

## CONNECTING RURAL HINTERLANDS IN AFRICA TO DOMESTIC AND EXPORT MARKETS: ELEMENTS FOR A STRATEGIC TRADE FACILITATION ASSISTANCE PACKAGE

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### Abstract

The basic purpose of this article is to show how a strategically designed 'trade-facilitation' assistance package aimed at rural welfare in Africa could complement investments in ports and customs reform. By focusing initially on creating and connecting primary and secondary economic corridors through targeted infrastructure investments, the package can help create a virtuous cycle of information flows and economic activity. These could in turn lead to further trade-facilitation investments in rural areas, for example in transport and distribution services. While the article focuses on Africa, the proposals could be applied to rural areas in other developing countries as well. Finally the article calls for a greater focus on rural infrastructure within existing and future trade-facilitation assistance schemes.

### Introduction

Trade facilitation can be construed in both a narrow and broad sense. The ongoing WTO negotiations on trade facilitation focuses on a very narrow mandate and involves clarifying and improving multilateral disciplines under GATT Articles V (Freedom of transit), VIII (Fees and Formalities relating to import and export other charges), and X (publication and administration of trade regulations), all bound together under the framework of the WTO 'Single Undertaking' and its dispute settlement mechanism. Most organisations have adopted a broader definition of Trade Facilitation, as the box below illustrates. Technical assistance designed to ensure a smoother flow of goods and services often encompasses a number of activities indistinguishable from the broader infrastructure requirements of the economy as a whole.

Hill (2005) summarises the WTO definition of trade facilitation as follows: "the simplification and harmonisation of international trade procedures, including activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade". The scope of this definition is restricted to transactions involved in the movement of goods, and more specifically to customs-related procedures as adopted by the United Nations Conference for Trade and Development (UNCTAD).

Hill also adds that "...the definition favoured by the business community, notably International Chamber of Commerce (ICC), includes trade facilitation measures as part of a broader framework for the competitiveness of the economy, so as to address all business interests and concerns across the board. Private professional associations like IATA as well as UN-related institutions as UNECE or UNCTAD undertook this approach, with a watchful view on the entire supply-chain and greater sensitivity to IT elements in trade facilitation." Further a "...trader's basic interests lie on trade facilitation measures dealt with as a coherent set of rules and practices in accordance with the need for predictability, transparency and simplification of trade procedures."

### Linking Trade-Facilitation Technical and Financial Assistance to African Rural Development Strategies

The critical question is how trade-facilitation investments can be made to benefit rural areas in Africa, particularly those that are based on subsistence activities and unconnected to wider local, regional and global markets. There is the danger that trade facilitation assistance in Africa that is confined only to developing existing hubs of economic activity could end up by-passing rural communities and widening regional disparities.

Technical and Financial Assistance for Trade Facilitation is currently being provided by a number of organizations and these include assistance for infrastructure such as road-development and ports. The critical importance of infrastructure has been underlined in a number of studies such as the World Bank study by Wilson, Man and Otsuki. This study shows that 'port efficiency' has the largest elasticity amongst the trade facilitation indicators in intra-APEC trade; and that the greatest benefits for trade would come from improvements in port efficiency. The study further concluded that the removal of restrictions in US ports would confer more benefits to developing countries than simply granting market access concessions.

The World Bank Study used four indicators of trade efficiency in measuring the impact on economic development (1. Port efficiency; 2. Customs environment; 3. Own regulatory environment; and 4. E-business usage).

### Box 1. Definitions of Trade Facilitation – “Narrow” and “Broad” Definitions

#### “Narrow” Definition of Trade Facilitation

**WTO and UNCTAD:** “Trade Facilitation is the simplification and harmonization of international trade procedures, including activities, practices, and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade”. (WTO website, and UNCTAD E-Commerce and Development Report 2001, p.180).

#### “Broad” Definition of Trade Facilitation

**UNECE:** “*Comprehensive and integrated approach* to reducing the complexity and costs of the trade transactions process, and ensuring that all these activities can take place in an efficient, *transparent, and predictable manner*, based on internationally accepted norms, standards and best practices.” (Draft document 3/13/2002).

**APEC:** “Trade Facilitation generally refers to the simplification, harmonization, *use of new technologies* and other measures to address procedural and administrative impediments to trade.” (APEC Principles on Trade Facilitation 2002).

**APEC:** “The use of technologies and techniques which will help members *to build up expertise*, reduce costs and lead to better movement of goods and services.” (APEC Economic Committee 1999).

**OECD:** “Simplification and standardization of procedures and associated information flows required to move goods internationally from seller to buyer and to *pass payments* in the other direction.” (OECD, TD/TC/WP (2001) 21 attributed to John Raven).

