No longer playing second fiddle

Felicity Landon examines the transitioning of developing and emerging country trade

Felicity Landon

Developing countries continue to contribute larger shares to the total volumes of international seaborne trade. According to UNCTAD's Review of Maritime Transport 2016, their contribution with regard to global goods loaded is estimated at 60% and their import demand as measured by the volume of goods unloaded reached 62% in 2015.

A key and steady trend is that developing countries have not only consolidated their position as suppliers of raw materials but they have also become stronger areas of consumer demand and main players in globalised manufacturing processes, says the report, which concludes: "There are ample opportunities for developing countries to generate income and employment and help promote foreign trade."

Topic: : Developing countries

Keywords: South-south, shipping routes, challenges

Background: While trade associated with developing countries is increasing, there are still landside blocks to overcome

South-South trade – the term often used to describe trade between developing countries – is gaining momentum and planned initiatives such as China's One Belt, One Road Initiative and Japan's Partnership for Quality Infrastructure, as well as the expanded Panama Canal and Suez Canal, all have the potential to affect seaborne trade, reshape world shipping networks and generate business opportunities, says UNCTAD. However, while imports into developing countries have increased from 18% of world trade volumes in 1970 to 62% today, growth in trade moving directly between developing countries is not so straightforward.

Trade is increasing between developing countries

Jan Hoffmann, chief of the trade logistics branch in UNCTAD's technology and logistics division, says: "The historic picture was of developing countries exporting raw materials in high volumes and importing low volumes of high-value goods such as cars. The whole picture is now different. For example, Thailand and the Philippines also now import raw materials and produce goods for export. China is buying goods from Thailand, the Philippines, Vietnam and Malaysia.

"Recently I was in Kuala Lumpur and did some research in a supermarket. Malaysia is exporting good quality food to Europe, but the food that the Malaysians buy is largely made in China – lower quality, cheaper foods".

Altered reality

It is no longer a clear picture of rich versus poor countries. Now, there are many middle income countries as well as countries that

Port Community Systems: a key role to play

Port Community Systems have the potential to speed up the flow of cargo and the processes involved in trade, giving developing countries the lift they need, according to Richard Morton, secretary general of the International Port Community Systems Association (IPCSA).

"It is about connectivity – not necessarily between ports but of information, to allow transparency in the supply chain," he says. "That is key – ultimately with a Port Community System using international standards, that will help shipping lines and others to use those standards as the basis for trade in that country."

The introduction of 'Single Window' solutions – some supported by a Port Community System – has delivered clear benefits in a number of states. The UN defines a Single Window as an electronic system that allows all participants in foreign trade to file all required information simultaneously, in one place, in standard form and to one agency.

World Trade Organisation studies show the introduction of a Single Window system in Senegal reduced the time required for pre-clearance formalities from four days to half a day, and Customs clearance from 18 days to nine. Export times were cut from 22 to 11 days. And Senegal's Customs revenue increased from $625m a year in 2005, to $1.2bn a year in 2011.

In Thailand, the introduction of a Single Window reduced export costs from $848m in 2007 to $595m in 2011 and the overall savings on logistics costs were $1.5bn. The number of documents required for import was reduced from 12 to three, and those required for export were reduced from nine to four. Overall time to export was cut from 24 to 14 days. SN

Procedural barriers holding back trade potential

With developed country demand for imports from emerging economies stable or dropping, south-south trade is destined to become more important, believes trade expert Virginia Cram-Martos, director of the economic co-operation and trade division at the UN Economic Commission for Europe.

At the same time, many developing countries have very high procedural and regulatory barriers to trade – so trade facilitation has an essential role to play in developing south-south trade.

"If you look at the World Bank ratings for logistics, developing countries tend to be at the lower end for efficiency," she says. "What happens is that sometimes it is actually easier and cheaper to ship something to a developed country and for the developed country to ship it back to the developing country (destination), because procedural barriers between the two developing countries are so high.

"However, there are developments – for example, we would hope that new Customs unions such as that of ECOWAS (the Economic Community of West African States) would result in significantly lower barriers for trade between countries in the region, therefore supporting south-south trade.

"Agreements such as the Euroasian Economic Community should reduce procedural barriers and increase trade – to and from Kurdistan, for example, a very low-income country. And as developing countries' exporters become more sophisticated and established markets such as the US become more saturated, they will look to other developing countries, with their growing middle classes, for their markets – such as China and Brazil." *SN*

"It is actually easier and cheaper to ship something to a developed country and for the developed country to ship it back to the developing country," Virginia Cram-Martos, UN Economic Commission for Europe

no longer purely export commodities. Each country is somewhere along the continuum making the picture that much more complicated. UNCTAD's task is to help developing countries build their trade – and there are significant hurdles to cross.

"There are so many examples of where it is cheaper to get a container from Shanghai to Mombasa, than from Mombasa to Kigali," says Mr Hoffmann. "There are two big differences. First, maritime is much cheaper than land transport. Second, between Mombasa and Rwanda you have to cross two borders and these have a strong, measurable effect on transport costs."

> "Developing countries have not only consolidated their position as suppliers of raw materials but they have also become stronger areas of consumer demand and main players in globalised manufacturing processes"

A container crossing the border can wait for a number of inspections – Customs, Ministry of Agriculture, Health, and so on – each one carried out separately with no co-ordination between the authorities and others involved. However, the World Trade Organization's Trade Facilitation Agreement (TFA), now very close to ratification and entry into force, should make a major difference, says Mr Hoffmann.

