



Policy Brief

ES_No. 02/
January 2013

Export Supply Response Capacity: Case of the Republic of Congo

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Section 1: Context, justification and the problem

The share of Africa's foreign trade decreased by half in world trade in a space 30 years, from 1970 to 2000. This share moved from 4% to 2% (Lyakurwa, AERC, 2007).

Among the factors which contributed to the reduction of this share can be cited the reduction in foreign direct investments (FDIs), high transaction costs, non-development of human capital the service of the productive system and the absence of application of theory of niches about some traditional and non-traditional products considered strategic because they are linked to the geographical and economic environment of the African continent.

Since the first energy crisis (1973), the oil sector got the upper hand in Congo, reaching a maximum to 69% in the second half of the 1970s, rising drastically from 70% to 80% during the 1980s and 1990s and bordering 90% at the beginning of 2000 (Lezona, the United Nations, 2005).

Road and railway infrastructures, inland waterways, communication, production and distribution of electricity and water today constitute real bottlenecks for enterprises in general and those that export in particular. The institutional constraints in the allocation of procurement contracts, the difficulties of granting of credit to the economy and rigid trade policies do not contribute to the improvement of the business climate in Congo, and remain ineffective in the support of the export economy.

The Congolese economy as a whole remains dominated by the production and exportation of two traditional products, oil and barks. Oil accounts for nearly 65% of the GDP and 70% of exports and the sector of wood, with 8% of the GDP, has been experiencing a recession due to the international financial crisis since September 2008 (CNSEE, 2008). Other exported productions such as sugar, processed wood (plywood and veneers) and halieutical products, in particular shrimps, also constitute major assets within the framework of economic diversification as bases of export supply, but remain very far from the concerns of the economic and trade policies initiated by the public

decision makers on the one hand, and strategies adopted by the private actors (enterprises) on the other hand.

The problem is articulated around two essential questions, namely: What are the constraints to export production capacity? On the one hand and, what types of policies and strategies can be put in place in order to reduce these constraints and to promote exports?

The answer to these questions altogether constitutes an important contribution to the rigorous understanding of the factors which in general determine the absence of internal and external competitiveness of Congolese enterprises, in particular those which export. Without understanding this phenomenon, it is not possible to grasp the export constraints which exporting enterprises must face up to and to make recommendations of appropriate economic policies.

Section 2: Methodology

The methodology relating to the constraints to the export supply response capacity is based on three frameworks - macroeconomics, microeconomics and the value chain.

2.1. Macroeconomic analysis

At the macroeconomic level, we have drawn our inspiration from the gravity model. The gravity model of international trade was developed independently by Tinbergen (1962) and Pöyhönen (1963). This model is a representation of the forces of supply and demand as regards trade between countries. The size of the national revenues and costs of transport between countries on the one hand, and the distance separating countries having trade relations between them on the other hand constitute the bases of this model.

Other authors, in particular Carrere (2004), Musila (2005), Frankel et al (1995), Glick and Rose (2002), Longo and Sekkatt (2004), Wilson et al (2003a, 2003b, 2004) have contributed to the improvement of the gravity model by incorporating into it other variables such as income per capita, the quality of infrastructures, corruption, customs tariffs, the use of a common language and colonial ties.

This improvement has been used with a view to better understanding the effects of the impact of the variety of the policies put in place on trade between countries.

In the traditional design of the gravity model, the volume of bilateral trade between two countries, i and j , measured by exports (X_{ij}) can be explained by the size of the economies taken into account through the gross domestic product (GDP_j), by the populations of the two countries (Pop_{ij}) and the distance between countries i and j ($Dist_{ij}$), for example, the distance which separates the two economic capitals. A positive relation between (GDP_j) and trade is expected.

Other variables such as port and airport, irregular import/export payments, the costs of corruption on transactions, the contribution of services such as the Internet and

marketing in international trade are also taken into account in the gravity model which we will use. These last variables are regarded as indicators of trade facilitation between countries or between groups of countries.

2.2. Microeconomic analysis

The microeconomic analysis revolves around the non-oil sector considered as the engine of boosting of the diversification of the export supply base. It is a question of regressing the exports of the non-oil sector for a period of 30 years, on a certain number of variables considered as determining in the supply of exports of goods of the non-oil sector, in particular the volume of investments (GFCF), that of foreign direct investments (FDIs) in the non-oil sector, the terms of trade and political instability.

The economic literature suggests that the coefficients higher than zero mean for physical and human capital that there are positive effects on the economy in general, in particular on the volume of exports of the non-oil sector. In the same way, the positive coefficients of foreign direct investments and the terms of trade contribute to the rise in the level of incomes and the improvement of the volume of exports. On the other hand, political instability negatively affects the activities of the non-oil sector in general, exports in particular.