**Source:** Reproduced and adapted from Wilson *et al*, (2002); and Lucenti (2003) (Italics in original document.)

A study on trade facilitation commissioned by the European Union includes extensive sections on technical assistance and capacity building. It concluded that they were both core elements to enhance trade facilitation measures. The seven (7) main categories of technical assistance considered in the EU study build on the four indicators developed by the World Bank and arrived at the following:

- ⇒ Technical assistance to customs authorities.
- ⇒ Technical assistance to improve regulatory environment.
- ⇒ Technical assistance related to transport and transit.
- ⇒ Technical assistance related to improvement of transparency and private-public partnership.
- ⇒ Technical assistance related capacity building in international trade.
- ⇒ Technical assistance related infrastructural improvements.

This is a broad list of focus areas but leads in the right direction. To make trade-facilitation have a real impact on rural economies, the first four categories of assistance relevant to customs and transit will need to be

strongly reinforced by assistance to the last three categories.

In this article, I shall propose a ‘strategic’ trade-facilitation assistance package that will help improve conditions for productive entrepreneurial investment in goods, and eventually trade-facilitation related services for rural areas in Africa. The strategy involves:

Using a ‘package-approach’ for trade-facilitation related infrastructure assistance involving a combined investments in roads, electricity and Information and Communication Technology (ICT) infrastructure to create ‘primary economic corridors’ i.e. connecting the main hubs of economic activity with regional ports.

Creating ‘secondary-corridors’ to rural areas interconnecting with primary corridors and economic hubs. The creation of these corridors will involve the same ‘package’ approach targeting select rural regions that are ‘poverty-intensive’ but have sound development potential. The focus here will be to prioritise roads and telephone networks, if funds are short, at least in the initial stages for reasons I will explain below.

Attracting ‘catalysts’ (I will explain this in further detail below) and enabling them to leverage the ‘economic opportunity space’ or greater potential for development created through these infrastructure investments and kick-start ‘value-addition’ activities.

Policies to attract distribution service providers to further boost rapid delivery of 'rural goods' to domestic hubs and export markets

Thus the 'package-approach' targeted at rural infrastructure could enable rural areas to benefit in the long-term from the more 'traditional' trade-facilitation related assistance aimed at customs and ports. The emphasis is on infrastructure in the initial stages that will connect rural areas to markets and attract 'catalysts' such as entrepreneurs. This should subsequently be combined with a conducive environment for what I would call 'trade-facilitation' service providers who could profitably operate in rural areas and further boost delivery of rural goods to domestic and international markets.

Below I explain in a bit more of detail of how this 'strategic' trade-facilitation package might work and how it could help rural areas in Africa evolve in three phases to generate economic activity and exports. I stress that these proposals are largely speculative and does not pre-judge the actual state of infrastructure in rural Africa or the nature of existing or future assistance directed at trade-facilitation. Speculation also means that these policies are largely untested and may or may not succeed depending on other challenging hurdles that may require resolution such as political stability, corruption, reliable and effective judiciary or access to credit for local entrepreneurs.

### Phase I: Laying the Foundations-Primary and Secondary Corridors and Communication Hubs

The fundamental pre-requisite of making trade-facilitation measures have an impact in rural areas starts with investment in infrastructure focusing on transportation, energy and information and communication technologies (ICT). The key elements of this stage could comprise:

*Creation of 'primary' economic corridors:* As a first-step and a matter of course, trade-facilitation infrastructure assistance should include the creation of 'trade-corridors' or roads connecting major ports in the country or region with the hinterland and perhaps extending further into land-locked countries. If these arteries can be conceived of as 'primary economic corridors', then a 'strategic' trade-facilitation package would aim to supplement these roads with electricity and telephone lines (which may, in fact, already exist along towns and cities on the route) and a broad-band fibre-optic network which could lay the foundation for an 'internet backbone' enabling internet hubs to easily spring-up along the corridor. Electricity is fundamental for obvious reasons as would be telephone lines. Where telephone-



Such infrastructure may encourage sorting, packaging and standardization of products to meet market needs

Source: Bartel, ATDF

lines are non-existent, the potential to use existing or create new mobile networks should also be explored.

*Creating 'secondary' economic corridors:* In this stage, an assessment may be done (possibly as part of country diagnostic trade integration studies) to select rural regions which could be connected, using the same infrastructure 'package', to the primary economic corridors. The selection of the rural areas could be based, for example, on 'intensity of poverty' or potential for rural economic activities. The creation of these corridors will involve targeted investments in good quality rural roads and telecommunications, and where feasible with electricity and internet. The reason for this prioritization is that if funds do not suffice, rural areas could still connect by phone to suitable agents manning internet hubs along the primary corridor and thereby reap the benefits even though the areas themselves may not immediately get internet infrastructure.

