

Trade Facilitation and Corridors as Means to Foster Economic Transformation in Ethiopia

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DTIS of Ethiopia and Djibouti: a set of Policy Recommendations on Corridors and Trade Facilitation

- In 2017 UNCTAD carried out the Diagnostic trade Integration studies (DTIS) of Ethiopia and Djibouti.
- Both DTIS identified that the functioning of the Addis-Djibouti corridor was of key importance to their economic transformation.
- Manufacturing in Ethiopia and logistical services hub in Djibouti were dependent on the Corridor
- The DTIS Action matrix recommended the establishment of a Djibouti-Ethiopia Corridor Management authority (DECMA)
- The challenges and opportunities of DECMA were illustrated in UNCTAD study
 - *“The Djibouti City – Addis Ababa Transit and Transport Corridor.*
<https://unctad.org/webflyer/djibouti-city-addis-ababa-transit-and-transport-corridor-turning-diagnostics-action>

A Rethinking of Trade Policy and Trade Facilitation

- DTIS found that Landlocked Ethiopia needs **a liberal trade policy and an efficient and reliable transport and logistics network** if it is to meet the targets of the country's Second Growth and Transformation Plan.
- Need to **turn away from traditional mercantilist view** of international trade: exports are good and imports are bad.
- Value chains shows that **use of foreign inputs are important for growth and development** of firms and the economy
 - 1) Intermediate materials are not available locally to manufacture finished products
 - 2) It may not be remunerative to invest in support industries
 - 3) Imported inputs are of higher quality due to embedded foreign technology in inputs



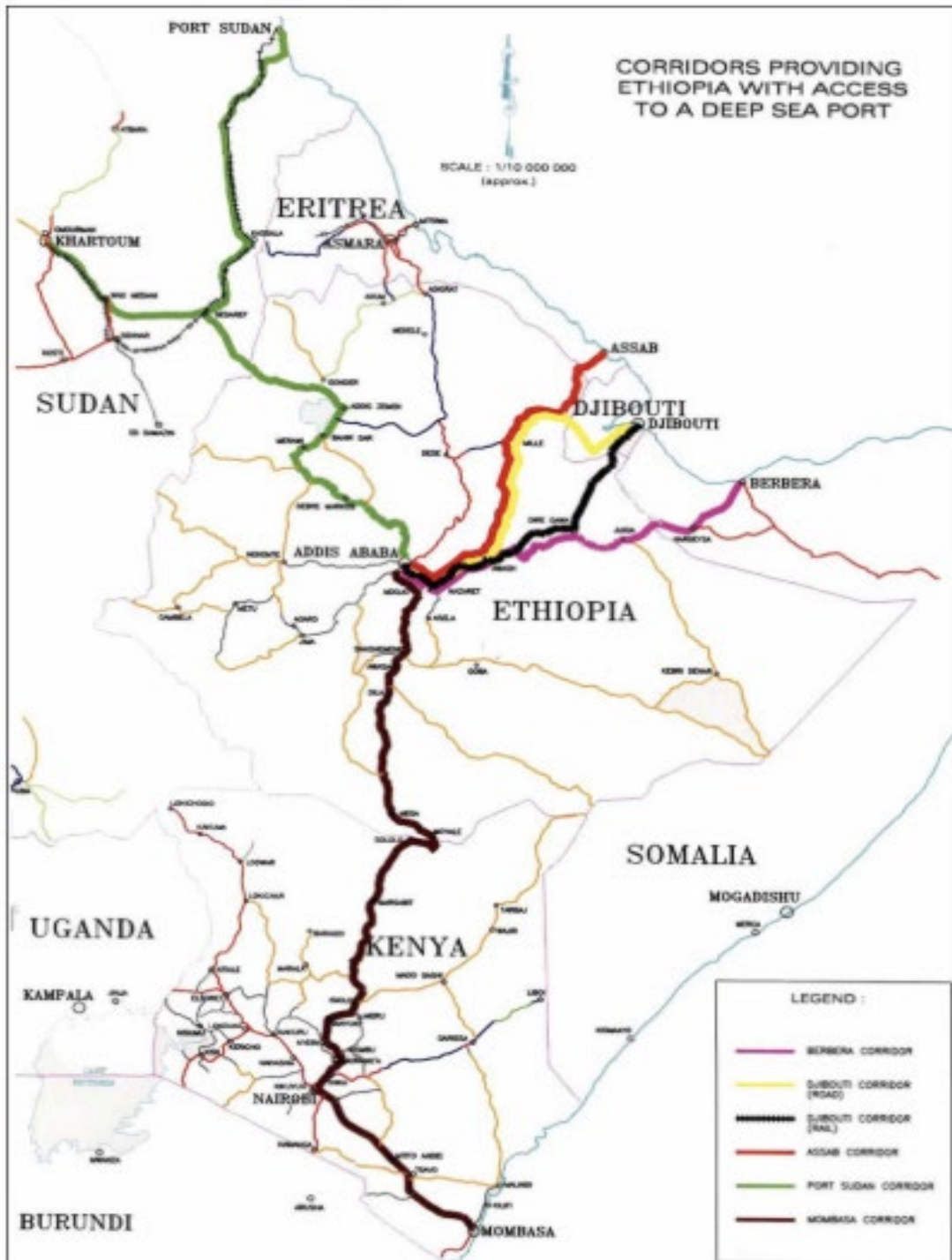
Efficient Corridors and Trade Facilitation as means to Foster Economic Transformation

