

BRIDGES NETWORK

BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 1, ISSUE 1 - MAY 2012



New horizons on African trade

EXCLUSIVE INTERVIEW

"Future of African trade" by K. Y. Amoako

DOHA ROUND

What is in it for African countries?

AFRICAN EXPORT

Africa's low export survival: a fatality?



International Centre for Trade
and Sustainable Development

BRIDGES AFRICA

VOLUME 1, ISSUE 1 - MAY 2012

BRIDGES AFRICA

Trade and Sustainable Development News
and Analysis on Africa

PUBLISHED BY

ICTSD

**International Centre for Trade and
Sustainable Development**

Geneva, Switzerland

www.ictsd.org

PUBLISHER

Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF

Andrew Crosby

MANAGING EDITOR

Kiranne Guddoy

ADDITIONAL SUPPORT

Simon Pelletier, Kyle Packer and Karen Saez

DESIGN

Flarvet

EDITORIAL ADVISORY BOARD

Bridges Africa will fill in its Editorial Advisory Board in the coming months, if you are interested in making a nomination feel free to contact us for further details at bridgesafrica@ictsd.ch

BRIDGES AFRICA welcomes all feedback and is happy to consider submissions for publication. Guidelines are available upon request. Please write to bridgesafrica@ictsd.ch

EXCLUSIVE INTERVIEW

- 4 **"Future of African trade" by K. Y. Amoako**

DOHA ROUND

- 7 **Africa and the WTO after Doha**
Vinaye Ancharaz

MULTILATERAL TRADE

- 10 **The moment of truth for the WTO: Determining the direction of multilateral trade**
Cheikh Tidiane Dieye

TRADE POLICIES

- 12 **Reinforcing the consistency of commercial policies in West Africa**
Jean-Pierre Rolland, Arlène Alpha

PTAS

- 14 **Africa's preferential trade agreement and the WTO: Yin and Yang**
Peter Draper

AFRICA'S EXPORTS

- 17 **Together we stand: Leveraging synergies between African exporters**
Olivier Cadot, Leonardo Iacovone, Denisse Pierola, Ferdinand Rauch

LDCS VS NON-LDCS

- 19 **A European trade paradigm for African trade**
Paul Collier

INTRA-AFRICAN TRADE

- 21 **De-Fragmenting Africa: Delivering benefits from regional trade integration to ordinary traders**
Paul Brenton, Gözde Isik

- 23 **Regional update**

- 25 **Global news**

- 27 **Publications and resources**

Editorial



Welcome to Bridges Africa!

Bridges Africa team welcomes you to its new pan-Africa focussed periodical.

Bridges Africa delivers a unique, non-partisan monthly review of the main issues surrounding Africa's international trade and sustainable development. Our news and opinion pieces provide analysis at the forefront of the trade policy challenges facing Africa from a sustainable development perspective. We particularly focus on the impacts on Africa of changing policy within World Trade Organization and among bilateral and regional partners. Targeted issues include regional integration, trade facilitation, intra-African trade, agriculture, intellectual property, gender, and food security.

Bridges Africa is devoted to keeping subscribers abreast of key developments, particularly during the rapid change expected in the coming years. As the Economic Partnership Agreements have stalled, countries have striven to achieve WTO-compatible reciprocal trade deals. Meanwhile, the ongoing WTO Doha Round trade negotiations, believed by many to hold key benefits for African countries, remain deadlocked. At the same time, African nations increasingly develop regional integration arrangements, which evoke their own challenges. Also emerging economies like China, India, and Brazil increasingly engage Africa, altering the African development landscape and pushing Europe to review its approach to the continent.

Consequently, Bridges Africa will provide readers with unbiased information aimed at helping African policy makers to make informed decisions vis-à-vis regional and multilateral trade. The combination of Bridges Africa and Passerelles, which ICTSD has been producing for more than a decade in collaboration with ENDA Tiers Monde, in Senegal, will merge critical analysis from both Francophone and Anglophone Africa, providing unique insight into the continent's trade and sustainability issues.

This new publication is accompanied by a [new webpage](http://ictsd.org/news/bridges-africa/) with a frequently updated News Stream. You can receive Bridges Africa and the bi-weekly updates by registering at <http://ictsd.org/news/bridges-africa/>

As a final note, Bridges Africa is now accepting nominations to join our editorial advisory board. For more information or if you would like to submit an article for review, please contact the managing editor Kiranne Guddoy at kguddoy@ictsd.ch.

We welcome your interest and participation in our new endeavour. Please enjoy our inaugural issue!

The Bridges Africa team

EXCLUSIVE INTERVIEW

"Future of African trade" by K. Y. Amoako**K.Y. Amoako**

President and founder of the African Center for Economic Transformation (ACET), a policy research and advisory institution based in Ghana focused on working with African governments to deliver long-term economic growth. He is also a board member of ICTSD. Previously he served as Under Secretary General of the UN and Executive Secretary of the Economic Commission for Africa (ECA) from 1995-2005.

African Center for Economic Transformation (ACET) is an organisation focused on the promotion of long-term growth and economic transformation of African countries. Can trade contribute to structural economic transformation in Africa and what are the main challenges ahead?

At ACET, we see export diversification as one of the main drivers of transformation. But, as you know, exports from African countries continue to be dominated by raw materials - more than 90 percent in some countries making African countries highly vulnerable to shocks.

Trade can contribute to structural transformation to the extent that it facilitates the push by African countries to diversify and upgrade the value of their exports, thereby making their economies more resilient, creating jobs, and reducing poverty.

But the constraints are enormous. Internally: inadequate infrastructure, high financing and regulatory costs, low skills and low technology are top of my list. Externally, the biggest constraint is the trade regime.

The WTO and trade partners can help secure Africa on the path to transformation through trade by increasing market access, removing export subsidies and trade distorting subsidies, extending non-reciprocal market access, particularly to LDCs, and continuing to provide capacity support for trade.

What can African countries do to get out of the Doha impasse?

We went into Doha with a lot of hope because it promised to be a springboard for transformation through trade. It was supposed to provide the framework that would open up markets to African goods and help build the internal capacity to produce those goods – and that would have addressed the main challenges to trade.

But the reality is that Doha is at a standstill and the moral impetus for living up to its developmental agenda is not entirely within our control.

Still, it is important for us to continue fighting for better market access and policy space, as I have previously mentioned. We should maximise our use of the preferential provisions that exist. Then, when we go back to the negotiation table, we can make the case that having extra policy space works: it's transforming economies, it's providing jobs, and it's lifting people out of poverty.

Second, we can continue expanding and strengthening regional economic communities and promoting intra-African trade.

EPAs have been taking place for several years and recently the EU renewed pressure on African countries to conclude their EPAs by withdrawing the Market Access regulation as of 1 January 2014 for countries that have not ratified their EPAs. What should be African countries' position toward EPA noting that internal trade is still low but growing quickly?

In my view, rather than putting pressure on African countries to ratify it, the EU should work with its African partners to address the outstanding issues. In this context, the former President of Tanzania, Benjamin Mkapa, in a recent keynote address at the East African Legislative Assembly, posed a number of key issues that come to the heart of the matter in discussing the EPAs and their impact on Africa. He asks: Do they help African

countries increase domestic production capacities? Do they encourage diversification and industrialization? Do they increase food security? Do they provide quality employment? Will they support our move from being largely raw natural resource exporters, towards being producers of more sophisticated products?

It is very clear that the answer to almost all of these questions is no. A particularly vexing issue is the potentially negative impact the EPAs will have on the regional integration agenda of Africa, including the adverse effects on intra-Africa trade which has grown at five times the rate of trade with the EU market in the last 30 years. And more importantly, while the EU is Africa's largest market for primary products, Africa is the biggest market for Africa's manufactured exports.

Africa already has numerous regional and sub-regional institutions, with limited results. What needs to change to make regional integration more of a reality? Do you think that the setting up of a Continental Free Trade Area by 2017 as envisaged by the African Union is realistic?

First, we need to rationalize the multiplicity of regional integration arrangements. Countries tend to belong to several regional economic communities with often competing and conflicting procedures and trade policies. One result is that businesses struggle to abide by all the rules and procedures, thereby raising the cost of doing business.

Second, we can strengthen the soft infrastructure of trade by building capability, streamlining regulation and seriously tackling corruption that impede cross-border trade while finding innovative ways of financing and maintaining the hard infrastructure - the transportation, energy supply, etc.

Third, political will to implement agreed actions is critical. In the past the tendency has been signing protocols but never implementing them. This must change. On the positive side, the recent trends in the East African Economic Community towards deeper integration augur well for the future.

About the setting up of a Continental Free Trade Area by 2017: it is good to set ambitious targets allowing us to monitor our progress and galvanizing us to action.

China's role in Africa is the subject of intense debate on the continent. Some analysts say because of China's role on the continent, Africa might become more commodities dependant and be at risk of deindustrialization, but this at the same time may represent a good alternative to continental European aid. How should African governments engage with China to suit their own strategic interests? Do you think that the export led growth model of East Asian countries could be replicated in Africa?