2.3. The value chain

The analysis of the constraints through the value chain constitutes an effective means of designing the forms which the functional integration into the production process and of marketing takes because it is no longer interested only in production but in all the activities which make up the chain.

It is possible to chart the value chain in order to visualise the various stages and the links which exist between the various links. These diagrams can be simple flow charts or complex diagrams which emphasise the various activities of the chain.

The value chain revolves around processed wood (sawn timber and plywood) and shrimps. Concerned here are enterprises which export and those which do not export. These enterprises have been located on the basis of the files of the Brazzaville and Pointe-Noire chambers of commerce, the files of the CNSEE, the Customs, ANNA and Taxes.

2.4 Data and their sources

The relative data for estimating the gravity model with a view to facilitating trade between the Republic of Congo and the rest of the world were collected at the National Centre of Statistics and Economic studies (CNSEE), the Department of Economics of the Ministry Planning and Regional Development, the Customs Department and the Directorate of Taxes of the Ministry of Finance, at the Bank of Central African States, the World Bank, UNDP, the European Union and on the Internet, in particular on the World Bank and the International Monetary Fund site.

Concerning the microeconomic analysis, one distinguishes two types of data relating to two categories of variables: explained variables and explanatory variables. The annual data which were used to estimate the parameters of the model come from various sources: International Financial Statistics of the IMF (Cd-Rom2004), the World Bank, World Development Indicators (CD-ROM 2004), and World Bank Africa (Cd-Rom2004).

The data relating to the construction of the value chain for processed wood and shrimps were collected from exporting enterprises in the forestry and halieutical sectors and in the competent authorities such as CNSEE, the customs service and the Brazzaville and Pointe-Noire chambers of commerce.

Section 3: Results and discussion

3.1 At the macroeconomic level

At the national level, some indicators of facilitation of trade between Congo and the rest of the world (importing countries) contribute to promoting trade. On the other hand, others oppose it.

Internet services, for example, are of poor quality. Their high costs of installation at the national level do not favour the promotion of trade between Congo and the rest of the world. In most cases, these services are operational for the large enterprises, in particular the multinationals in the oil, telecommunications, sugar and the bank sectors.

On the other hand, in SMEs and other enterprises, the results are of poor quality. In the same way, the quality of airport services in exports of goods remains poor. Colonial ties do not play in favour of trade relations between Congo and France. Many countries other than France have privileged ties with Congo in the areas of external trade flows. This is the case of the United States and Asian countries. Paradoxically, the language community plays a positive role in trade between French-speaking Congo and other African countries. Corruption, widely denounced, remains dominant in the administrations dealing with exports. This fact generates a significant loss of earnings for the public administrations in the collection process. It is also important to point out that irregular payments and marketing services do not play in favour of trade between Congo and the rest of the world.

3.2 At the microeconomic level

The gross fixed capital formation (GFCF) acts negatively on non-oil exports. This is justified by the fact that for this period the investments made in roads, electricity, the railway, inland waterways have been far from satisfying the expectations of the competitive non-oil sector. The Dutch syndrome at the root of this negative connection has contributed to the decline of the non-oil sector.

Foreign direct investments have positively contributed to the strengthening of non-oil exports in spite of their low level since the dominance of oil in Congolese exports. Four

sub-sectors have benefited from these investments; agriculture, breeding, fisheries, forest industry and food-processing industries.

The terms of trade for the above-mentioned period (1971-2005) were unfavourable to exports of goods of the non-oil sector, thus increasing their marginalisation in international trade.

Political instability acts negatively on the volume of non-oil exports. Two reasons can be advanced in this connection. From 1970 to 1991, the Leninist-Marxist regimes, within the framework of the centrally-planned economy, did not favour foreign direct investments in the forest industry, food-processing industries and agriculture and fisheries sectors. From 1992, the introduction of multi-party democracy generated politico-civil wars which slowed down the rhythm of realisation of the volume of FDIs in Congo.

3.3 The value chain in processed wood and shrimps

Marketing related to exports is best organised for shrimps (ensured storage, transport by sea for fifteen days, impeccable hygiene). The principal shrimp-importing countries belong to the European Union, in particular France, Spain and Germany. When all is said and done, the European Union remains Congo's single partner.

The marketing of plywood and veneers is also quite guaranteed abroad. The requirements for sustainable development with regard to Congo Brazzaville's dense tropical forests are satisfied because inputs come from the sustainable forests.

With regard to production, many constraints weigh on enterprises, in particular the very high cost prices of forest products; the high costs of lubricants and fuels; the poor performance of the transport chain (roads, railways and inland waterways).