- The DTIS argued that opportunities created by Ethiopia's low cost inputs (labor and energy) are cancelled out by factors relating to trade logistics.
- Labor costs of making a T-shirt in Ethiopia are one third those of China, but logistics expenses mean that the Ethiopian-made shirt sells for the same price as a Chinese shirt on international markets
- It was calculated that sea freight from China to Djibouti of a 20 foot container would be about US\$1,500
- The freight from Djibouti to Addis Ababa would be about US\$2,400
- The same on the reverse, when the finished products have to be exported
- These logistic costs pass onto final price of the products making them uncompetitive
- Cost of logistics are an impediment to industrial development

Post –DTIS Progress: The National Logistic Strategy

- To reduce the costs of trade the **National Logistics Strategy (NLS)** has been introduced
- Article 59 of the NLS aims at **establishing a transit corridor management authority (CMA)**
- In compliance with Article 59 of the NLS, a memorandum of understanding (MoU) Establishment of the **Ethiopia-Djibouti CMA** has been signed last **November 2021**
- The MoU comes after **many attempts over the last 20 years**
- The **Ethiopia-Djibouti CMA** is seen as a **building block for a Horn of Africa CMA** to avoid having a CMA for each corridor Ethiopia is using

Horn of Africa Corridors



Berbera Corridor – Berbera-Jijiga = 318km + Jijiga-Modjo = 549km

- **Advantages:** Port and road Infrastructure, economic growth of Ethiopia
- **Disadvantages:** Relative late comer; inadequate customs, transit, transport and logistics systems; no railway; inadequate border facilities; no Somaliland Government framing policy.

Djibouti Corridor (Djibouti – Modjo = 823km)

- **Advantages:** port infrastructure; economic growth of Ethiopia, SGR, efficient transit system
- **Disadvantages:** Capacity, costs, road infrastructure, inefficient use of SGR

Eritrea Corridors (Modjo – Massawa = 1,245km, Modjo – Assab = 811km)

- **Advantages:** Historical ports for Ethiopia
- **Disadvantages:** Political will, infrastructure, access (Massawa), systems