At ACET, our advice to African governments is that, since China, in its engagements with Africa, has a strategic view of what it wants, African governments both individually and collectively should also design their strategies for engaging with China in ways that will allow for speedy economic transformation.

Engagements with China are particularly attractive to African governments because they often yield quick results (roads, dams, buildings) and are flexible enough in their structure to allow African countries to pay in ways that are suitable for them (concessional loans or payment in raw materials being a key example). But they come with some costs including poor labour standards, lack of transparency in negotiating and implementing deals, the tying of loans to Chinese firms which crowds out African firms in key sectors, and environmental costs.

African governments can use the differences between China and the West to ensure that we get the best deal possible in the areas we choose for our long-term development. That's the beauty of competition, isn't it?

On the other hand, we should also acknowledge that whereas very few African countries have the capacity to engage directly with China (South Africa being a prime example), most countries need to think in regional terms as a means of increasing their bargaining power and increasing the benefit from Chinese engagement. As such, regional economic communities (RECs) and organisations such as the AU have a role to play in ensuring the strategic interests of African countries are not brushed aside when dealing with China.

On the question of the applicability of the East Asian export-led model to Africa, though the world has changed since the 1960s, export promotion is still a potential driver of economic transformation in Africa. The harder part is the how? That's what keeps us up at night at ACET, sometime literally.

ACET's vision is that by 2025 all African countries will drive their own growth, with transformation agendas being led by the private sector and supported by private sector and supported by states with strong institutions. What do you think governments should do in Africa in order for the private sector to be able to drive such process?

Some of the main responsibilities of the state are well documented and uncontroversial: for example guaranteeing property rights and enforcing contracts; maintaining macroeconomic stability; maintaining a business-friendly environment; protecting territorial integrity; and delivering services.

But beyond these, we have found that it is crucial for the state to establish a working relationship so business realities inform government policies.

Is liberalized trade a solution to food insecurity in Africa? What could be the role of agriculture in the economic transformation in Africa?

Liberalized trade is but one piece of a comprehensive solution to food insecurity. Trade can help by making food cheaper and the supply more stable for consumers, especially as most African countries are net food importers. But it can also reduce agricultural employment and shift African countries' incentives away from self-sufficiency. So the first step to food security is to modernize agriculture in order to raise production capacity, ease distribution and prevent wastage. Agriculture can also boost transformation by becoming a stepping stone for agricultural marketing, agro- processing, other forms of manufacturing, and services.

What will determine the future of African trade in the next decade? What are Africa's various possible growth paths?

As I said at the beginning, we can't talk about transformation without talking about exports. African trade will depend on three pillars: implementing policies to dismantle the supply-side constraints; taking the next step in intra-African trade by removing non-tariff barriers; and the direction of global trade regimes such as the WTO, EPAs and AGOA.

Exports continue hold growth potential for Africa. Agro-processing and labor-intensive, low wage assembly could be the next steps in adding value to our exports and expanding our manufacturing base.

Services such as tourism and Business Process Outsourcing also offer high-potential paths.

DOHA ROUND

Africa and the WTO after Doha

Vinaye Ancharaz

This article examines the implications of a failed Doha Round for African economies and argues that it is time to move beyond Doha and start thinking of a new round, learning from the failures of the current one.

Other than welcoming Russia, Montenegro, Samoa and Vanuatu to the club and besides a few inconsequential decisions, the 8th WTO Ministerial Conference in Geneva last December ended in the same despair that has now become characteristic of the Doha Round.

A key message is that African countries should judiciously use the current impasse to intensify efforts to integrate into the global economy through unilateral trade liberalization, while tackling policy and structural constraints to regional integration and intra-Africa trade. Aid for Trade has delivered results on the continent; it should be enhanced and scaled up to continue to benefit African LDCs and landlocked countries.

What's in it for Africa?

If the Doha Round is development-focused, Africa, with 31 of its 54 countries classified as LDCs, must be a critical player in the negotiations given that a majority of African countries suffer from a serious development deficit. After all, the very point of featuring development so prominently in a trade round was to pay special attention to countries with a serious development deficit, the majority of which are African.

Yet, there is no evidence that Africa would gain from a successful conclusion of the Doha Round. While estimates of Doha Round gains and losses differ in magnitude, they tend to converge on one point: sub-Saharan Africa (excluding South Africa) invariably loses in most Doha Round scenarios. These welfare losses range from USD 197 billion in the Carnegie model to USD 400 billion in the World Bank model. Gains for sub-Saharan Africa are positive only in the IFPRI model, which simulates the welfare impacts of alternative DFQF market access scenarios. Even so, the gains occur only under 100 percent DFQF – a very unlikely scenario. Only South Africa shows robust gains under most Doha Round scenarios across a number of empirical studies.

Sector-wise, exports of agricultural products, such as sugar, cotton, tea, coffee, and cocoa, are likely to increase following agricultural trade liberalization under the Doha Round. Conversely, the manufacturing sector – including textiles and clothing, leather, footwear and metal products – will be hit hard by proposed industrial tariff cuts. Thus, a successful Doha Round will exacerbate the already high export concentration in primary products by undermining sub-Saharan Africa's timid efforts at industrial diversification while further boosting agricultural exports.

These results are not surprising since Africa is a heterogeneous bloc of countries – as demonstrated by the diverse coalitions representing African countries at WTO negotiations. In agriculture, for example, Africa's main point of contention is the trade-distorting subsidies that the US government provides to local cotton producers. The effect of these subsidies is both to squeeze out African cotton exporters from the US market as well as to depress the world price of cotton. Africa would benefit from a reduction in cotton subsidies, as promised by the US government, but the gains will be limited to the four main producers of cotton, namely Benin, Burkina Faso, Chad, and Mali. However, if this comes as part of a package of agricultural trade reforms by developed countries, Africa as a whole might lose as lower subsidies will raise the prices of agricultural imports and adversely impact Africa's numerous net-food-importing countries, including the cotton exporters.

Industrial tariff cuts under current NAMA proposals will effectively amount to an erosion of the existing margin of preference for African countries under various schemes, including the EU's Everything But Arms Agreement, the EU-ACP economic partnership agreements and AGOA. Without such preferences, most African countries will not be competitive exporters of manufactured products.

Service liberalization is difficult to quantify and it is hard to know what is on the table since negotiations in this area are governed by a process of requests and offers, and shrouded in a veil of opacity. African countries will clearly gain from Mode 4 (movement of natural persons) liberalization. They might also benefit from opening up their own service sectors, especially banking, telecommunications, and retail trade, and from encouraging commercial presence of foreign firms in sectors in critical need of upgrading through technology transfers, such as specialized health and higher education. However, governments worldwide are reluctant to liberalize these services, and African governments are no exception.

While multilateral trade liberalization in both agriculture and manufacturing might generate increased demand for imports, it is unlikely that African countries will benefit from trade creation due to their poor supply response capacity. However, it is doubtful that tariff cuts in these sectors will translate into actual liberalization since the cuts apply to bound tariffs, which are generally well above applied tariffs. In the case of DFQF access, the proposal as it stands – that is, zero tariffs on 97 percent of industrial country tariff lines – is unlikely to make much of an impact since a number of products will likely fall under the 3 percent of tariff lines exempted from the proposed tariff cuts.

The way forward

Africa should use the breathing space afforded by the status quo to act on the following outstanding issues:

Liberalize trade - unilaterally

Tariffs in Africa remain high – the second highest, as a region, after South Asia – and peak tariffs in sensitive sectors prevail. For example, the simple mean tariff for primary products and manufactures amounted to 12.1 percent and 10.9 percent, respectively, in 2009-2010. Such high rates of protection tend to stifle export growth and diversification away from traditional sectors and account in large part for Africa's marginalisation in world trade.

Forge regionalism with a view to continental integration

Fifteen African countries, representing about one-third of Africa's population, are landlocked; population densities are low and domestic markets small; and most African countries are far from the major markets of Europe and USA. The recent financial crisis has demonstrated yet another benefit of regional integration: the most integrated economies of Africa (Uganda, for example) were left unscathed by the crisis. This suggests that regional integration can strengthen economic resilience to external shocks, which is critical to sustaining national development efforts.

Nevertheless, intra-Africa trade has remained below 10 percent of total African trade, pointing to the huge untapped potential of regional markets. Despite the declared political will and a plethora of initiatives to forge regional cooperation – including the proposed tripartite EAC-COMESA-SADC FTA and the recent AU decision to fast-track establishment of a continental FTA – progress has been generally slow and plagued by a number of structural and institutional constraints. It is therefore crucial that African policymakers and pan-African institutions move beyond rhetoric in order to harness regional integration as a vehicle for growth and development in the future.

Negotiate bilaterally for more flexible rules of origin

Strict rules of origin have often been blamed for impeding the development of industry in Africa and for pushing much of the continent into the raw materials corner. Although tariff escalation may have a similar effect, it has mattered less for African countries' exports, the bulk of which is geared toward the European market, where they have

typically benefited from duty-free access. In the case of clothing for example, the Lomé Convention and subsequently the Cotonou Agreement, required apparel to undergo a double transformation, that is, assembly plus at least one pre-assembly, inherently capital-intensive, operation, such as spinning or weaving/knitting. Conversely, apparel exports to the US under AGOA are subject to a simple value addition rule. This has encouraged the development of a clothing industry based on unskilled labor in countries like Lesotho and Madagascar.

