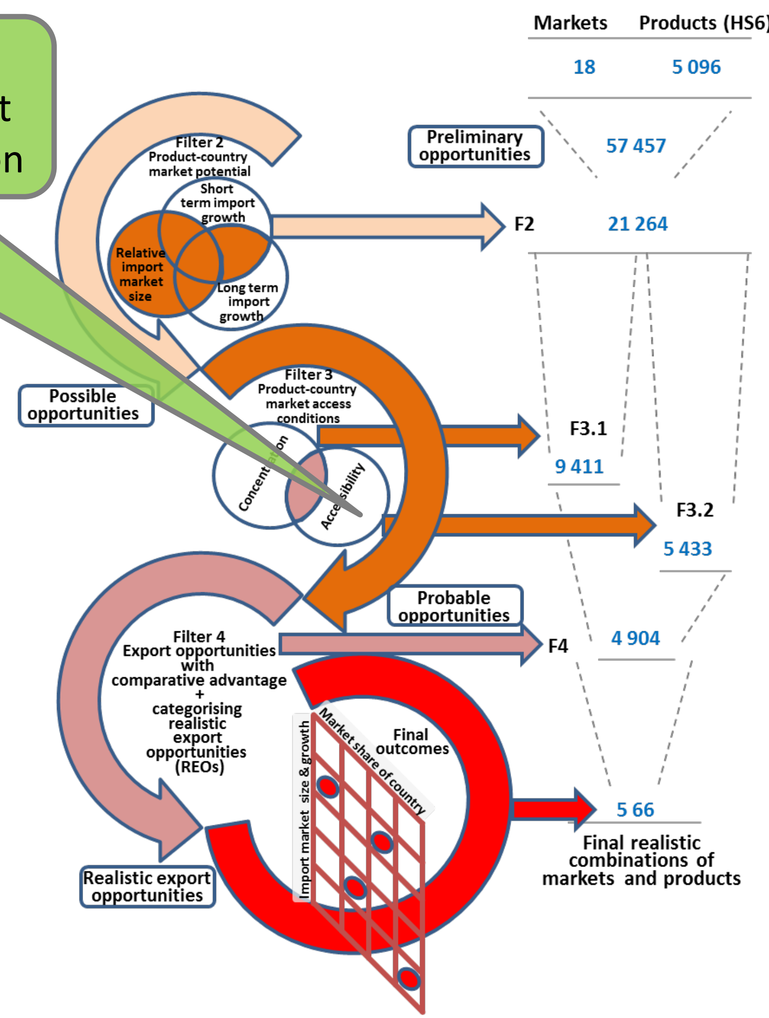
Offensive Exploration

Offensive Expansion

Defensive Sustain & Maintain

Resolving trade facilitation issues can contribute to South Africa's status as "gateway into Africa"

Export potential that will be difficult to unlock due to market access problems > US$ 1.6 billion



Examples: What are other African countries doing?

- East African Community (EAC):
  - Poor infrastructure (rail, road, ports) increased total cost of goods sold in the region by almost 50%
  - Coordinated infrastructure projects since 2012
  - Regional economic corridors with mega infrastructure projects
  - Extensive expansion are seaports of Dar-Es-Salaam and Mombasa, road and rail developments in Kenya and Tanzania
  - EAC Single Customs Territory (SCT), developing single window borders (e.g. Rwanda)
  - Investment in soft infrastructure (mobile networks, IT)
  - Next phase – Authorised Economic Operators (AEO) programme
  - Already showing evidence of reduction in cargo release time, and decreased cost of trade in the region

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Examples: What are other African countries doing?

- West Africa:
  - Extensive road projects in countries like Ghana, Mali
  - West Africa Joint Border Post Programme (reduced trade cost by 20% and enhanced intraregional trade)
  - Investment in port development
- SACU:
  - WCO-SACU Connect Project: regional integration through Preferred Trader Programme, customs modernisation
  - Plans for SACU Preferred Trader Mutual Recognition Procedure, SACU IT utility block
- Single window borders:
  - Ghana (first in 2000). Rwanda, Mozambique, Namibia, Botswana

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South Africa's current TF position

- OECD Trade Facilitation Indicators:
  - SA performs better than average of sub-Saharan African countries
  - Weakest performance: harmonisation and simplification of documents, fees and charges at borders
- Involvement in SACU and SADC projects
- One stop border posts: Beitbridge (Zimbabwe), Mozambique

- Forthcoming issues that will have impact on SA's role and ability to compete:
  - Position in AGOA
  - T-FTA (COMESA-EAC-SADC)
  - C-FTA (African Union)
  - South Africa's New Customs Act 2014, visa & immigration rules (movement of people)

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Conclusions

- Trade facilitation is key to unlocking Africa's trade potential and ensuring SA stays competitive
- Importance of innovation and development (single window borders, technology use to share data)
- Changing priorities and policies in government
- Regional integration and regional value chains
- Coordinated border management
- Role of the private sector *(success rate with private sector involvement is higher)*

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Thank you

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