

BRIDGES NETWORK

# BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 5, ISSUE 3 – APRIL 2016



## Facing mega-regionals: What implications for Africa?

### MEGA-REGIONALS

What are the risks for Africa and how to mitigate them?

### GLOBAL TRADE ARCHITECTURE

How will the WTO be affected by the proliferation of preferential trade agreements?

### WTO

Looking at the trade and development nexus from a new perspective



International Centre for Trade  
and Sustainable Development

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## Facing mega-regionals: What implications for Africa?



*During the last two decades, the global trading system has witnessed major evolutions. In particular, as a result of the lack of meaningful progress at the WTO in the framework of the Doha Round, various trade partners have increasingly sought other avenues to pursue their commercial interests, giving rise to a proliferation of regional trade agreements (RTAs). This process culminates today with a new trend towards mega-regional trade initiatives, such as the Transatlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP), or the Regional Comprehensive Economic Partnership (RCEP), and arouses significant questions for the future of the multilateral trading system and its weakest members.*

*Deeper and wider than traditional RTAs, mega-regionals are set to alter the global trade architecture in a systemic way, hence the importance of understanding their implications. Specific concerns have been raised regarding the potential risks they might entail for the WTO as a whole, but also for third countries which are not part of them. How will mega-regional initiatives impact excluded developing countries, particularly in Africa? Could they also be the source of new opportunities for these "outsiders"? How could the WTO smoothly manage the transition to an era where preferential trade agreements play a more prominent role? This issue aims to shed light on those questions.*

*In the lead article, Simon Mevel looks at the potential impact of mega-regional trade agreements for African economies. By trying to identify ways for Africa to mitigate the potential risks of mega-regionals and support its structural transformation efforts through trade, the piece underlines that regional integration and South-South cooperation could prove essential. This contribution is complemented by an article by Fritz Putzhammer and Ulrich Schoof, which explores and evaluates the expected economic effects of planned mega-deals on countries accross the African continent.*

*This issue also features an analysis of mega-deals' potential impact on the role played by the WTO in global trade governance. According to Silke Trommer, the author of the article, the current shift to more preferential and mega-regional agreements could negatively impact the WTO's ability to fulfil its core functions, which would disproportionately affect small trading nations.*

*As usual, we welcome your substantive feedback and contributions. Write to us at [bridgesafrica@ictsd.ch](mailto:bridgesafrica@ictsd.ch).*

## PREFERENTIAL TRADE AGREEMENTS

# Mega-regional trade agreements: Threat or opportunity for the future of African trade?

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Simon Mevel

*How can Africa mitigate the potential negative impacts of mega-regional trade agreements and support its structural transformation efforts through trade?*

Since the early 2000s, regional trade agreements (RTAs) – allowed under WTO rules – have flourished. Interestingly, this development has taken place in the context of minimal progress in multilateral trade negotiations, thereby suggesting strong interest by many countries to consider regional markets as an important avenue for expanding trade. The emergence of mega-regional trade agreements (MRTAs), which gather together not just neighbouring countries and account for large shares of world GDP and population, attests to this trend.

Presently, three major MRTAs are envisaged: the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States; the recently concluded Trans-Pacific Partnership (TPP) between the United States and eleven other nations across the Pacific Rim; and the Regional Comprehensive Economic Partnership (RCEP) between sixteen economies from Asia and the Pacific. If these agreements are implemented, they would considerably modify the world trade landscape with systemic challenges for the multilateral trading system. In particular, MRTAs tend to be ahead on numerous issues discussed within the WTO framework and have contributed to divert talks away from traditional Doha matters, which are particularly essential to many developing countries, especially from the African continent. The final declaration from the tenth ministerial conference of the WTO, held on 15-19 December 2015, in Nairobi, Kenya, is in itself very consensual but somewhat elusive about future multilateral negotiations. It recognises that “many members want to carry out the work on the basis of the Doha structure, while some want to explore new architectures.” At the same time the declaration reaffirms “the need to ensure that Regional Trade Agreements (RTAs) remain complementary to, not a substitute for, the multilateral trading system.”<sup>①</sup>

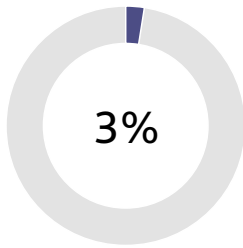
The impacts that these mega-deals are expected to have on third countries remain fairly uncertain as all provisions of the agreements are not fully known, except for the TPP. However, it is apparent that African countries, which are not part of any of the three main mega-regional initiatives, are likely to be impacted by increased competition and preference erosion in MRTA markets. From a trade perspective, it is therefore essential to explore possible strategies that African countries could adopt to mitigate possible negative effects which could result from the formation of mega-regionals.