However, clothing exports to the EU under the EPAs will only need to satisfy a 'single transformation' rule, which would likely make it easier for African countries to export to the EU market. The EPAs also propose softer rules of origin for fish products, among others. Such flexibility is a good reason for Africa to move faster with the ratification of EPA agreements. Another potential avenue for reform relates to reluctant non-tariff barriers, such as technical barriers to trade, SPS standards, and potentially labor- and environment-related measures, which are emerging as a formidable constraint to Africa's exports of processed products.

Press for more Aid for Trade resources

A growing body of evidence, mostly anecdotal, suggests that Aid for Trade (AfT) has proved effective in building productive capacity and trade-related infrastructure in African LDCs. The North-South Corridor, which links the port cities of Dar Es Salaam and Durban across eight countries, is often cited as the perfect example of the achievement of Aid for Trade, spurring intra-regional trade and facilitating exports. But there are other – albeit less documented – successful experiences across Africa.^① If AfT was doled out as compensation for a stalled Doha Round, then African countries should welcome AfT!

Scaled-up financial resources for technical assistance and for protecting governments' revenue bases as tariffs fall are critical to the trade liberalization agenda in Africa. AfT has also supported regional integration efforts in Africa both by financing trade facilitation projects and by helping build the institutional capacity for negotiating trade agreements. Going forward, the AfT initiative should play a more important role in helping African countries address non-tariff barriers.

Conclusion

A failed Doha Round has a silver lining for Africa – success in the trade talks would have translated into an erosion of preferences and net welfare losses for the continent as a whole. However, while Africa might take comfort in the status quo, this is no time for complacency. The continent should use the lifeline afforded by the stalled round to make greater efforts to integrate into the global economy, both through unilateral trade liberalization and regional integration. African countries should also move faster to ratify EPAs and to negotiate more flexible rules of origin and scaled up Aid for Trade resources to address the numerous supply-side constraints they face.

① See, for example, the African case stories compiled by the WTO.



Vinaye Dey Ancharaz

International trade expert, is a senior lecturer on leave from the University of Mauritius.

The views and opinions expressed in this article are the author's own and should in no way be associated with the African Development Bank, its Board or its Regional Member Countries.

MULTILATERAL TRADE

The moment of truth for the WTO: Determining the direction of multilateral trade

Cheikh Tidiane Dieye

The Doha Development Programme is still at a standstill after ten years of negotiations. This was the conclusion drawn by the participants of the 8th WTO Ministerial Conference in Geneva. However, this did not come as a surprise, since the conclusion of the conference was, if not desired, at least expected and planned.

Few observers were expecting decisive results from the latest WTO Ministerial Conference. And specialists of important international conferences know that, when you are not expecting anything from a meeting, you should not show any signs of disappointment. Indeed, the situation was clear before the conference. Pascal Lamy's will to "convert the prevailing negative mood" generally found among WTO members into a positive solution, "a signal on forward movement", was not favourably echoed by them, despite the good intentions expressed here and there. Only small steps forward were made on specific topics, instead of the giant leap forward needed to get out of this impasse.

However, despite convergence between member states to take negotiations forward in the fields where progress could be made, this was not the case for certain important questions, especially concerning developing countries and the LDCs. Although many members had mentioned the possibility of agreeing on a package for the LDCs, no action was taken, despite the efforts of the Director-General who had showed his determination as early as the meeting of the Trade Negotiations Committee in July 2011.

Only small steps forward were made on specific topics, instead of the giant leap forward needed to get out of this impasse.

This downward revision of the Round's objectives was driven by two complementary needs. On the one hand, confronted with the reality of the interests that have been wrestling for years, exacerbated by the global crises and the upheavals in international economic geography and especially the increasing power of emerging countries, the members of the WTO had to face the facts: the Doha Development Program will not lead to a global agreement. On the other hand, the possibility to enter into agreements at an early stage gave the members concrete ways to move forward on specific issues.

In the end, the results of the 8th Ministerial Conference can be summed up as such: approval of the Russian Federation, Montenegro and Samoa's accession packages; some decisions in favour of the LDCs; the extension of the moratorium on taxes on electronic emissions; and a plurilateral agreement on government procurement.

Limited progress for the LDCs

The LDCs did reap some benefits, even though this is far from taking into account all of the concerns they have legitimately expressed. The LDCs will now benefit from an additional transition period for the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); they will enjoy preferential treatment for the trade in services; and will be able count on relaxed requirements for WTO accession. This step was necessary, in the absence of anything further or better, for the credibility of the WTO and of the Doha Round.

Towards new negotiating approaches?

There is no doubt that the members of the WTO are no longer equally convinced that a multilateral consensus is the right approach to lead to the signing of agreements. The lack of tangible results after ten years of negotiations is not merely the result of the inherent complexity of the issues at hand, but is also caused by the clash of ambitions and political and economic interests between the developed countries and the emerging countries that are now openly in competition in this context of global crisis.

The developed countries, led by the U.S., have expressed their will to move forward by rejecting the negotiations process based on step-by-step progress, which was the case for the past ten years, in favour of an approach that calls for more reciprocity on the part of the emerging countries. The strategy of the developed countries could consist in forcing emerging countries to face a quandary: they can either accept the choice of entering plurilateral negotiations to bypass the impasse of multilateral negotiations or they can face the proliferation of more ambitious preferential deals, such as the "plurilateral services / GATS 2.0" project, which is seen as a closed plurilateral process.^① The "plurilateral services / GATS 2.0" concept was presented by the American Coalition of Service Industries after the Global Services Summit in July 2011. It is based on the GATS but takes a step further by using the experience gained from the bilateral free-trade agreements that govern the trade in services. Its goal is to reach a higher level of liberalisation for the fundamental rules concerning market access and national treatment. It also includes new rules and obligations.^②

But the emerging countries have considerable advantages that seem to provide them with the means to withstand the pressure from their developed partners. They are not hindered by the current impasse of the Doha Round since both the content and the form of the negotiations as well as the special treatment gained from their status as developing countries encourage them to prefer the status quo. This is why they will be opposed to any attempt at changing the dynamics of the negotiations that have been in place since 2001.

What does the future hold for the WTO?

The WTO can no longer avoid substantial reform of its mandate, direction, mode of operation and perhaps even its ideology. The international economic, political and social realities that it is in charge of regulating are complex, evasive and ever-changing. The statuses of the member states have also undergone radical changes, which has significantly impacted the balance of global economic power. All this was compounded by a series of crises, the causes of which are connected, rightly or wrongly, to the way international markets are regulated or deregulated in a manner largely inspired by the policies advocated by the WTO.

The organisation is clearly at a crossroads. Its future will depend on how easily it can adapt to playing the role of arbiter and maintain a just balance between members with diverging, sometimes contradictory interests. The WTO will therefore need to make just laws and regulations that are flexible enough and adapted to the economic and social conditions of its poorest members. Those who used trade to climb up the ladder to become developed countries used a wide range of economic policies. It is unfair to refuse others the use of these policies on the grounds that the world has changed. The rules of the WTO should not be a one-size-fits-all straitjacket imposed on every country. It is important to recognise the role of the WTO in achieving development for the countries that want it, as it was for developed countries at a certain point in their history.



Cheikh Tidiane Dieye

Has a doctorate in Development Studies and is Program Coordinator at Enda Tiers Monde. The views expressed here are those of the author. He is also editor of *Passerelles*, the sister publication of *Bridges Africa*, <http://ictsd.org/news/passerelles/>

① The Permanent Delegation of France to the WTO: Brèves de l'OMC", 2012. <http://bit.ly/Hvi0Xl>

② "After Doha: Next generation services negotiations current arguments for a service-only approach", theCityUK, <http://bit.ly/HBgMfo>

TRADE POLICIES

Reinforcing the consistency of commercial policies in West Africa

Jean-Pierre Rolland, Arlène Alpha

The inconsistencies of trade policy in West Africa occur on two levels: the community level, between public and trade policies in the region, and the international level. Improving the coherence of trade policy is essential both for the region's economic development and its growing role in global trade.

Consistency in commercial policy is a major challenge for West Africa, where countries are experiencing trade liberalisation, and ongoing bilateral, regional and multilateral trade negotiations. This article analyses the reasons behind such inconsistency, and suggests ways of tackling it.

Vertical consistency: Respecting the rules of the community

On the one hand, the West African Economic and Monetary Union (WAEMU) upholds regional trade through a common market, as well as a customs union with a common external tariff (CET) and harmonised trade rules. On the other hand, the Economic Community of West African States (ECOWAS) is close to concluding its own customs union. Compared to that of WAEMU, the CET of the ECOWAS will introduce a fifth tariff band at 35 percent.