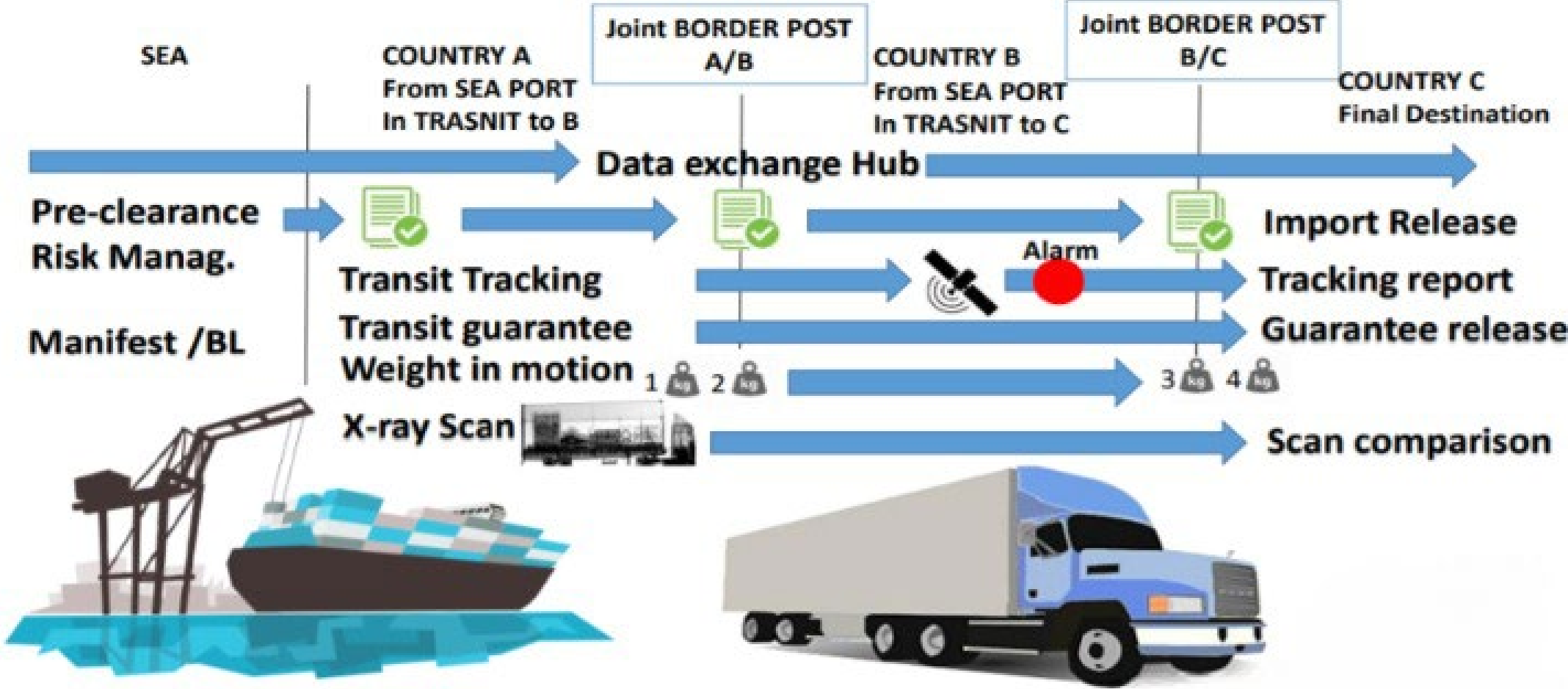
Port Sudan (Modjo – Port Sudan = 1,840km)

- **Advantages:** Proximity to Ethiopia northern region
- **Disadvantages:** Infrastructure, systems

LAPSSET and Mombasa Corridors (Mombasa - Modjo = 1,905km)

- **Advantages:** Good infrastructure (road and port), OSBP at Moyale
- **Disadvantages:** Distance, congestion at Mombasa