## **Establishing the CFTA: A top priority for Africa in the context of mega-regionals**

Empirical evidence based on computable general equilibrium (CGE) analysis confirms that while the establishment of the three major MRTAs would create vast export opportunities for their members, especially in RCEP countries, African economies would be hurt by the trade reforms (Mevel and Mathieu, 2016)<sup>②</sup>. Results suggest that reductions in their exports towards India and China would be particularly significant.

Nevertheless, if African nations are able to concurrently implement the Continental Free Trade Area (CFTA) – Africa's own mega trade deal which is expected to span all 54 African Union states and for which negotiations were officially launched in June 2015 –, then outcomes would radically change for Africa. Trade creation within the African continent brought about by continental integration reform would more than offset the trade losses generated by the MRTAs. All African economies, including the smallest ones, would





Africa's share of global trade is only about 3 percent today, which is almost the same as two decades ago.

be able to expand their trade with their African partners. It should be further stressed that the expansion in intra-African trade would benefit industrial sectors the most (e.g. electronics, machinery and transport equipment, chemicals, textile, metal products, and processed food), thereby positively impacting Africa's industrial development and structural transformation. The benefits would even be enhanced if measures to reduce trade costs are taken along with the CFTA.

Under this scenario, success in the ongoing CFTA negotiations, followed by speedy implementation of a continent-wide trade policy reform, is an imperative for Africa in order to mitigate the undesirable effects of mega-regionals. The CFTA will need to be ambitious and effectively phase out tariff barriers on trade in goods and services as well as vigorously combating non-tariff barriers which strongly impede intra-African exchanges. Of course, issues beyond strictly trade (e.g. investment, regulatory reforms, etc.) will also need to be tackled in the short to medium-term (as in the MRTAs) for the gains to be maximised. Yet, the continental market – even though full of potential – remains moderately small and is unlikely to provide trade opportunities that are ample enough to trigger a significant improvement of Africa's position in the world trade landscape. Africa's share in global trade is only about three percent today<sup>3</sup>, which is almost the same as two decades ago. Therefore, Africa would have to look beyond its own market if it wants to play a greater role in international trade.

#### **Reinforcing trade-related South-South cooperation**

Findings from Mevel and Mathieu (2016) further suggest that if the CFTA and MRTAs are successfully established, deepening integration between African countries and MRTA members – from TPP and RCEP – would provide meaningful trade opportunities for African economies.

Whereas Africa's export growth towards the countries of North, Central and South America would be generally dominated by traditional products (i.e. energy and mining), expansion of Africa's exports to Asian nations, especially China, would show more potential to support Africa's industrialisation efforts. Moreover, as the quasi totality of the trade deflection for Africa following the establishment of the MRTAs would be with RCEP countries, mainly India and China, closer trade ties between Africa and Asian economies would counterbalance the trade diversion effect triggered by mega-regional deals.

Nonetheless, as far as supporting Africa's structural transformation is concerned, it would be if Africa enters into profound trade integration with Asian countries beyond just RCEP that the outcomes would appear to be the most promising. Indeed, the potential for diversifying Africa's goods exports to Western Asian economies – which includes the Middle East – would be noteworthy. Almost the entire surge of Africa's exports towards the United Arab Emirates and Saudi Arabia, which are already well sourced in energy commodities, would benefit industrial products. The share of industrial goods would also dominate Africa's exports to Turkey and be substantial regarding its exports to the rest of Western Asia. Yet, Africa's exports of agricultural and food products – in particular cereals, crops and meat products – would also be significantly enhanced, especially towards Turkey and the rest of Western Asia. These countries would also have a sizeable demand in energy and mining products from Africa.