National trade policy arises from the strict application of the common trade rules. However, public and private actors do not always abide by community legislation, and the inconsistencies pose real barriers. For example, this lack of compliance is linked with the restoration of customs duties within the common market, as well as the arbitrary use of certain standards and taxes.

The inconsistencies between trade and sectoral policies

'Horizontal' inconsistencies characterise the clash between trade policy and public, sectoral policies (agriculture, industry, etc.).

Within the agricultural sector, national and regional policies tend to share the same goals: food safety, rural quality of life, and integration into global and regional markets. The industrial sector remains however underdeveloped and agribusiness-focused, the industrial policies of WAEMU and ECOWAS both aim to strengthen company competitiveness, expand export capacity and foster more regional integration. WAEMU's CET has been heavily criticised, particularly for its customs duties, which are thought too 'weak' to support local industry development. ECOWAS's proposed fifth band is an attempt to solve this inconsistency.

Other products like plastic, bicycles and batteries have faced severe competition from Asian countries since WAEMU's CET was implemented in 2000. Many within these sectors judge this to be unfair competition because of the low cost and quality of Asian products. In agriculture, WAEMU's CET level (20 percent at most) is also too low, and inconsistent with the agricultural policy objectives. According to producers, WAEMU's apparatus is insufficient to protect local industries from foreign, subsidised competition.

Non-compliance with international agreement obligations

Customs duties set by countries in the region should not exceed the levels of consolidated duties notified to the WTO. These consolidated duties, some of which are very low, correspond to unrevised concessions granted to France during colonial rule. In some cases, the implementation of WAEMU's CET was accompanied by a WTO-incompatible increase in tariffs. Adding a fifth band at 35 percent in ECOWAS's CET may well make things worse

Corrigendum

Cape Verde graduated in December 2007 and Nigeria is not classified as an LDC (it is a lower middle income economy).

for many countries. Senegal for example has already notified the WTO of 30 percent maximum duties.

Furthermore, Economic Partnership Agreement (EPA) negotiations with Europe create potential obstacles to regional integration. Thus, many tariff schemes vis-à-vis the EU have been in place since 2008: the least developed countries (LDCs) have not signed any EPAs and are subject to the EBA arrangement (Everything But Arms); Nigeria, a developing country considered as an LDC, has not signed any EPAs and is subject to the Generalised System of Preferences (GSP); Ghana and Côte d'Ivoire, also LDCs, have signed interim economic partnership agreements; whereas Cape Verde, also an LDC, has a three year transition period. This juxtaposition of tariff schemes contradicts both WAEMU's CET and ECOWAS's potential CET – it undermines the attempt to harmonise trade and creates tension between the different stakeholders.

Necessary harmonisation of processes between WAEMU and ECOWAS

The two parallel processes of regional integration contradict one another vis-à-vis the inconsistency of their VAT rates and excise duties, the lack of reference values defined by ECOWAS as well as the absence of both a complaint mechanism and agreed national positions on international trade within ECOWAS, which otherwise exist within WAEMU.

Many causes

National interests and desires of protecting sovereignty lead to inconsistency. For example, extrovert countries like Benin that had to "rearm" themselves when WAEMU's CET was implemented do not have the same interests as Nigeria or landlocked countries (Burkina Faso, Mali, Niger). The challenges of competitiveness and national interests also differ for countries in the Franc zone, for example, who share a common currency tied to the Euro.

Inconsistencies also arise from the dysfunction of states and regional organisations. This could include the lack of monitoring mechanisms for policy implementation, insufficient impact studies, the weakness of government trade departments, a high rate of staff turnover, the lack of consistency-building institutions, or the lack of political will.

The history of regional integration also evokes and explains certain inconsistencies. As the development of WAEMU's trade policy started in 1996, during a time of structural adjustment that promoted the opening of markets, it chose to align the CET with the most open nations. The absence of common sectoral policies at the time and the lack of coordination with the representatives of production also contributed to the CET's weakness. As common agricultural and industrial policies already exist *a priori*, it is easier for ECOWAS's CET to ensure that the instruments of trade policy support sectoral policies.

Finally, private actors also highlight the lack of information and importance placed on regulatory measures, their lack of familiarity with the complaint mechanisms, the "vulnerability" of many actors, and their low level of influence in the development of these policies.

Conclusion

As West Africa is trying to become a single regional entity and is engaged in many trade negotiations, it is necessary to improve the consistency of commercial policies, both by making public policies more efficient, and by supporting economic development and inclusion in global exchanges. Measures aiming to improve the way national and regional institutions work, to educate public and private stakeholders or to improve monitoring, evaluation and control mechanisms, must be reinforced. Coherence must be at the heart of the development of public policies, and especially trade policy. This requires not only more cooperation between both regional movements, but also more cooperation between these movements and the member states. In addition to this cooperation, constant coordination with the private sector, rural organisations and civil society remains necessary.

Note: Article based on: Analyse de la cohérence des politiques commerciales en Afrique de l'Ouest, AFD, Document de travail 114, May 2011. <http://bit.ly/IBpQyN>

Jean-Pierre Rolland

Economist specialised in commercial and agricultural issues, mainly in Africa and the Maghreb.

Arlène Alpha

Head of the Public Policies International Regulations team at the GRET and is specialised in agricultural trade negotiations and policies and regional integration.

PTAS

Africa's preferential trade agreement and the WTO: Yin and Yang

Peter Draper

The article focuses on the benefits of pursuing a "multilateralizing regionalism" approach that could allow the region to tap the potential arising from global value chain shifts in the medium run.

The existence of a healthy multilateral trade regime is crucial to resolving an array of future trade concerns. The reduction and elimination of subsidies for agriculture, fisheries, and fossil-fuel energy – often referred to as top sustainable development priorities – are among those at the apex of those in need of such a mechanism. Yet the success of the multilateral trade regime raises new challenges that require adapted rules. Some of these new rules may initially be provided by preferential trade agreements (PTAs). This dilemma underscores the "coherence debate" concerning how PTAs relate to the WTO, and particularly how the former can be made more compatible with the latter. The proposed PTA amongst three African regional economic communities (RECs), namely SADC, COMESA, and the EAC, provides one angle on the coherence debate.

A major obstacle to the establishment of an African Economic Community by 2025 is the continent's fragmentation into fourteen RECs. One of the Tripartite-PTA's (T-PTA) stated objectives is to ameliorate the problem of overlapping memberships amongst the three constituent RECs. If successful, the T-PTA would result in a PTA covering nearly half the continent in terms of nation states. That could be a significant achievement for the continent as well as a major contribution to the global challenge of building greater coherence between PTAs and the WTO.

Issues

The WTO's Annual Trade Report notes that the ground has shifted in many ways, notably the declining relevance of import tariffs as barriers to international commerce. Underlying this shift is the growth of global value chains, which require minimisation of transactions costs across borders. Consequently PTAs have increasingly shifted into regulatory "behind the border" measures spanning market access and harmonisation, or convergence. This means the impact of PTAs on non-parties, and by extension their relationships with WTO disciplines, are more difficult to measure than the standard trade creation (new trade resulting from the new PTA) / trade diversion (loss of non-parties' exports resulting from the PTA) toolkit allows for.

A major obstacle to the establishment of an African Economic Community by 2025 is the continent's fragmentation into fourteen RECs.

Therefore, as the WTO report notes, improving coherence between PTAs and the WTO is challenging. It identifies four arenas in which this agenda could be explored: lowering MFN tariffs; filling gaps in the WTO's legal framework; adopting a "soft law" approach with a view to establishing "hard law" disciplines; and multilateralising regionalism.

The report notes that the impasse in the Doha round has effectively stymied the MFN and legal framework issues. With respect to the soft law/hard law issue, members agreed to establish a transparency review mechanism, which could lead over time to the development of a code of good practices then negotiations aimed at improving hard law mechanisms.

However, this is hindered by members' inability to clarify existing rules under the Doha mandate. On the issue of multilateralisation, the report notes that the WTO could play a role as a forum for coordination, standardisation and harmonisation of preferential rules of origin, or identifying "best practices" in PTAs.

The T-PTA potentially fits into the "multilateralising regionalism" component. Its core philosophy is to remove barriers to trade within the combined geographic space of its constituent states beginning with tariffs then proceeding to regulatory barriers, including harmonisation. This vision fits with the broad thrust of PTA evolution in terms of the substance of PTA negotiations, but goes where relatively few have gone in terms of the "widening" ambition relating to parties to the agreement.

Clearly the political economy of the T-PTA will determine whether the vision is likely to be achieved or not, and therefore what significance it holds for the coherence debate. Currently political economy forces seem to be converging on a more limited interpretation of the PTA mandate. While the three REC Secretariats favour a bold and comprehensive approach – tackling tariff and regulatory liberalisation, and regulatory harmonisation together – the member states would like to see the tariff negotiations concluded before moving forward. Since the tariff negotiations are likely to take considerable time to conclude – if indeed they do reach a successful conclusion – the prospects for deeper integration currently appear quite slim. This is compounded by renewed efforts to promote continental integration, which may detract from the T-PTA effort.



