

# Export Diversification in Africa

## *The Importance of Trade Logistics*

**T**rade can be a key driver of more inclusive growth and the structural transformation that produces high productivity jobs. For African countries, diversification into manufacturing, including agroindustry, has the potential to create jobs and reduce reliance on primary commodities. However, it will need to take place in a highly competitive global environment increasingly dominated by regional and global value chains. Trade logistics is a major element in reducing costs and increasing export competitiveness, and therefore central to success in expanding manufacturing, which often depends on just in time value chains.

African countries have made some of the biggest reductions in time to trade during 2009-2013, as measured by Doing Business Indicators. But the continent still lags behind other regions in terms of import and export time, efficiency of customs, and quality of trade and transport infrastructure, as the Logistic Performance Index indicates.

Efficient transit corridors and gateway ports are important for manufactured exports, and require improvement in physical infrastructure and operational efficiency; connectivity; competition and associated regulatory frameworks; and collaborative, efficient and competitive port communities. Road transport plays an important role in transport logistics in Africa, carrying 80-90% of passenger and cargo traffic on the

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continent. Improved intermodal transport is especially important for inland countries to reduce delays and cut costs. The distribution of port capacity is also highly uneven, with

three-quarters of total throughput taking place in ports in northern and southern Africa, leaving other regions underserved by the remaining one-quarter. Although better infrastructure and connectivity are necessary, supporting policies, regulations and procedures, and increased operational efficiency are critical. Identifying and resolving hotspots that cause delays, including by increasing the interconnectivity of regulatory agencies, automating procedures, employing risk management, and improving information, can significantly improve the flow of goods. As the recent WTO-TFA agreement recognizes, this is a low cost reform opportunity with large potential benefits.

Regional integration is at

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### **Logistics Performance Index (LPI) 2014**

*(scale: 1=lowest; 5=highest)*

	<b>SSA</b>	<b>EAP</b>
• Total LPI	2.46	2.85
• Customs	2.27	2.69
• Infrastructure	2.27	2.74
• Time	2.84	3.17

### **Improving trade logistics requires a holistic approach covering:**

- Infrastructure, policies and regulations
- Integration
- Movement of people and services
- Involvement of the private sector
- Monitoring
- Innovation

the core of trade reforms. The AU's Comprehensive Free Trade Agreement and single air transport market, both to be put in place by 2017, place integration and trade at the center of the continent's progress. Increasingly sophisticated regional and global manufacturing supply chains demand cross-border predictability, transparency, reliability and accountability. Several countries have implemented One Stop Border Posts to facilitate trade and transit. But investments in border infrastructure and legal agreements between participating countries need to be accompanied by efficient, integrated and coordinated operating policies and processes, as well as transparent rules and regulations.

Movement of people and services improves trade logistics and lowers costs. Manufacturing industries in African countries would benefit from improved access to competitively produced services resulting from deeper integration of services markets. Experience indicates that improvements in business and

Firms that have access to competitive professional services generally also have higher productivity.

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and processes that constrain their competitiveness and provide feedback on proposed solutions. Although National Quality infrastructure—standards, accreditation, metrology,

should be developed with industry participation. Firms can also champion reforms, and industry bodies can promote compliance.

Monitoring of trade logistics reforms is essential for effective implementation. Systematic, organized and accountable national monitoring mechanisms that involve a wide range of stakeholders have proven to be effective. Such monitoring is also useful to ensure that the benefits of reform are passed on to producers and consumers. Regional monitoring mechanisms can be particularly useful for improving trade logistics. Several Regional Economic Communities have adopted these, and the EAC, SADC and COMESA Tripartite has established a combined mechanism, but they can also be put in place by groups of countries using a variable geometry approach. Generally speaking, such mechanisms should aim for flexibility and simplicity.

Innovation—by countries, institutions and people—can drive progress in trade as in other areas. ICT has benefited small scale producers and traders as well as larger companies by providing access to real time information, and is likely to play an even greater role as costs of connectivity fall. New survey methods and ICT-based techniques like crowdsourcing are facilitating better monitoring of integration and its impact on ordinary traders, as well as the costs of trade. Malawi, Mauritius, Mozambique, Seychelles, and Zambia have joined together under the Accelerated Program for Economic Integration to implement reforms to reduce trade costs, while Burkina Faso and Cote d'Ivoire are working together to facilitate trade along the Abidjan-Ouagadougou corridor. This is variable geometry at work. The World Bank is providing support to these country-led efforts. ■

## OPPORTUNITIES FOR INVESTMENT

**E**xpanding trade volumes will increase demands for infrastructure. The African Development Bank estimates that demand for container traffic will increase by an average of 6%-6.8% annually between 2010 and 2040. Demand for intermodal transport for inland African countries will grow 10-14 times over the same time period. This future growth in

demand will bring enormous market opportunities for investments in port, rail and road infrastructure. Given the costs, the involvement of the private sector will be essential for construction and operation. Of the 1.2 million km of tiered roads in Africa, only about 1,600 km are currently operated by the private sector.

professional services such as banking, insurance, legal, and auditing, as well as those specifically related to trade logistics, reduce trade costs.

and conformity assessment—is essential for trade in global markets, international best practice indicates that standards related to quality