In such a scenario where African economies tighten their commercial ties with Western Asia, it should be highlighted that the gains coming from Africa's trade expansion would not just be shared among those African countries having already close trade relationships with partners from the Middle East (e.g. North Africa nations and other members of the Arab League). Benefits would be fairly distributed across different countries from the five main African regions. Countries such as Nigeria, Kenya, Ghana, Côte d'Ivoire, Mauritius, Cameroon, and Zambia would even be expected to expand their exports to Asia and the Middle East by over two-thirds (as compared to a situation without further integration between Africa, Asia, and the Middle East), with a wide range of both industrial and agricultural exports being significantly stimulated.

Furthermore, it must be emphasised that deepening integration between Africa and its partners from the South is not just in Africa's interest, as it would also strongly stimulate both imports and exports of its counterparts. Even the few third countries that could possibly be hurt following increased engagement between Africa and developing economies could easily mitigate their losses by undertaking trade facilitation reforms – in line with the WTO Trade Facilitation Agreement (TFA) – expected to create new trade opportunities and strengthen existing ones.

### Conclusion and policy recommendations

In the context of the emergence of mega-regional trade agreements such as TTIP, TPP, and RCEP, Africa's top priority should be to establish its Continental Free Trade Area (CFTA). This would not only help African economies to mitigate trade losses caused by the formation of major trade blocs, but also enhance trade policy coherence within the continent. An ambitious and inclusive continental-wide trade policy reform would allow for a better alignment of the multiple existing trade regimes across Africa, while addressing the issue of overlapping memberships among the African Regional Economic Communities (RECs). At a time when African countries are engaged in reciprocal – albeit asymmetrical – trade deals with external partners, such as the Economic Partnership Agreements (EPAs) with the European Union, the CFTA should ensure that any African country does not disadvantage its continental counterparts over external partners in terms of market access.

That being said, even a CFTA that is anticipated to boost intra-African trade and its industrial content will likely not suffice to improve Africa's current marginal position in the global and rapidly evolving trade landscape. Although the CFTA constitutes a critical step towards the establishment of successful value chains and the promotion of upgrading processes that are much needed to enhance African economies' competitiveness, the continent must strategically explore meaningful trade opportunities beyond its own regional market. Deeper trade and investment ties with developing and emerging economies from Asia, and most particularly from the Middle East, could well allow for promoting the industrialisation of African economies and the diversification of their exports. Such an outcome would make a substantial contribution towards achieving Africa's structural transformation objective and elevating its standing on the world trade scene.

Therefore, Africa needs to promptly adjust its efforts and re-prioritise its engagement with various trade platforms. All the energies throughout the African continent must be better catalysed and dedicated towards negotiating and effectively implementing the reforms that best support Africa's priorities, that is to say, deepening regional integration first and then strategically engaging in trade-related cooperation with partners from the South. Capacity building aiming at improving African negotiators' skills to design, negotiate and implement such trade agreements must be reinforced, which requires strong support from international organisations and development partners.

*The opinions expressed here are only those of the author and do not necessarily reflect the views of ECA. The author wishes to sincerely thank, David Luke, Coordinator of the African Trade Policy Centre at the ECA, for his very valuable comments.*



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① See WT/MIN(15)/DEC; <http://bit.ly/1N8jyZs>.

② Mevel S. and M. Mathieu. (2016). "Emergence of mega-regional trade agreements and the imperative for African economies to strategically enhance trade-related South-South Cooperation". Paper selected for presentation at the 19th Annual Conference on Global Economic Analysis, Washington D.C., 15-17 June 2016.

③ Author's calculations based on UNCTAD Stat; accessed 21 March 2016.

## PREFERENTIAL TRADE AGREEMENTS

# Evaluating the effects of mega-regionals on Africa

Fritz Putzhammer and Ulrich Schoof

*This article serves to explore and evaluate the economic effects of planned mega-regional free trade agreements on Africa, as well as to give specific policy advice to their members in order to make future trade more inclusive towards African economies.*

The world of global trade is changing in a way we have never seen before. Multilateral negotiations have cleared the way for mega-regional trade agreements, with the big players of the global economy forming up into few powerful trading blocs. While a significant part of the world is concentrating on agreements with names like the TTIP (Transatlantic Trade and Investment Partnership) and TPP (Trans-Pacific Partnership) in the west or the FTAAP (Free Trade Area of the Asia Pacific), however, the African continent continues to be somewhat deliberately ignored. Though African economies have undertaken to form their own mega trade zone in the form of the Continental Free Trade Area (CFTA), trade relations with outside economies remain on unequal footing.