Responses

If the T-PTA is to serve as a model in the coherence debate, then the benefits of pursuing the "multilateralising regionalism" approach need to become self-evident to the negotiating parties. Since those benefits are intrinsically linked to global value chains and production networks, a phenomenon that until now has almost entirely bypassed sub-Saharan Africa, this is a tough sell.

Nonetheless, in the medium-term (say 5-10 years) the underlying cost structures driving value chain location could change dramatically. For example, energy and associated transportation costs are likely to continue rising as fossil fuels prices increase and policy measures targeted at carbon emissions intensify. Similarly, as new players from emerging markets secure access to various resources, competition will increase and prices of those

resources are likely to rise. Export restrictions, if not properly regulated, are also likely to intensify placing further upward pressure on prices. Also, as China continues to shift its growth model away from reliance on exports towards domestic consumption, wage costs are likely to rise sharply and the currency should continue its appreciation. Hence the 'China cost' is likely to continue rising. Information technology costs should also be considered as they are likely to be driven lower through intense technological competition.

The geography of value chain location is, thus, likely to shift and the rules governing value chain operation should likewise be updated to allow the new emerging context to evolve optimally. Certain countries or sub-regions in sub-Saharan Africa could benefit from such global value chain shifts, provided that policy reforms aimed at creating appropriate investment environments are rapidly undertaken. In this light, T-PTA member states have a relatively narrow window of opportunity to position their broad region in the emerging opportunity context.

Clearly the political economy of the T-PTA will determine whether the vision is likely to be achieved or not, and therefore what significance it holds for the coherence debate.

This scenario requires focusing negotiations on issues where transactions costs are highest, since these are of major concern to the multinational companies that drive global value chains. The ensuing schemes should eschew institution-intensive forms of integration as far as possible, and focus on trade facilitation in its broadest sense. Linking this to the "multilateralising regionalism" agenda suggests that T-PTA members should prioritise the following issues: reducing the most blatant costs imposed by constituent PTAs; prioritising the design and implementation of "mutual recognition" (e.g., technical barriers to trade); experimenting with "mutual evaluation" of their respective regulations, a key issue in services; improving the overall design of the T-PTA by defining WTO-compatible best-practices; and including accession provisions for candidate countries with the same commitments as those adhered to by the founding PTA members.

This limited agenda will prove challenging to implement. However, if pursued in tandem with successful infrastructure and tariff liberalisation thrusts, the move could position the region and its member states favourably in the unfolding race to attract global value chain investments.

Because African states are rule-takers in the global trading system, not rule-shapers, successful implementation of the agenda would likely have only marginal implications for the coherence debate. Hence the primary objective behind the strategy should be to position the T-PTA region in the global value chain space. Fortunately the two objectives are congruent; in other words, pursuing a "multilateralising regionalism" agenda would serve the region's interests at the same time as contributing, albeit marginally, to the coherence agenda.



Peter Draper
Senior Research Fellow
at the South African Institute
of International Affairs.

AFRICA'S EXPORTS

Together we stand: Leveraging synergies between African exporters

Olivier Cadot, Leonardo Iacovone, Denisse Pierola, Ferdinand Rauch

Increasing the amount of national competitors selling the same product to the same destination has the potential to raise export survival probabilities argue the authors of this article.

Recent research suggests that African exporters suffer high "infant mortality" (rapid interruption of newly-established trading relationships) but that they reinforce each other through informational synergies. Policies and technical-assistance programs should be designed to better leverage those synergies and to reduce the risk faced by producers in international supply chains, in particular in foodstuffs.

Africa's "curse of low survival"

African exporters suffer from low "survival" on international markets. In this context, *survival* refers the ability of a firm to maintain the presence of a product on a given export market. When a firm's sales of a product on that market fall to zero, the export spell is considered "dead", although it can resuscitate later on. These exporters fail more often than others, condemning themselves to incurring time and again the setup costs involved in starting new relationships. This high churning is a source of waste, uncertainty, and discouragement. Something needs to be done about it. They fail more often than others, condemning themselves to incurring time and again the setup costs involved in starting new relationships. This high churning is a source of waste, uncertainty, and discouragement. Something needs to be done about it.

Well, are things really that bad? This gloomy overtone typical of the literature on African economic performance is out of touch with a new reality. When the exporting country's level of income or the difficulty of its business environment are taken into account, Africa is no outlier: African exports have short life expectancies, but not any shorter than appropriate comparators. Moreover, African exporters, like those in other low-income countries, show vigorous entrepreneurship. Entry rates into new products and markets are high in spite of the formidable hurdles created by poor infrastructure, landlockedness for some, and limited access to major sea routes for others. African exporters experiment a lot, and frequent failure is a price to pay for experimentation. In fact, it is the basic mechanism through which populations improve—biologists call it 'Darwinism' and economists 'creative destruction'.

What is the worry, then? Policymakers should be concerned about low export survival for the same reason they are concerned with high infant mortality. Every failure has a cost, and the very high failure rates that we observe suggest, beyond experimentation, that the environment must be so rough that it is bound to entail a large proportion of 'accidental' deaths. It is those deaths that we should reduce through better policies. Moreover, rising demands for reliability and traceability in foodstuffs make international supply chains extremely quality-sensitive, with producers tossed out at the whiff of a pattern of repeated failure. This essentially shifts risk up the value chain, to its most vulnerable end—the farmer. Such a market arrangement is unlikely to be just or even efficient, and something ought to be done about it.

Exporters reinforce each other

Empirical evidence gathered in a recent World Bank report¹ suggests that the environment in which African exporters operate can be improved through traditional prescriptions to improve trade facilitation, the legal environment of business, and access to credit, but also through more proactive interventions targeting the producers themselves, provided that those interventions are well designed.

One of the report's background papers suggests that African exporters survive better together than in isolation—a striking synergy effect that had seldom been observed before, although several articles have in the past attempted to detect such synergies in various contexts.² After controlling for a host of factors, the authors found that doubling the number of national “competitors” selling the same product to the same destination would raise the survival probability of a Senegalese firm's product beyond the first year of export from 22 percent to 26 percent. Although not huge, the effect was highly significant.

What is the source of this cross-exporter synergy? A recent World Bank survey³ of African exporters gives a glimpse at how information flows between exporters. Although customer lists are often the most sought-out targets of industrial spying, competitors' networks are mentioned as the primary source of contacts with clients by only 15 percent of the survey's African respondents, coming after “third party”—a catch-all category—but also trade fairs (17 percent) and online research (16 percent). Thus, provided that responses are unbiased, direct informational spillovers do not appear as a driving force of the synergy identified.

The authors' preferred hypothesis is, instead, that spillovers operate via the banking system. Consider the following scenario. A Senegalese firm is approached by a U.S. buyer to provide a small trial order of t-shirts. Upon successful delivery and sale, the buyer is satisfied and contacts again the Senegalese firm for a larger order. Now the Senegalese firm has to ramp up production capacity and, for that, it needs the bank's support. In sub-Saharan Africa, however, banks are conservative and may not even take letters of credit from reputable buyers as guarantee—possibly because they are wary of the frequent difficulties African exporters face, from disrupted input chains to bureaucratic hurdles. Thus, in many cases the trade relationship with the foreign buyer will end before it had a chance to bear fruit.

However, if several Senegalese firms already sell t-shirts on the U.S. market, the bank may be more easily convinced about the venture's chances of success. Were this scenario representative, the synergy effect should be stronger for products that are highly dependent on external finance, as initial financial constraints would be more binding on those sectors.

Implications for donors and policymakers

What does this all mean for policy design? If “critical-mass” effects help exporters overcome credit-rationing and asymmetric-information constraints, it behooves the government to facilitate their coordination—provided, of course, that it has the capability to do so. At the least, existing structures such as export-promotion agencies or diplomatic representations should be made aware of these synergies to better leverage them.

As for reducing the risk increasingly shouldered by farmers in export-oriented crops, technical-assistance programs such as the E.U.'s Pesticides Initiative Program are undoubtedly the right response, but their effectiveness should be evaluated rigorously to improve design and delivery. Whereas the program claims success, a formal impact evaluation of the PIP in Senegal carried out recently by the World Bank suggested only weak effects on overall performance and no effect on survival.⁴

Olivier Cadot

Professor at the University of Lausanne, a fellow of the CEPR and CEPREMAP, and a senior fellow of the FERDI. University of Lausanne, 1015 Lausanne.

Leonardo Iacovone Denisse Pierola

Economists at the World Bank.

Ferdinand Rauch

Just completed a Ph.D at the London School of Economics.

¹ Paul Brenton, Olivier Cadot and Denisse Pierola, *Surviving: Pathways to African export sustainability*; Washington, D.C.: The World Bank, Trade Division, forthcoming.

² Olivier Cadot, Leonardo Iacovone, Denisse Pierola and Ferdinand Rauch (2011), “Success and Failure of African Exporters”; CEPR Discussion Paper 1054. The authors used a new firm-level dataset of exporters from four African countries obtained directly from customs administrations in Ghana, Malawi, Senegal and Tanzania as part of a World Bank research project.