*The creation of internet hubs:* along the primary economic corridors should be a priority but these should, when and where possible, also be replicated in the rural areas connected by secondary corridors. Internet hubs could be managed either by the government, the private-sector (where possible) or by development agencies. The primary function of these hubs should be to serve as portals of information for business-activity and connect in turn to local, regional and global depositories and networks of information. The aim should be speedy provision of information to those who require it but cannot directly access the internet. Poor or illiterate populations, will therefore, not be deprived of 'development or business-related' knowledge wherever it may lie. Investments in ICT infrastructure should thus be an essential element of any assistance package involving infrastructure. An OECD presentation at their Global Forum on Trade Facilitation in 2005 reveals that the bulk of Overseas Develop-

ment Assistance in 2003 on Infrastructure went to Energy and Transport and Storage with a relatively small proportion going to communication. This discrepancy needs to be bridged. The figures below provide some information on the state of connectivity between African countries for key Information and Communication Technologies.

**Phase II: Plugging rural regions to domestic and export markets**

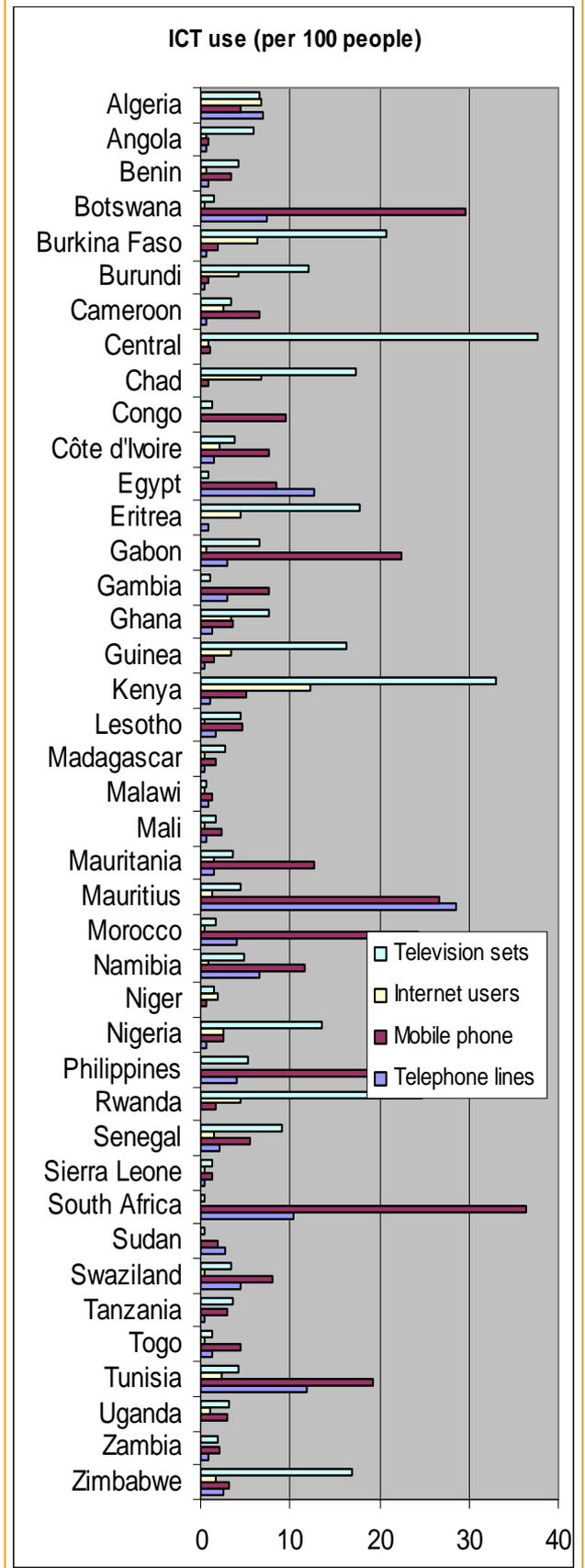
Integrating rural areas in Africa many of which are largely characterised by subsistence economic activity to major markets will be no easy task. A start could however be made targeted at the 'secondary economic corridors'. Here, the initial investments made will provide the initial leverage to make these areas more attractive for investment by domestic or foreign entrepreneurs. These or other literate individuals or organizations-private, governmental or non-governmental whom I term 'catalysts' could play the role for change. Catalysts are thus important agents of economic change. While catalysts could be inhabitants from a rural area (perhaps those who have migrated to cities or even abroad), often illiteracy, lack of access to credit and information may make it more difficult for local inhabitants to become catalysts. Hence the conditions should be set in place for catalysts to operate and set in motion the process of economic change and involve the rural population in productive activities. Here, the pre-existing road and communication networks could help in a number of ways:

*Firstly*, ICT infrastructure could help add 'value' to rural sectors especially agriculture. For example rural farmers through mobile networks will get a better idea of prices in urban markets which can help eliminate middlemen as has already happened in many parts of Africa. The role of catalysts here is that they could use mobile or telephone networks to tap into a wider source of information from internet hubs located for example in the nearest town along the primary corridors, and transmit these to farmers and others even by word of mouth. So lack of internet access or knowledge of computers on the part of the rural poor should not impose limitations as long as they are clear about the information that they want and can access these through the 'catalyst'. Information could range from facilities available for credit, to product quality standards to best practices in irrigation-in fact anything that can help rural development take that one step forward.