Yet Africa certainly has great trading potential. Many African countries are rich in natural resources such as diamonds, gold, copper, iron ore, oil, and rare earth elements. However, managing properly this wealth of raw materials can prove difficult and constitute a real challenge. Too often the promise of quick profits leads to excessive capital investment in mines and processing facilities, while other industries are neglected as a result. Such one-track economies are seldom sustainable and countries land in a developmental dead end, especially because the profits from raw material wealth are generally distributed extremely unequally among the population. Meanwhile, other developing nations – in Asia, for example – have invested more in infrastructure and diversified their economies to a greater extent, making them relatively more appealing for potential trade partners and investors. As a result, Africa's share in world trade was still only three percent in 2013, a disproportionately small number.

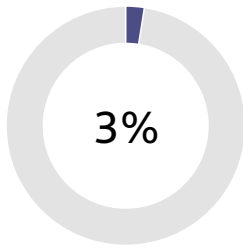
Accordingly, Africa's role as a raw material supplier for the rest of the world has changed very little since the days of colonisation. Raw materials comprise the vast majority of Africa's exports today; other main exports are textiles and agricultural products. But how will such commodities trade be affected by future mega-regionals?

## How do mega-regionals affect Africa?

Even though Africa itself is not directly involved in any of the upcoming global mega-regionals, we can assume that due to their sheer size, agreements like the TTIP, TPP, or the ambitious FTAAP will have significant effects on African economies.

Let's take the TTIP as an example. Generally, an agreement like the TTIP can impact African countries in different ways. There will be a direct effect on prices as well as on income, but these direct effects would impact the welfare of third countries in opposite ways. The price effect, also called the trade diversion effect, arises when imports from African countries suddenly become relatively more expensive for Europeans or Americans compared to the imports from their TTIP partner countries. This loss of price competitiveness can result in a lower trade volume and therefore reduce the revenues of African exporters.

At the same time, however, a trade agreement like the TTIP is expected to lead to higher income and therefore to increased buying power in the TTIP member states.<sup>1</sup> Greater purchasing power stimulates increased demand – also for imports from third party countries. This enables those countries to increase their export volume at higher prices. Whether the TTIP has a direct positive or negative impact on the welfare of an African nation thus depends on which of the two effects has a greater influence on its balance of trade.



According to a recent analysis conducted by the German Ifo institute on behalf of the Bertelsmann Foundation, the TTIP could result in an income increase of around three percent annually after ten years for African countries, if indirect spill-over effects are taken into account. Similar positive effects can be expected from the TPP.

Indirectly, African countries could also be affected through so-called spill-over effects, which primarily rely on the harmonisation of regulations that go with big free trade agreements. This harmonisation could incentivise other economies to adjust their own regulations accordingly, making future trade in both directions between the original FTA countries and the outsider countries cheaper.

In a recent model simulation, the German Ifo institute on behalf of the Bertelsmann Stiftung has calculated such expected direct and indirect welfare effects of mega-regionals for a total of 25 African countries. Focusing on the TTIP and the TPP, the data shows that for most African countries, the positive income effect of planned mega-regionals exceeds the negative trade diversion effects. For both the TTIP and the TPP, only Mozambique, Zambia and the Ivory Coast have to expect negative welfare effects according to the model. Mozambique is hit hardest under both agreements, with an annual negative effect of 0.2 percent on its income after ten years. While such an effect is relatively small compared to Mozambique's current growth rate of up to seven percent, Mozambique still is one of the poorest countries in the world, and it is not known how exactly the effects will be distributed among the population, leaving a big chance that the poorest will be affected the most.

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*The data shows that mega-regionals such as the TTIP and the TPP can also have a significant positive welfare effect on African countries.*

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On the other side of the spectrum, the data shows that mega-regionals such as the TTIP and the TPP can also have a significant positive welfare effect on African countries. An agreement like the TTIP is expected to generate additional income of 0.8 percent through direct effects for the most positively affected countries, such as Benin and Togo. If indirect spill-over effects are taken into account, these effects could increase up to around three percent annually after ten years. Similar positive effects can be expected from the TPP.

