

TRADE LOGISTICS

AGOA'S NEXT FRONTIER

NICK KRAFFT
JOHN PAGE

The Africa Growth and Opportunity Act (AGOA) is now 10 years old. While it has scored some successes—in particular 13 percent average yearly growth of apparel exports to \$914 million¹—it has failed to spur broad-based export growth and diversification. Excluding petroleum products, automobiles (which are solely driven by South Africa) and apparel, Africa's manufactured exports to the United States under AGOA have grown at only 7.5 percent per year. Without South Africa and these three products, AGOA countries exported only \$47 million of manufactured goods to America in 2009.

This anemic performance is not a result of AGOA's rules of origin—which even for textiles and clothing—are relatively generous. Rather, the constraints to more robust export growth under AGOA have come from the supply side. African firms find it hard to compete even with generous preferences.

Africa's lack of competitiveness does not come primarily from the inefficiency of its workers, managers or capital equipment. In a series of careful plant-level studies, the World Bank has shown that

with their lower wages, African enterprises can compete with Chinese and Indian firms in factory floor costs in some product lines, such as garments and other simple manufactured goods.² Africa's major supply side constraint is actually in trade logistics, which determine the cost of getting goods to and from the factory gate. African countries have among the highest trading costs in the world.

Trade logistics have become an increasingly large obstacle to African trade performance because of a profound change in the nature of international trade that has taken place in the last quarter century: the explosion of "trade in tasks." In some manufacturing activities, a production process can be decomposed into a series of steps or tasks. As transport and coordination costs have fallen in many parts of the world, it has become efficient to produce different steps in the process in different countries. Task-based production has expanded dramatically in the past 25 years. From 1986-1990, imported intermediates constituted 12 percent of total global manufacturing output and 26 percent of total intermediate inputs. By 1996-2000, these figures had risen to 18 percent and 44 percent respectively. Globally, the import intensity of export production rose from about 67 percent in 1986-1990 to 78 percent in 1996-2000.³

For countries that have failed to industrialize, task-based production is a potential lifeline. It is easier to specialize in a single task than in the entire range of tasks needed to produce a

product. This specialization can boost learning, both in terms of manufacturing processes and supply chain management. However, trade in tasks also amplifies the importance of trade logistics. In task-based production, high shares of intermediates in final output magnify the effect of changes in logistics costs on value added and profit margins. Countries at the final stages in the production chain of a task-traded good are unlikely to be competitive if their trade costs on imported intermediates are high, and countries hoping to enter upstream in a global value chain cannot afford to have high trade costs for their exports. Beyond these direct costs, the predictability and reliability of supply chains are increasingly important in a world of just-in-time production sharing.

As the disappointing AGOA export totals show, Africa has mostly missed the task-based industrial revolution, largely because of poor trade logistics. In 2010, the World Bank assessed the trade logistics performance—from customs procedures, transport costs and infrastructure quality to the ability to track and trace shipments, timeliness and the competence of the domestic logistics industry—of 150 countries. Not surprisingly, OECD and other high-income countries lead the league table of logistics performance. At the other extreme low-income, landlocked countries, especially in Africa, score the worst. As a region, Africa has the poorest overall trade logistics performance.⁴ Infrastructure deficiencies interact with poor public institutions and

lack of competition among service providers to create a vicious circle of constraints to the efficient movement of goods and services. At the firm level, this translates into a substantial “export tax” on value added. One set of estimates for Kenya, Tanzania and Uganda places the average cost of trade logistics at the equivalent of a tax of between 25 and 40 percent on value added.⁵

Clearly, AGOA cannot and should not attempt to address Africa’s infrastructure constraints, but—through the regular meetings of its members and its role in the U.S. aid architecture—it can become an important lobby for increased attention and funding from the international donor community. It can also promote innovative ideas for public-private partnerships to increase infrastructure investment and improve operating efficiency.

While infrastructure is important, institutions and the regulatory environment are equally important. Customs reform and modernization is a largely unfinished agenda in Africa, and even where countries have implemented a customs modernization program, the coordination of border procedures between customs and other agencies (responsible say, for health and safety standards) remains an important constraint. Reform of logistics services markets, especially transport regulations, is also high on the agenda for reform.

AGOA can help improve the “software” of trade logistics by sharpening the focus of U.S. technical assistance. As another essay in this report notes, U.S. trade capacity building assistance to sub-Saharan Africa has totaled over \$3.3 billion from 2001-2009, with over \$700 million in 2009 alone. However, these resources are spread across a wide range of capacity building efforts and have not led to major reductions in trade costs.⁶ To spur administrative and institutional changes, AGOA can also open up a dialogue on how key administrative and regulatory reforms designed to lower trade costs should enter into its eligibility criteria.

For landlocked countries, both the physical and institutional constraints to efficient logistics are compounded by the need to depend on neighboring countries for access to markets. Regional integration arrangements that focus on lowering trade friction for member countries will enhance their competitiveness. As noted in a separate contribution to this set of essays, AGOA can do more to promote effective regional integration.

Without greater attention and resources to lower the costs of trade, African countries will fail to capitalize on AGOA’s generous preferences and rules of origin. AGOA has done reasonably well on preferences; its next frontier should be trade logistics.

ENDNOTES

1. Many of these gains were realized in the first half of the decade, before the elimination of the Multi-Fibre Arrangement eroded some of the original gains in recent years.
2. Eifert, B., Gelb, A., and Ramachandran, V. (2005). "Business Environment and Comparative Advantage in Africa: Evidence from the Investment Climate." Washington, DC: World Bank.
3. UNIDO (2009). "Industrial Development Report 2009." Vienna: UNIDO.
4. World Bank (2010) "Connecting to Compete 2010: Trade Logistics in the Global Economy - The Logistics Performance Index and its Indicators," Washington, DC: The World Bank.
5. Morrissey, O. (2004). "Trade Policy & Transport Costs: How EU Aid Can Promote Export Growth in East Africa." London: DFID ECPREP.
6. USAID Trade Capacity Building Database.