³ See Brenton, Cadot and Pierola (forthcoming).

⁴ Méliè Jaud and Olivier Cadot (2011), «A Second Look at the Pesticides Initiative Program: Evidence from Senegal»; World Bank Policy Research Working Paper 5635.

LDCS VS NON-LDCS

A European trade paradigm for African trade

Paul Collier

Paul Collier, professor of economics and director of the Centre for the Study of African Economics at Oxford University, critically looks at the current LDC versus non-LDC distinctions between African countries. According to him, creating more appropriate criteria based on a manufacturing exports threshold, for example, would allow for a more consistent trade relation between African countries and the EU.

Europe's current troubles with the Euro should not detract from its success in liberating intra-regional trade: this is a model worth emulating Africa. The issue is timely since the African Union has a summit on trade and regional integration later this month. Regional integration is the ideal topic for the European Commission in its relations with Africa. Yet paradoxically, in recent years it has been urging the opposite: trying to pressure African governments into individual trade deals that would fracture Africa's regional trade groups. Fortunately the Commission now has an opportunity to get back to a more appropriate approach.

At the heart of the problem is that some African countries are classified by the United Nations as 'Least Developed' while others are not. The criteria for being classified as 'Least Developed' lack economic justification, and are indeed so bizarre as to beggar belief. They have been adopted by the WTO only because they do not need to be negotiated. Under WTO rules, LDCs can benefit from non-reciprocated targeted market access concessions, but non-LDCs cannot.

In turn, the European Commission has been concerned to be WTO compliant in any of its negotiations with Africa. Its non-reciprocal scheme, 'Everything but Arms', applies only to LDCs, while its more general approach on trade relations with Africa, 'Economic Partnership Agreements (EPA)', requires reciprocity: Europe will only liberalize in favour of those African countries that liberalize preferentially in favour of Europe.

African countries typically have quite high protection, so liberalizing in favour of Europe would hand Europe a terms of trade gain: European companies would be able to price their goods at the world price plus the tariffs paid by non-European competitors. Hence, reciprocity is contentious and the negotiations have been stalled for years. Indeed those countries that also qualify for LDC status could get the same market access without offering reciprocity by staying out of EPAs. Understandably, Africa's regional economic groupings are defined by geography, and so cut across the arbitrary distinction between LDCs and non-LDCs. By insisting on this distinction, the European Commission is carving fissures across Africa's incipient replicas of the European Union.



Yet the 'compliance' with WTO rules with which the Commission is so concerned is not a simple matter: rules depend on interpretation and negotiation. When the USA devised its trade relations with Africa, it acted first and negotiated later. Its Africa Growth and Opportunity Act applied equally to both African LDCs and non-LDCs. Only post-enactment did it seek a WTO waiver, which it eventually achieved. The European Commission wants to avoid the need for a waiver, but this still leaves scope for approaches which break down this damaging distinction.

Under WTO rules, LDCs can benefit from non-reciprocated targeted market access concessions, but non-LDCs cannot.

Europe's current opportunity to rethink is the revision of its Generalised System of Preferences (GSP). Under WTO rules GSP concessions are not reciprocal. While they cannot discriminate on the basis of geography, they are by definition a system of preferences, and so need some defensible, non-geographic criterion for eligibility. It would not be difficult to devise criteria for eligibility that were more defensible than those that define LDC status.

A good start would be to ground the criterion for inclusion in a proper economic analysis of the role of trade preferences in fostering development. Asian experience has demonstrated that light manufacturing can be a major source of job creation. During the next decade China will be off-shoring its more labour-intensive manufacturing, creating a unique opportunity for late-comers to break into global markets for manufactures.

However, breaking-in remains difficult. Modern manufacturing is organised in clusters of firms, each cluster specialising in a narrowly defined task and reaping scale economies. Clusters are hard to form because the first firms will be uncompetitive until other firms join them. Europe's market access program should be designed to pump-prime this process of cluster formation: it can do so by giving preferences to those countries that have yet to break into global markets for manufactures.

Asian experience has demonstrated that light manufacturing can be a major source of job creation.



Paul Collier

Professor of Economics and Director of the Centre for the Study of African Economies, Oxford University. He took a five year Public Service leave, 1998-2003, during which he was Director of the Research Development Department of the World Bank. In 2008 Paul was awarded a CBE 'for services to scholarship and development'. He is the author of 'The Bottom Billion', which in 2008 won the Lionel Gelber, Arthur Ross and Corine prizes and in May 2009 was the joint winner of the Estoril Global Issues Distinguished Book prize. His latest book, 'Wars, Guns and Votes: Democracy in Dangerous Places' was published in March 2009.

A cut-off threshold of manufactured exports per head of population below which DFQF (duty-free, quota-free) access would be granted would end the divisive and arbitrary distinction that the Commission is currently insisting on between LDCs and non-LDCs. Whether such a threshold would be compatible with WTO rules as a criterion for eligibility is currently a grey area: it has not been tried so nobody knows. However, it would be nigh-on impossible to justify the LDC criteria while denying the manufacturing threshold, since the latter is manifestly better analytically grounded in the economics of development.

Note: This article was first published in the Social Europe Journal (<http://bit.ly/lwgyd7>). It is re printed by Bridges Africa with author's and publisher's consent.

INTRA-AFRICAN TRADE

De-Fragmenting Africa: Delivering benefits from regional trade integration to ordinary traders

Paul Brenton, Gözde Isik

A report released by the World Bank earlier this year says that high trade barriers with neighboring countries are costing African nations billions of dollars of potential earnings and depriving the continent of new sources of economic growth. The authors of the report analyse in this article the key points of this publication and explains why Africa has integrated with the rest of the world faster than with itself and how increased intra-African trade could have a deeper impact on poverty reduction in the continent.

Regional trade integration has long been a strategic objective for Africa. However, the African market remains highly fragmented. While there has been some success in eliminating tariffs within regional communities, a range of non-tariff and regulatory barriers still raise transaction costs and limit the movement of goods, services, people and capital across borders. The end-result is that Africa has integrated with the rest of the world faster than with itself. This is of particular relevance now that traditional markets in Europe and North America are stagnating and recent export growth in Africa has been driven primarily by commodities with limited impacts on employment and poverty.

The incidence of barriers to regional trade fall most heavily, and disproportionately, on poor small traders, preventing them from earning a living in areas where they have a comparative advantage—catering for smaller, local markets across borders. Most of these small scale, poor traders are women and their trading activities provide an essential source of income to their households. Their profit margins are small, and are reduced by every delay or extra charge they face. They are also vulnerable to abuse. For instance, the majority of traders who cross from DRC to Burundi, Rwanda and Uganda are women carrying staples—85 percent report having to pay a bribe and over 50 percent report physical and sexual harassment. As one trader reports “I buy my eggs in Rwanda; as soon as I cross to Congo I give one egg to every official who asks me. Some days I give away more than 30 eggs!”. This experience is not unique to this group of countries.

The end-result is that Africa has integrated with the rest of the world faster than with itself.

The recently launched World Bank report “De-Fragmenting Africa” brings together a series of papers that highlight the vast scope for cross-border trade in Africa and the reasons why such opportunities are not being exploited. Regional trade can bring staple foods from areas of surplus production across borders to growing urban markets and food deficient rural areas. With rising incomes in Africa there are emerging opportunities for cross-border trade in basic manufactures, including metal and plastic products that are costly to import from the global market. The potential for regional production chains to drive global exports of manufacturing, such as that of East Asia, has yet to be exploited. And cross-border trade in services offers untapped opportunities for exports as well as better access for consumers to critical services such as health and education and firms to services such as accountancy and other professional services that boost productivity.

There is also tremendous potential for integrating the market for regional trade in services. For example, Uganda has become a successful exporter of education services to countries in East Africa. In West Africa, Nigerian financial institutions have expanded branch networks throughout the region making available the benefits of scale to consumers in very small countries. African supermarket chains are spreading throughout the continent.

But non-tariff barriers continue to limit the growth of trade throughout all African regional groupings, imposing unnecessary costs on exporters. These limit trade and

raise prices for consumers, undermine the predictability of the trade regime, and reduce investment in the region. In southern Africa, a truck serving supermarkets across a border may need to carry up to 1600 documents as a result of permits and licenses and other requirements. If the residents of San Francisco faced the same charges pro rata in crossing the Bay Bridge to Oakland as do residents crossing the Congo river between Kinshasa and Brazzaville they would pay more than \$1200 for a return trip. As a result passenger traffic at this obvious focal point for cross-border exchanges between the two Congos is around five times smaller than that between East and West Berlin in 1988—well before the dismantling of the Wall!

"I buy my eggs in Rwanda; as soon as I cross to Congo I give one egg to every official who asks me. Some days I give away more than 30 eggs!"