#### **Eastern promises?**

While the effects of agreements like the TTIP and TPP appear promising for most African countries, they pale in comparison to the potential of the Chinese-led FTAAP agreement. China is Africa's largest trade partner in the world by far, even ahead of the US and the EU. If China has its way, this dominance will continue to grow in the future. According to Chinese Premier Li Keqiang, China's current trade volume with the African continent of almost US\$200 billion per year will double and reach US\$400 billion by 2020. China primarily procures raw materials and natural resources from African exporters, such as various metals, rare earth elements, and crude oil, which are further processed in China and then commonly exported to the global market in a different form. In return, China invests in African infrastructure and mining facilities in order to secure its role as the dominant buyer of African raw materials in the future, too.

In this regard, China-Africa trade is ideally set up for any demand-boosting effects of an eastern mega-regional. Since most of the raw materials that China imports from Africa are only traded on a small scale within the FTAAP, the trade diversion effects in these sectors are minimal. Meanwhile, increased Chinese trade has an enormously positive effect on demand for African raw materials, especially when we consider that the three largest customers for Chinese exports (US, Hong Kong, and Japan) are all FTAAP member states as well.

Calculating the effects of a potential FTAAP, the Ifo model predicts positive welfare increases for all 25 African countries included in the simulation. Even the least affected country, Zambia, can still expect an income boost of 1.6 percent. Raw material rich countries like South Africa and Togo are looking at an annual increase of 7.9 percent and 8.6 percent respectively. A look at South Africa's trade sectors shows how exactly Chinese



demand for natural resources can cause such effects. While South Africa's agricultural sector is expected to shrink slightly under a FTAAP due to trade diversion, its large mining sector is expected to grow by a whole 62 percent.

### Ensuring inclusiveness

To ensure the most positive outcome for African developing countries, mega-regional trade partners should strive to create mega-deals in the most inclusive form as possible. For developed countries which are engaged in the TTIP and the TPP, an additional motivation would be to also secure future competitiveness towards China on the African markets. Potential trade diversion effects of mega-deals should be cushioned and the impact on demand from positive income effects should be maximised. At the same time, future options should be promoted in order to help African countries adapt their regulations, so as to achieve potential spillover effects.

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*If done right, agreements like the TTIP or TPP can be taken as stepping stones towards a globally united, multilateral free trading community.*

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Countries engaged in mega-regional trade initiatives such as the TTIP and the TPP should extend their recognition of mutual standards to non-member states, too. As long as either the EU or US standards are being upheld, it should have no influence on regulatory recognition whether the supplier of a good is exporting from France or from South Africa. Regulatory harmonisation in general is key when it comes to a united future in global trade. It is therefore essential that emerging markets outside the TTIP or TPP be included in the future regulatory cooperation involved in those deals. The more African countries are integrated in such regulatory cooperation bodies, the weaker the trade diversion effects will turn out to be. Indirect spill-over effects could be boosted.

Finally, the role of the WTO as an international forum and advisor for current and future negotiations must be strengthened again. Only with a fair and impartial mediator like the WTO can the voices of poor third party countries like in Africa be heard sufficiently on an international level. If done right, agreements like the TTIP or TPP can be taken as stepping stones towards a globally united, multilateral free trading community.

### Conclusion

In conclusion, modern simulations show that the effect of mega-regionals on Africa will mostly be a positive one. Only a few countries should expect negative welfare impacts under the future mega-deals. While those negative effects are generally low, they might hit some of Africa's weakest economies, and since there is little data on the distribution of effects among the population, chances are that the poorest might have to carry this burden. On the brighter side, mega-regionals are expected to have positive effects on average for African countries, with a particularly strong impact under a Chinese-led FTAAP agreement. Developed countries engaged in mega-regional trade initiatives should strive to make their agreements as inclusive as possible. This would allow them to ensure the most positive outcome for African countries, while making certain that they are not left behind by Chinese trade in Africa.



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① Felbermayr et al. (2015), Potential impacts of the Transatlantic Trade and Investment Partnership (TTIP) on developing and emerging economies, Ifo institute, Munich. <http://bit.ly/1NiJJCa>.

② The results are already available in the form of downloadable fact sheets on the GED website: <http://bit.ly/1Qnqabq>.

## WTO

# The WTO's governance functions in the era of preferential trade agreements

Silke Trommer

*The WTO's governance functions might be negatively affected by the proliferation of preferential trade agreements. Should this happen, the shift would disproportionately affect small trading nations.*

Returning from this year's World Economic Forum in Davos, Director-General of the World Trade Organization (WTO) Roberto Azevêdo reported enthusiasm among government and business representatives about working with the WTO. Despite the non-reaffirmation of the Doha Development Agenda (DDA), Azevêdo confirmed openness to talk about the DDA's pending issues, in a manner that is inclusive of all members, businesses, and civil society organisations, and to do so in a Geneva-based policy process that "has more frequent political guidance"<sup>1</sup>.