DECMA as a SMART Corridor



Monitoring Corridor Performance

Time to import (hours)
(1) Documentary compliance
(2) Border compliance



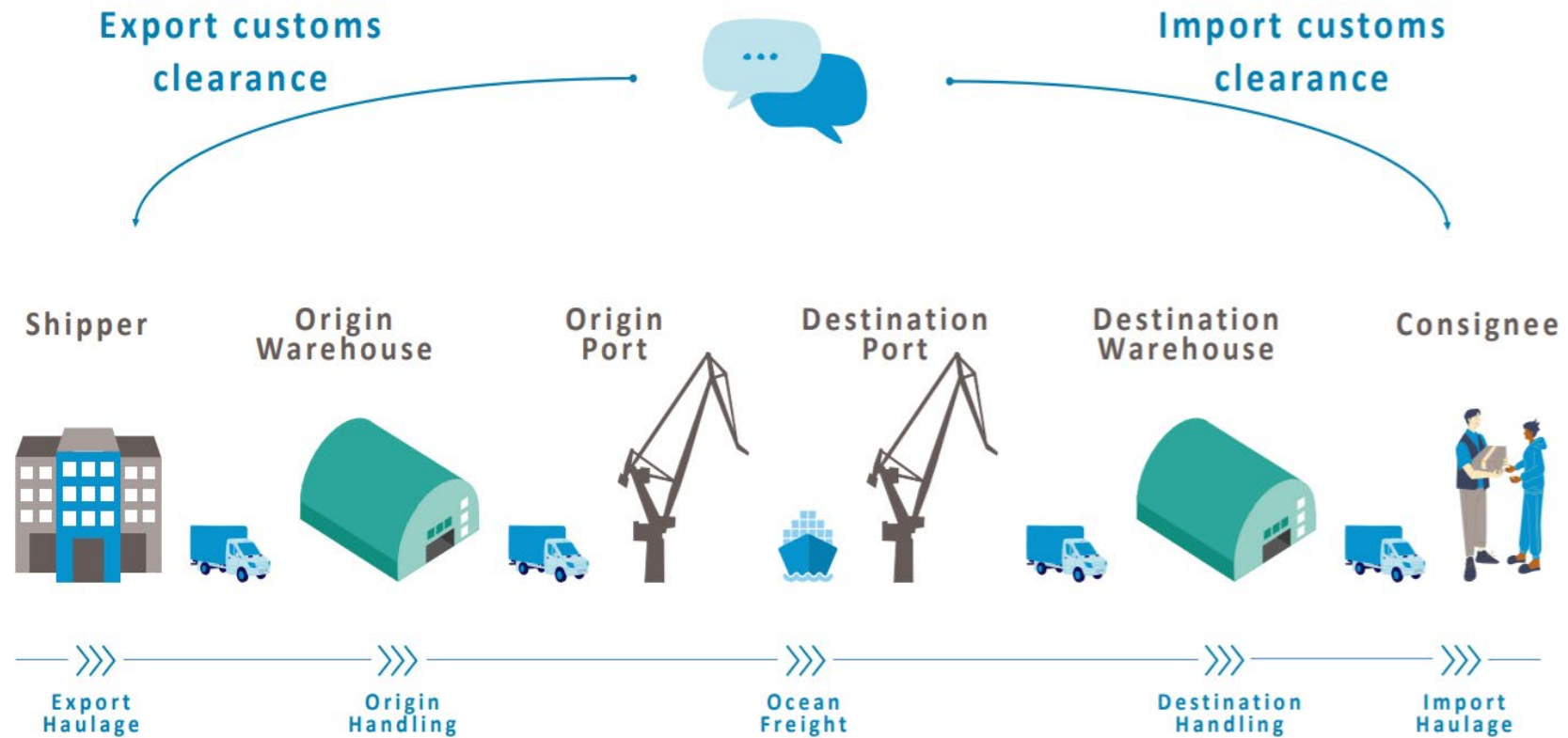
Time to export (hours)
(3) Documentary compliance
(4) Border compliance



Cost to export (USD)
(5) Documentary compliance
(6) Border compliance



Cost to import (USD)
(7) Documentary compliance
(8) Border compliance



Policy Actions to Improve Trade Facilitation and Logistics

- While the signing of the DECMA MOU is a step forward, **this is the beginning of the journey**
- There are **a number of trade policy actions that need to be undertaken** at bilateral level to make DECMA operational
- And **a number of multilateral or regional initiatives** that need to be undertaken with a proactive agenda in mind.
- Yet the second part of the NLS while being extremely ambitious does not quote any existing bilateral /regional/multilateral trade initiatives



Updating and Implementing Bilateral Agreements and Commitments

- Transit, Port, and Port-Related Services (April 2002)
- Customs Transit Protocol Agreement (November 2008)
- Implementation of the Multimodal Transport System
- Agreement on Cargo for Auction
- Preferential Investment Facilitation and Property Acquisition Agreement (2006)

Implementing Existing Multilateral Agreements and Commitments

- Trade Facilitation – Programme to Implement the WTO TFA
- This does mean that Ethiopia should unilaterally adopt the TFA
- WCO Revised Kyoto Convention-State of the art customs techniques
- AfCFTA Protocol on Trade in Goods – Annexes 3, 4 and 8 is all about customs and trade facilitation
- WCO SAFE Framework of Standards
- MBRCTA:COMESA-EAC-SADC MULTILATERAL CROSS-BORDER ROAD TRANSPORT AGREEMENT

The Way Forward

- The link between productive capacity and trade logistics is now well known and established
- Firms, either local or foreign are profit seekers, an industrial accounting will be made before any **consideration on how the logistics costs and time will impact on the competitiveness of finished product**
- The **road and strategy ahead is known**, it is sometime even overemphasized and repeated
- AFCTA, the WTO FTA and the MBRCTA are about the **same objective of reducing costs for international trade transactions**
- **Policy action is needed** and time is a factor in this game leveraging on the lessons learned rather than reinventing the wheel

Thank you!