Policy recommendations

To promote integrated regional markets that will attract investment in agro-processing, manufacturing and new services, policy makers have to move beyond the conventional sequential steps to integration like free trade areas, customs unions, common markets, and economic and monetary unions, and drive a more holistic process to deeper regional integration. An approach is needed that: reforms policies that create non-tariff barriers; puts in place appropriate regulations that allow cross-border movement of services suppliers; delivers competitive regionally integrated services markets; and builds the institutions that are necessary to allow small producers and traders to access open regional markets.

Deeper integration of regional markets can lower trade and operating costs and relax the constraints faced by many firms operating in small national markets. Goods traded across borders in Africa will spur more employment and the facilitation of such trade is likely to have a more direct impact on poverty, with most of the goods in question being produced by the poor.

To see the full report "De-Fragmenting Africa", The World Bank (<http://bit.ly/xTTZKx>).



Paul Brenton

Trade Practice Leader in the Africa Region of the World Bank and is co-editor of the recently released book *De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services*.



Gözde Isik

Economist (consultant) in the Africa Poverty Reduction and Economic Management Unit and co-editor of the book.

Regional Update

The negotiations on EPAs between the EU and the five African regions have made no progress since the beginning of 2012. Despite the EU's firm determination to reach agreements, the various African States and regional communities are playing it safe. Although modest progress has been made for some regions, the negotiations have generally come to a standstill all over the continent.

West Africa

The last round of negotiations between the European Union and West Africa was held in Accra from 15-18 November 2011. The round due to take place in Brussels in February 2012 was cancelled. A new round should be scheduled in April.

During the round in November, experts on both sides had tried to reach common ground, especially on the ratio of products to be liberalised by West Africa and the period of tariff dismantling, the MFN clause, the non-fulfilment clause, the rules of origin, European agricultural subsidies, the EPA development programme (EPADP) and the rendezvous clause for services, among others.

Apart from minor progress on the wording of certain provisions relating to EPADP, little or minimal consensus was reached for the other topics. For the market access offer, the main points of contention are still the rate of 70 percent and the period of 25 years proposed by West Africa, the statistical basis used by West Africa and the principles guiding product classification within the fields of liberalisation or protection. Both parties have therefore accepted that only West African and European policymakers can settle these differences.

The Ministerial Monitoring Committee on the EPA negotiations takes stock of the EPAs

Two weeks after the last round of negotiations between the European Union and West Africa, the West African ministers responsible for EPAs met in Accra, from 28-30 November 2011, to take stock of the negotiations. Faced with this stalemate and the need to steer the negotiations towards a more political context, the ministers agreed to inform the heads of State and government about these contentious issues so they could initiate a dialogue with their European counterparts. According to the West

African ministers, the stakes involved are high and there is a risk of disintegration of the regional integration process. Indeed, the ministers judged that the European Council's decision of 30 September 2011 (Regulation COM (2011) 598) regarding the amendment of EU Regulation (CE-1528/2007 of 20 December 2007) on market access puts pressure on countries in the region like Côte d'Ivoire or Ghana. They were worried that it might encourage these countries to sign interim agreements outside the regional framework, which could disrupt regional integration.

Ghana is putting pressure on ECOWAS

The Ghanaian Minister for Trade and Industry, Ms. Hannah Tetteh, declared in an [interview](#) that Ghana wanted ECOWAS, of which it is a member, to come to a consensus on EPAs with the EU. According to the Minister, Ghana exports the same goods as Côte d'Ivoire towards European markets and, if EPAs are not signed, Ghanaian exporters might relocate their operations to Côte d'Ivoire, which would cause significant economic losses.

East African Community (EAC)

After a 14-month break in negotiations, the East African Community (EAC), which includes Burundi, Kenya, Rwanda, Tanzania and Uganda, and the European Union held a round of negotiations between September and December 2011 to try to reach compromises on the remaining contentious issues. The most recent meeting between the EAC and the EU took place in Kigali between 20-24 February 2012.

Both parties decided that the negotiations to conclude a full EPA would be made on the basis of the text of the interim EPA, which will be completed during future discussions.

Progress has been made in particular on the issue of development cooperation and on certain issues related to agriculture, sanitary and phytosanitary standards, technical barriers to trade and the facilitation of trade, among others.

New negotiation rounds are planned in April and May 2012. The EAC and the EU agreed on the establishment of a road map that should bring about the successful conclusion of negotiations by summer 2012.

Are EPAs dangerous for the EAC?

Benjamin Mkapa, former Tanzanian President and current head of South Center – a think tank based in Geneva – suggested to the EAC that signing EPAs with Europe would severely affect the region's future ability to complete the process of industrialisation. During his keynote address at the EAC's regional workshop on EPA negotiations, which took place from 13-16 February, he warned that signing the EPAs should not be viewed as an end in itself, but rather as an instrument that must lead to development: they must leave the door open for the development of domestic production capacities and encourage diversification and industrialisation.

A high-level conference on EPAs

From 17-21 February 2012, the EAC organised a high-level workshop in Arusha, Tanzania. At the end, participants gave a certain number of recommendations to EAC negotiators regarding, among other things, excluding the MFN clause from the negotiations, negotiating asymmetrical rules of origin, the topics of Singapore and the issue of trade in services.

East and Southern Africa (ESA)

EU and ESA negotiators met in Mauritius, from 28-30 November 2011, to try and reach a compromise on contentious issues. Subjects on the agenda included the trade in goods, the trade in services and other trade issues as well as sustainable development. Some progress was made, especially for the MFN clause, SPS norms and technical barriers to trade. Further discussions will be held regarding contentious issues such as export taxes, rules of origin and special agricultural safeguards.

The next round of negotiations between the EU and ESA is planned for next March and will involve experts and government officials.

SADC

The most recent round of negotiations between the EU and the SADC took place in November 2011 in Johannesburg, South Africa. The discussions covered such topics as market access for agricultural products and agro-food issues, geographical indications, services and investment and rules of origin.

The overlapping of the negotiations on EPAs and the need to develop regional integration in the SADC zone is hindering discussions in this region. Furthermore, the

positions and interests of South Africa are not the same as those of countries like Botswana, Lesotho, Mozambique and Swaziland who say they are ready to move forward with discussions on services and investment. This is compounded by different points of view on the MFN clause, export taxes and the text of the agreement, especially for the provisions relating to the definition of the parties involved and the standstill clause freezing tariffs. Both parties had agreed to meet again in February 2012 to continue the negotiations.

Sources

EPA Update, GREAT Insights, Volume 1, Issue 1.
ECDPM, January-February 2012
<http://bit.ly/yPnWrY>

Factsheet on the interim EPAs, European Commission.
Last update: February 24 2012
<http://bit.ly/ja81Mp>

Overview of EPA: state of play, European Commission.
Last update: January 3 2012
<http://bit.ly/HwmGxb>

Global news

WTO Meeting Highlights Aid for Trade's Role to Support Green Economy

"Aid for Trade contributes to sustainable development, though much more needs to be done to make green growth a reality," concluded Anthony Mothae Maruping, Ambassador from Lesotho and Chair of the World Trade Organization (WTO) Committee on Trade and Development (CTD), in a workshop on Aid for Trade (AfT) held on 29 February. During the meeting, WTO members and representatives of other international organizations examined the contribution of AfT to sustainable development and a green economy, in particular for least-developed countries (LDCs). Many panelists highlighted the necessary link between trade and sustainable development to achieve sustained growth.

However, panelists also stressed the challenges posed by the financial and technical costs of a transition to a green economy, especially for LDCs. In this particular regard, AfT was presented as a possible tool to finance a transition towards a green economy.

Vesile Kulaçoğlu, WTO director of trade and environment, underlined that environmental policies implemented by governments have become broader and warned against "green protectionism."

Anna Autio from the UNEP stated that, on the other hand, LDCs are well positioned to transition into a green economy given their low carbon profile and their abundance in natural resources. According to her, governments have a central role to play in setting up strategies, targeting public spending, and furthering private sector participation for this transition to occur.

In his concluding remarks, Ambassador Maruping from Lesotho underlined that LDCs are indeed well placed to adapt to a green economy, but like other developing countries, they are held back by the costs of such adjustments and lack of access to technologies.

Read the full story at <http://bit.ly/IBOOOo>

Red Tape and Trade Barriers Costing Africa Billions

High trade barriers with neighboring countries are costing African nations billions of dollars of potential earnings

and depriving the continent of new sources of economic growth, says the World Bank in a report released in early February. As a consequence, Africa has integrated with the rest of the world faster than with itself, stresses the report "De-Fragmenting Africa: Deepening Regional Trade Integration in Goods and Services." Intra-African trade currently stands for 12 percent of total African trade, compared to 60 percent of trade with Europe, 40 percent with North America, and 30 percent with ASEAN, according to statistics cited by the World Trade Organization (WTO). While tariffs in general have been lowered within African regional communities, many non-tariff and regulatory barriers still raise transaction costs and limit the movement of goods, services, people and capital across borders. According to the report, African leaders need to urgently pursue changes in three crucial areas to advance intra-African trade: improving cross-border trade, removing a range of non-tariff barriers to trade, and reforming regulations and immigration rules.

This report was released a few weeks after the January 2012 African Union Summit "Boosting Intra-African Trade," which stressed the rising importance of regional trade on the African agenda for economic development.