According to the World Bank workshop, 23% of the enterprises operating in Congo consider electricity as the biggest barrier (the World Bank, 2009). Out of the 23%, 90% of enterprises experienced power outages in 2007 (the World Bank, 2009).

On average, 19% of the amount of business is lost because of power outages. These outages are biggest for the medium and large enterprises but especially for the enterprises of the manufacturing sector. On the whole of the enterprises (Brazzaville, and Pointe-Noire), 82% have a generator.

In Congo, 22% of the large enterprises regard corruption as the biggest barrier. At the level of SMEs, corruption is regarded as the biggest barrier by 11% of the enterprises of Brazzaville and 7% of the enterprises of Pointe-Noire (the World Bank, February 2009).

For the veneer and plywood, or shrimp exporting enterprises, corruption is the barrier to the good performance of the competitive system.

Lastly, marketing and the Internet still remain the poor relatives of the value chain in processed wood and shrimps. Accounting firms are numerous in Brazzaville and Pointe-Noire but no marketing firm is observable, neither in Brazzaville nor in Pointe-Noire. In the same way, one notes a total absence of interconnection between the customs

authorities, the tax authorities, the Ministry of Trade, commercial banks and enterprises by means of computer tools.

Section 4: Policy implications

At the end of this study on the barriers to the export supply capacity in Congo Brazzaville in particular include: the defective condition of roads, inland waterways and railways, insufficiency in the continuous production of public electricity; insufficiency in water production and supply; lack of respect of standards for ports and airports; poor supply of Internet and marketing services; absence of financial instruments capable of facilitating access to financing of enterprises; absence of a competitive framework of markets; absence of standards of equity in the allocation of government contracts; slowness in the improvement of the legal and judicial environment of business (doing business); degradation of the indicators for the dynamics of trade between countries; and the absence of establishment of an economic, trade and institutional reforms steering committee.

At the level of the value chain, the fundamental reason lies in the building of the capacity of the personnel, the renewal of production equipment, the use of information (power) and time (just-in-time production) as effective tools enabling the enterprises studied in the value chain to better fit into in-sourcing.

Lastly, the business framework of the Republic of Congo remains very defective. Out of 181 countries, Congo Brazzaville is ranked 178th according to the workshop on constraints to the development of the private sector organised by the World Bank in Brazzaville from 16 to 17 March 2009.

This rank sufficiently proves the importance contributing solutions to the constraints to the export production capacity for Congolese enterprises, in particular those which export.

To achieve these objectives, it is advisable to promote:

- Private professional organisations, shops distributing fisheries inputs;
- Credit institutions;
- Popularisation and use of improved techniques;
- The rehabilitation of basic infrastructures for better value addition of halieutical products both in the area of supply and of marketing;
- Setting up of storage facilities, promoting a voluntarist policy of processing of fisheries products in general and shrimps in particular;
- Optimisation of techniques of capture and conservation of fish and shrimps, supporting marketing, supporting and training traditional fishermen in order to reduce poverty through job creation;

- Development of the fisheries code and the maritime fishing law;
- Urgently assisting the fishermen affected by the socio-political and flooding events.

When all is said and done, the production, marketing and exportation of halieutical products (shrimps), veneers and plywood contribute to poverty reduction in the case of Congo.

The halieutical products sector contributes to sustainable development to a significant degree. Its contribution to the GDP is estimated at to 2.75% and the primary sector at 25.6%. The direct and indirect jobs in fisheries account for a considerable contribution to the national economy, that is to say: nearly 60,170 working people (Ministry of Fisheries and Aquiculture, 2006).

The shrimps sub-sector has 60,170 working people (Ministry of Fisheries and Aquiculture, 2006), offers a large number of jobs to women and plays a crucial role in economic and social development.

The impact produced on the welfare of households is considerable, in particular as regards children's health and education. This employment and consequently the incomes generated by this sub-sector leads to multiplier effects in the other sectors of the economy, thus making fisheries an important engine of economic development.

Poverty reduction in the communities is a very big challenge. It is naturally based on many assets (social cohesion, aptitudes and technical skills, effectiveness of consistent strategies, satisfactory will to learn, evident mutual aid (tontine) of the communities and a favourable institutional and legal environment (law on fisheries, neighbourhood fisheries administrations, etc.).

In the veneers sector, by increasing the rate of on-the-spot processing of wood in the Republic of Congo from 35% to 70%, nearly 30,000 formal jobs are envisaged and more than 50,000 informal jobs.

The incomes generated by these jobs will contribute to the satisfaction the basic needs of households, in particular food, health, education, transport, clothing, culture and leisure.