Meanwhile, major WTO countries are focusing efforts on negotiations taking place outside of the multilateral trading system. In this context, one pertinent question is how the WTO will transition through the era of preferential and megaregional trade agreements. Put differently: how will the ongoing fragmentation of the global trading system into bilateral and regional blocs, built on a baseline of existing multilateral rules, affect the WTO's functions in global trade governance?

In this article, I present reflections on how (1) transparency and dialogue, (2) adjudication and (3) negotiation in the WTO may evolve under the current trend of preferential trade agreements. Rather than predicting the WTO's institutional and political future, I provide food for thought in the ongoing debate about the benefits and challenges of trade multilateralism in the twenty-first century. I suggest that although the WTO's governance functions will remain essential to the global trading system, and particularly for small trading nations for whom they constitute a global public good, they may suffer some damage in their ability to operate as long as trade governance centres on preferential deals.

The analysis is informed by 104 interviews with members of trade policy communities in Brazil, Canada, China, the EU, India, South Africa, the US, and Geneva held between March 2014 and April 2015. Together with Professor Ann Capling from the University of Melbourne, we interviewed trade officials, business representatives, trade unionists, civil society representatives, and academic experts on their views about the WTO and the future of multilateral trade governance<sup>2</sup>.

## Transparency and dialogue

Providing for transparency and dialogue among trading nations is a key WTO function in global trade governance. The WTO's Trade Policy Review Mechanism (TPRM) serves to periodically assess trade policy measures taken by individual WTO members. In addition, trade officials in Geneva maintain close working relationships on a daily basis, allowing them to discuss global economic events and potential trade policy responses.

Interviewed practitioners confirmed that the close contact and interaction through member states' representations in Geneva is invaluable for the formulation of trade policy at the international level and at home. Continuous engagement among members of trade policy communities further affects the level of trust and good faith that is necessary for international cooperation to succeed.

## 500

Last November, the WTO reached a significant milestone with the receipt of its 500th trade dispute for settlement

In an era where global trade rules increasingly look like a spaghetti bowl, TPRM will become more, rather than less, important. This is particularly true for trading nations that do not possess the institutional capacity or level of private sector organisation to keep abreast of evolving trade policies in their key export destinations. In addition, dialogue among trade policy communities can nowhere be as efficient as in Geneva. Even if there are stark differences in staff numbers among members' WTO missions, one forum for policy dialogue exists that brings together the global trade policy community in one physical location.

However, interviewees further suggested that even well-resourced trading nations today allocate less personnel to the multilateral sphere, due to the fact that preferential deals absorb a high amount of human and financial resources. As experienced negotiators warned, the quality of representation in Geneva not only depends on numbers, but also on the quality of staff. There is a risk that in the era of preferential agreements that countries stop sending their best and brightest to Geneva. The quality of dialogue and exchange among the global trade policy communities could subsequently drop, as brains and money drain to the realm of preferential negotiations.

### Adjudication of trade disputes

The Dispute Settlement Mechanism (DSM) is one of the WTO's prime achievements. Trade disputes among nations can be resolved in an adjudication process that is in principle open to all WTO members and made effective through the possibility of sanctions. Despite the proliferation of preferential trade agreements, members' enthusiasm for WTO dispute settlement appears unbroken to date.

Similarly to the WTO's dialogue function, this may at least partly stem from the institutional limitations of preferential trade agreements when it comes to resolving trade disputes. Although preferential deals contain dispute settlement clauses often modelled on the WTO DSM, many do not create an institutional architecture to support the day-to-day operation of trade courts. Some interviewees pointed out that preferential agreements therefore lack the administrative and procedural infrastructure required to run effective, fair and transparent trade law adjudication. As a matter of fact, the ever-growing number of disputes filed<sup>3</sup> under the DSM clearly points to the centrality of the WTO's adjudication function in global trade governance.