The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit, and also sets out measures for effective co-operation between Customs and other authorities on trade facilitation and Customs compliance issues. "Countries will be obliged to put into place certain measures like co-ordination at the border, Single Window, publishing tariffs, pre-arrival processing, transit schemes, and so on," he says.

"For example, some Customs officers don't touch the paperwork until the ship and container actually arrives, and that can take three extra days or more. Under the TFA, they would be obliged to start the paperwork before the container arrives. This is already happening in Europe but it isn't working in many developing countries."

Yes, there have been steady improvements in many areas, in recent years – "But on the other hand, you have increasing demands in trade – for example, globalised production chains, more just-in-time deliveries – so it is necessary to make trade flows quicker."

Inter-Africa trade

Trade volumes between African countries are not great, says Rob Gardner, divisional executive, Marine Tech, at Sturrock Grindrod Maritime, based in South Africa. "We have quite a number of Regional Trade Agreements (RTAs) that have been in operation for a substantial period of time, but if you were to compare them to other global trade agreements I think it would be fair to say we have definitely underperformed," he says.

South Africa is probably the biggest trader as far as inter-Africa trade goes, says Mr Gardner. "I would think the SADC (Southern Africa Development Community) is probably the most successful of the RTAs. A considerable amount of this trade is, however, transit cargoes as opposed to commodities being imported or exported between South Africa and her neighbours."

Mozambique is a prime example, he says. "The Maputo Corridor was designed to allow rapid movement of goods from Gauteng to the Port of Maputo and from there to Far East ports. Similarly, with goods being imported into Maputo, they are mainly transit goods for South Africa. Originally the Customs requirements at the border led to massive congestion and delays. The Maputo Corridor Development Company (established by the shippers) has done a tremendous amount of work to streamline the process and it now works very well.

"Namibia is another good example. The country needs trade to pass through Walvis Bay and they advertise the port as five days closer to your market." They are targeting Europe and US trade, looking to take it away from Durban and Richards Bay. "They have allowed free ports to Botswana and to Zambia in an effort to encourage cargoes to go through Walvis Bay. Again the Customs regulations have been minimised."

However, Angola is an example of 'the complete opposite', he says, and it is hard to bring cargoes into Angola by either road or sea. "The main stumbling block is Customs and bureaucracy. Cargo that moves freely through today will suddenly not be permitted tomorrow. Currently we have a container that has been detained for a month. It has ship's supplies and off-the-shelf medication in it. It should be going directly on board the foreign-flagged ship, so it is not even being imported into Angola. Last time we brought it in, it was cleared in a week."

No returns

Another factor seriously hampering trade between African countries is the lack of return cargo, says Mr Gardner.

"Safamarine runs a breakbulk service on the West African coast calling at a couple of countries and then proceeding through to Europe. They will call at other ports on inducement, but because it is usually very small parcels it is expensive to do this.

"Mozambique has had a couple of cabotage lines operating on her coast, and again the problem is return cargoes. There is a fair amount that can come out of Maputo, but then your freight rate must take into account sailing back down from Northern Mozambique empty."

The result is that if you are looking to ship a container from Maputo to Pemba you would look very seriously at doing this via Singapore, because that is the most direct route for the container lines, he says. "None of them call Maputo and then go up the coast and call at all ports. There is also no north-south rail line and the road up is a hard drive, taking over 48 hours."

There are a couple of successful inter-country shipping lines, he says. Angola South has run a service from Cape Town up to Angola for a long time and it works well. Similarly, Indian Ocean Lines has served East Africa for a number of years.

"When I was a lot younger, Unicorn used to trade up to the Congo on the West Coast and to the Seychelles on the east coast. We took a lot of cargo there, but brought very little back south. The reason for this is that none of the countries are adding value to the raw materials they process in abundance. No African country is dependent on another for raw materials and most have trade agreements with first world countries that are more attractive than trading inter-Africa."

Lack of interest

Sturrock Grindrod was recently looking to move a piece of equipment out of Douala to Angola – the best way to do this was via Europe.

"Cape Town is quite often used as a hub for commodities to be moved to other African ports. For this to change, we would need African shipping lines to be serving our coast. The major shipping lines quite often will not even bother to respond when you are asking for rates from one African country to another. Or their routing system has them calling with one service to some countries, hubbing in Europe and then having a totally different alliance calling at the other African port.


Credit: Lock the Gate Alliance

Developing countries have secured their position as suppliers of raw materials

"So from the line's point of view it makes perfect sense. It just means there is a delay in moving goods from, say Lagos to Cameroon. The impact is felt by the manufacturer in Cameroon, whose end product is more expensive because of the delay incurred and the additional shipping charges."

Landside infrastructure is another massive issue. "Transportation costs in Africa run at over 20% of the cost of the goods," says Mr Gardner. "This makes us very uncompetitive. The rail lines built in colonial days have for the most part collapsed.

"The road network in southern Africa is not bad. South Africa has a fantastic road network and the road through to Maputo is also great. In Namibia, the roads are good. The biggest problem with all of these countries is the distances that need to be travelled. Mozambique is well over 2,000 kms from north to south and Namibia is also a fair distance of long straight roads that you can see in the mirror and in front of you extending from horizon to horizon.

"There was a proposal by the Schiller Institute that suggested an Africa Waterway from South to North – admittedly it is quite imaginative and will probably never happen, but it is an interesting idea. They also suggest a rail and a road system that covers the continent."

What's clear, he says, is that the continent needs to reduce the cost of transport if it is to become a serious competitor. ***SN***


Credit: Gothenburg Port

Customs officers in developing countries are struggling with container trade