*Secondly*, the initial 'secondary corridor' investments could in turn spur investments in supportive infrastructure such as cold-storage facilities or agro-processing plants. But this may not always happen automatically as one would wish and the government may need to provide incentives such as tax-breaks or holidays. The point I would like to stress is that the initial investments in roads and ICT would make other inducements such as tax-breaks or holidays by the government that much more attractive as at least investors will know that they

**The basic ICT tools for facilitating trade and enterprise development remains illusive for most of Africa.**

*Source: ATDF Knowledge Centre (2004).*



will be able to get the produce urban or foreign markets and bring in physical machinery and tools for example much more easier than before. Access to information from internet and telephone networks would help investors quickly contact points along the supply-chains including in export markets instantly and communicate requirements, as in contract-farming, to rural farmers. In this regard the potential of communication software such as Skype that has dramatically cut down costs can hardly be overemphasized. E-commerce initiatives for marketing rural produce could also be developed.

*Thirdly*, both the creation of physical infrastructure such as roads as well as the investments that are attracted will have the potential to provide alternative employment to rural populations and generate opportunities for backward and forward linkages and non-farm activities.

### **The third phase-Attracting and taking advantage of distribution services**

In the succeeding phase, once rural regions connected by secondary corridors to external markets and have started producing goods for supply, the 'strategic' trade-facilitation package could be expanded to include policies to attract distribution service providers and freight-forwarders in case they are not already attracted to rural areas. The operation of distribution and logistics service providers could provide a further boost to trade-facilitation to products from rural areas to domestic and export markets. Policies to attract such providers could include tax-concessions as well as liberalization commitments for these types of providers made as part of WTO negotiations under the General Agreement on Trade in Services. Commitments on market access could for example, be made with the conditionality that 100 per cent equity would be permitted for operators specifically catering to rural area supply-chains. Growth in distribution and logistics services could in themselves also be a major source of employment opportunities.

### **Conclusion**

The proposals laid down by this article does not purport to be based on empirical research on ground realities, more on logical perceptions about what 'ought' to happen. The fundamental argument is that the more conventional trade-facilitation investments such as those relating customs reform and border-procedures will not have noticeable effects on rural economic activity in Africa as these regions are often isolated from local, let alone regional or international markets. Investments in strategically targeted rural infrastructure will thus be required to 'connect' or 'plug in' these areas to the mainstream of traffic in commerce and information flows along 'primary economic corridors' so they can

access the benefits of this flow and attract new investment in productive activities.

How will these initial infrastructure investments for these corridors be financed? Trade-facilitation assistance has been growing and if ongoing negotiations at the WTO succeed, will certainly get a further boost. But technical assistance linked to WTO obligations, due to the nature of the negotiating mandate, may again only solve a limited range of issues of concern to existing exporters and importers in Africa. The massive investments required to encourage further investment, particularly in rural parts of least-developed and land-locked countries in Africa, will be enormous and will have to be provided by other means of bilateral or multilateral assistance, such as through development banks, that will target areas outside the WTO's 'trade-rules' related mandate. Policies geared at rural infrastructure no doubt figures, and should figure in existing and future Poverty Reduction Strategy Papers (PRSPs) drawn up for African countries. Specific assistance for rural infrastructure should be enhanced within existing schemes such as the Integrated Framework and also be an integral and growing component of future schemes such as the promised 'Aid for Trade' packages. As the saying goes, 'Knowledge is Power' and this should be reflected in due importance for Information and Communication technologies within these packages as well. Trade after all should also be facilitated by flows of ideas and information, not just flows of goods and services

### **Notes**

1. Hill, A.K.G. (2005) Business and the WTO Negotiations on Trade Facilitation," International Trade Centre-UNCTAD/WTO Technical Discussion Paper.24.
2. Ibid. 43
3. "Trade Facilitation and Economic Development: Measuring the Impact" (2000), World Bank Policy Research Working Paper N° 2988, Washington DC.
4. Hill, A.K.G. (2005) Business and the WTO Negotiations on Trade Facilitation," International Trade Centre-UNCTAD/WTO Technical Discussion Paper.39
5. <http://webdomino1.oecd.org/COMNET/ECH/SriLanka.nsf?OpenDatabase>