Yet, the global adjudication architecture for trade is fragmenting under the rule-making diversion of preferential agreements. Moreover, there has long been a concern that the WTO DSM will crumble under the pressure of an ever-increasing volume of casework. According to one of our informants, the number of cases that the WTO Secretariat can realistically support was estimated to lie at approximately twelve complaints a year. In the current state of affairs, strains on financial and human resources resulting from a higher number of cases are one important reason why disputes take longer to resolve on average in the WTO. Another perceived risk is that the Dispute Settlement Body could be pushed to exceed its remit by filling the trade rule book through judicial law-making, which is not foreseen in WTO Agreements.

Nonetheless, preferential agreements only provide legal recourse for contracting parties, although their rules produce effects on trade flows of non-members. For small trading nations that are party to preferential agreements, limits on institutional capacity may further turn out to be a bigger obstacle to accessing legal recourse than in the WTO, where the Secretariat provides some administrative and procedural support. Like under transparency and dialogue, the loss of an institutional support structure in trade adjudication can be expected to affect small trading nations disproportionately.

### Trade negotiations

Interviewees indicated that they continue to see the WTO as the preferred forum for international trade negotiations in principle. Its membership of 162 countries and multilateral character can provide the world with one unified set of global rules for trade.

Irrespective of their opinions on the DDA, interviewees strongly shared the view that the multilateral table will continue to hold relevance in trade governance for these reasons.

For the foreseeable future, plurilateral negotiations on new issues, such as environmental goods, and the left-over issues of the DDA are set to animate rule-making activity in Geneva. To the extent that the GATT and the WTO were gradually built on a series of plurilateral agreements, codes and decisions, the approach seems tried and tested. Given the high value trade policy communities attach to multilateralism, there is an assumption that plurilateral concessions can be multilateralised in the long run. The risk remains that plurilateral agreements undermine core multilateral principles of inclusiveness, non-discrimination, and transparency. This partly depends on whether plurilaterals will apply on an MFN-basis.

Whether and how the results of preferential and megaregional agreements can be multilateralised will also affect the shape of the global trading system to come. On the technical level, there is concern about the increasingly diverse and multifarious nature of the network of preferential agreements. On the political level, trade has become an economic policy priority for the majority of countries over the last three decades, partly as a result of WTO membership. Trading countries, big and small, today hold an expectation of being involved in setting the rules regulating their trade flows. A number of interviewees expressed the view that these technical and political evolutions could produce obstacles for lifting the multilateral baseline.

The binding nature of WTO DSM may further affect the general political environment of trade negotiations more than is usually acknowledged. Interviewees reported that the enforceability of trade rules has made negotiators cautious about ambiguous language in trade deals, precluding the use of creative ambiguity as a negotiating technique in trade. This may imply that preferential agreements could constitute the privileged forum for trade negotiations for some time to come.

### Conclusion

In global trade governance, there is a clear need for transparency and dialogue, adjudication of trade disputes, and the negotiation of new rules. As a quasi-universal one-stop shop for these functions, a multilateral body like the WTO remains the ideal in global trade governance.

While the global trading system can theoretically operate with a multilateral baseline on which preferential agreements build, limitations to financial and human resources in trade policy communities mean that one avenue is in practice pursued at the expense of another. Due to the multiplication of trade policy forums, there is a risk that the WTO's governance functions will suffer under preferential agreements.

The shift would disproportionately affect small trading nations, for whom the WTO governance functions constitute a global public good that is not replaced by the network of preferential agreements. In addition to pending DDA issues, global trade policy communities need to direct their attention to these problems, in order to secure trade and sustainable development for all.



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① WTO, "Azevêdo welcomes optimism on the WTO in Davos", 23 January 2016. <http://bit.ly/1qsJHgI>

② The project was funded by the Australian Research Council.

③ See : "Annex to Director-General's Statement at the DSB Meeting of 28 October 2015 : Current Dispute Settlement Activity", 28 October 2015. <http://bit.ly/1ozobW5>



## POST-NAIROBI

# The trade and development debate in the WTO: The need for change

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Sacha Peter Silva

*The Tenth WTO Ministerial Conference has created new and exciting possibilities for trade-led growth and poverty reduction. How can we ensure that members of the trade and development community—particularly the smallest, poorest, and most vulnerable WTO members—are fully engaged in the post-Nairobi agenda? How can the development discussions in the WTO deliver tangible, valuable results in exchange for the investment made in them?*

It's time to re-evaluate the development discussions in the WTO and the ways in which the Geneva trade community supports the smallest, poorest, and most vulnerable countries on the multilateral stage.