Read the full story at <http://bit.ly/IBPvYe>

African Union Aims for Continental Free Trade Area by 2017

During the African Union (AU) Summit, which took place from 23 to 30 January 2012 under the theme "Boosting intra-African trade," leaders endorsed a plan to set up a Continental Free Trade Area (CFTA) by 2017. The proposed CFTA would be a key component of the AU's strategy to boost trade within the region by at least 25-30 percent in the next decade. The "Declaration on boosting intra-African trade and the establishment of a continental free trade area" calls on member states, regional economic communities (RECs), and development partners to adopt the necessary measures toward the effective implementation of an Action Plan - a document produced during the AU trade ministers' meeting in December 2011 detailing priority action clusters to address obstacles to increasing intra-African trade. Enhancing this trade and deepening market integration "can contribute significantly to sustainable economic growth, employment generation, poverty reduction, inflow of foreign direct investment, industrial development, and better integration of the continent into the global economy," the AU declaration says.

Despite leaders' endorsement of the declaration, however, several representatives from various regional groupings insisted that it was premature to think of establishing a CFTA by 2017, given that another plan to consolidate three existing free trade areas into a smaller, 26-nation "Tripartite FTA," is still facing challenges of its own. The difficulties of pursuing a pan-African trade deal prompted substantial debate at the weeklong meet, with participants divided over whether such an idea could actually be put into practice by the 2017 deadline and whether other goals might be more appropriate. WTO Director-General Pascal Lamy supported the initiative, stating that "there is absolutely no contradiction between accelerating regional integration and deepening the multilateral trading system," and encouraged leaders to "operationalise" intra-African trade.

Read the full story at <http://bit.ly/I2PApQ>

Brazil Vows to Take South Africa Poultry Dispute to WTO

Following the decision of South Africa to impose higher tariffs on imported chicken products from Brazil, the Brazilian chicken industry said on 13 February that it would place a case to the World Trade Organization (WTO) arguing that the South African government's decision does not comply with WTO rules on antidumping. According to the WTO, governments can act against dumping if there is a "material" injury to the competing domestic industry. In June 2011, the International Trade Administration Commission of South Africa (ITAC) initiated an investigation into the alleged dumping of frozen whole chickens and boneless chicken cuts imported from Brazil and made a preliminary determination that dumping had taken place, causing harm to the South African Customs Union industry. The Commission's report estimates the dumping margin for whole frozen chickens at 63 percent and 47 percent for boneless cuts. Hence, the commission requested that the Government of South Africa impose provisional anti-dumping duties of 6 to 63 percent on poultry for six months. According to Brazil's poultry association UBABEF, South Africa imports 16 percent of all chicken consumed in the country, 70 percent of which is from Brazil. The products under investigation for dumping represent 3 percent of all poultry products on the market.

Read the full story at <http://bit.ly/IgSd6q>

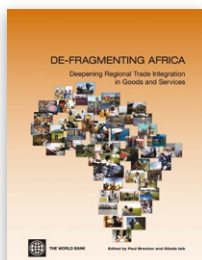
Food Security: Lamy Calls for the Right Policy Mix

During his speech at the conference "Feeding the World," organised by the magazine The Economist in Geneva on February 8, World Trade Organization (WTO) Director-General Pascal Lamy encouraged policy makers to turn their attention towards the concerning topic of food prices. "If our goal is to ensure that we have agricultural systems that are able to generate safe and sufficient food, [...] we will need to ask broader questions," he said. The high concentration of the world's food production in a few countries is inevitably a threat to food security and is translated in international trade with a lack of diversification in the origins of export of certain food products.

Regarding Africa - a continent that accounts for 1/7th of the world population but as much as 1/4th of its under-nourishment - the WTO Director General stressed that only 10 percent of Africa's need in food is provided by other African countries despite the huge potential that might arise from vast non-exploited arable land. In addition to denouncing the dramatically low levels of intra-regional trade in food, Lamy pushed for the re-examination of every policy that could hold back the agriculture sector in Africa or in other parts of the world. Lamy also reaffirmed the benefits of trade for food security, stating that by fostering greater competition, trade allows enhanced efficiency in food production.

Read the full story at <http://bit.ly/HBvwe8>

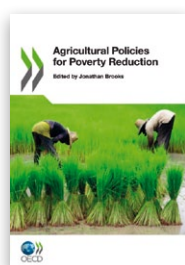
Publications and resources



De-fragmenting Africa: Deepening Regional Trade Integration in Goods and Services – World Bank – February 2012

This World Bank report shows how African countries are currently losing out on billions of dollars in potential trade earnings every year because of high trade barriers with neighbouring countries, and that it is easier for Africa to trade with the rest of the world than with itself. The authors argue that enormous opportunities for cross-border trade within Africa remain unexploited in food products, basic manufactures, and services. The report also states that this situation deprives the continent of new sources of economic growth, new jobs, and sharply falling poverty.

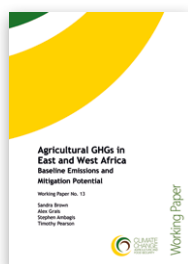
For more details about this resource <http://bit.ly/xTTZKx>



Agricultural Policies for Poverty Reduction – OECD – March 2012

This new OECD book sets out a strategy for raising rural incomes that emphasises the creation of diversified rural economies. It also suggests that countries establish effective social protection systems for rural households. This publication proposes a three-pronged approach to strengthening rural incomes and reducing poverty: improving productivity and competitiveness in the agricultural sector; helping households diversify their sources of income; and facilitating the movement of labour from the agricultural sector to better-paid non-farm jobs. The authors also argue that agricultural policies should be integrated within an overall mix of policies and institutional reforms.

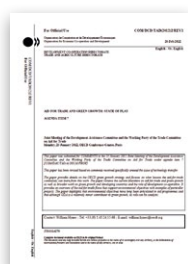
For more information regarding this report <http://bit.ly/HtWCmx>



Agricultural GHGs in East and West Africa – CGIAR/CCAFS – February 2012

In this working paper, the authors explore how climate change mitigation actions in the agriculture sector can be taken in nine East and West African countries without compromising their food security. The main question examined in the paper is: How can agricultural greenhouse gas emissions be reduced or sequestration enhanced while maintaining and even increasing food supply?

To view this paper's findings or for more information <http://bit.ly/zokisC>



Aid for Trade and Green Growth: State of Play – OECD – February 2012

This paper provides details on the OECD green growth strategy and reviews the current literature on aid for trade and green growth as well as broader work on the role of development co-operation. The author presents an overview of country views, aid-for-trade cases stories and the aid-for-trade flows that support environmental objectives. The analysis highlights that these environmental objectives have long been uttered in aid programmes and that Official Development Assistance can play a catalytic role. The report advocates for a stronger focus on the objective of green growth in development cooperation and development policies, such as Aid for Trade.

For more details about this resource <http://bit.ly/IPNSZV>

EXPLORE THE TRADE AND SUSTAINABLE DEVELOPMENT
WORLD FURTHER WITH ICTSD'S BRIDGES NETWORK

PASSERELLES

Africa-focussed analysis and news on trade and sustainable development
<http://ictsd.org/news/passerelles/>
French language

BRIDGES

Global trade news from a sustainable development perspective
<http://ictsd.org/news/bridges/>
English language

PONTES

Analysis and news on trade and sustainable development for the Portuguese-speaking world
<http://ictsd.org/news/pontes/>
Portuguese language

桥

Analysis and news on trade and sustainable development for the Chinese-speaking world
<http://ictsd.org/news/qiao/>
Chinese language

BIORES

Analysis and news on trade and environment for a global audience
<http://ictsd.org/news/biores/>
English language

PUENTES

Latin America-focussed analysis and news on trade and sustainable development
<http://ictsd.org/news/puentes/>
Spanish language

МОСТЫ

CIS-focussed analysis and news on trade and sustainable development
<http://ictsd.org/news/bridgesrussian/>
Russian language



International Centre for Trade and Sustainable Development

Chemin de Balexert 7-9
1219 Geneva, Switzerland
+41-22-917-8492
www.ictsd.org

BRIDGES AFRICA is made possible through
generous contributions of donors and
partners including

UK Department for International Development (DFID)

Swedish International Development Cooperation Agency (SIDA)

Netherlands Directorate-General of Development Cooperation (DGIS)

Ministry of Foreign Affairs of Denmark, Danida

Ministry for Foreign Affairs of Finland

Ministry of Foreign Affairs of Norway

Australia's AusAID

Oxfam Novib

BRIDGES AFRICA also benefits from in-kind
contributions from its contributing partners
and Editorial Advisory Board members.

BRIDGES AFRICA accepts paid advertising
and sponsorships to help offset expenses and
extend access to readers globally. Acceptance
is at the discretion of editors.

The opinions expressed in the signed
contributions to BRIDGES AFRICA are those
of the authors and do not necessarily reflect
the views of ICTSD.

Material from BRIDGES AFRICA can be used
in other publications with full academic
citation.

Price: €10.00
ISSN 1996-919