Part of this re-evaluation entails the honest, long-overdue recognition that the WTO debate on development must change. This debate isn't brave, it's not big, and it's not thoughtfully tackling the real issues. The post-Nairobi phase of reflection provides an opportunity for the entire Geneva community to take a fresh, critical look at the WTO architecture. The foundations of that architecture cannot and should not be exempt from scrutiny, especially where development is concerned.

Our primary goal should be to ensure that resources are used effectively, deliver value for money, and create pro-development impacts. Geneva is the only place outside of their own capital where many WTO members have spent years investing human and financial resources in trade. The tight-knit community that has grown around the WTO is a wonderful and unique asset.

Yet for many of the smallest, least developed and most vulnerable members (who are, after all, the core constituency of the trade and development community), maintaining a presence in Geneva is extremely costly. If the development architecture of the WTO is intended to be a platform on which their needs are placed front and centre, post-Nairobi discussions should be contemplating whether that architecture is providing tangible, valuable results in exchange for the resources it consumes.

We must begin by asking three fundamental questions.

### Three questions

First, *are we pursuing a strategically defensible agenda?* The general consensus is that the WTO adds true value by strengthening the global system of trade rules. However, the negotiations related to special and differential treatment have, thus far, focused almost exclusively on creating exemptions from those rules.

There is widespread recognition and understanding of the capacity constraints faced by our smallest and most vulnerable WTO members. The best corrective measure is supply-side capacity building, carefully directed at the public and private stakeholders that engage in trade. Through the UK's support to initiatives here in Geneva—for example, the Enhanced Integrated Framework, the Trade Advocacy Fund, the International Trade Centre, and the International Centre for Trade and Sustainable Development (the publisher of Bridges Africa)—and our regional and bilateral programmes, we have taken a leading role in ensuring a level playing field.

Time-bound exemptions are an essential part of special treatment, but they cannot be the exclusive focus. An open, rules-based multilateral trading system underpins the 2030 Sustainable Development Goals. Under the right circumstances and with the right support, trade rules are good for development. We need a negotiating agenda that reflects that positive vision.



Bridges Daily Update  
See ICTSD's overview of  
outcomes from the WTO's 10th  
Ministerial in Nairobi.  
<http://bit.ly/1S3ugaa>

Second, *are we targeting the right markets?* All too often, the geographical focus of development negotiations remains stuck in 2001, when barriers and practices in traditional developed country markets were the overriding concern. This approach however is out of sync with the post-Doha reality, in which the closest and most promising market for a least developed country (LDC)—as well as the most troublesome trade barrier or measure—may very well lie in another developing country.

Both the role and the profile of emerging markets and their regional groupings have changed dramatically since the end of the Uruguay Round. The potential scope and estimated benefits from South-South trade are extensive. We should support our core constituency, right here in Geneva, to harvest these gains from trade.

Third, *here in Geneva, are we adding real value to the core issues of trade and development?* The multilateral system is based on the assumption that there are problems that can only be solved at the global level. Yet the development discussions in the WTO are not focused on multilateral issues.

Instead, we talk about bilateral issues, such as preferential rules of origin, duty-free and quota-free market access, and capacity-building through aid-for-trade. This focus is indeed justified, as these are the trade challenges our core constituency faces on a daily basis. There is value in the WTO's traditional approach to these issues: Ministerial Decisions or Declarations, even when not fully binding, can exert a certain level of peer pressure on members, and provide a political tailwind when a beneficiary lobbies its donors or preference-granting partners for better access or additional aid.

Nevertheless, preferential market access, rules of origin, and aid flows are governed by separate processes, strategy documents and programming cycles, which are driven by their own individual political and economic logic with little guidance from our discussions in Geneva. This fundamentally bilateral structure is critical to ensuring that countries feel ownership of their aid for trade programmes, that resources remain stable and that aid is targeted at the sectors with the greatest need.

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*How can we preserve the integrity of our bilateral discussions on core trade barriers, while ensuring that—at the multilateral level—we are not simply engaged in an expensive monitoring exercise?*

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This brings us to the question of how we in Geneva can be most effective. By definition, preferential issues are not multilateral issues. Apart from avoiding name and shame, preference-granting countries have little incentive to trade off development-friendly concessions amongst each other, thus undercutting the rationale for 162 members negotiating under a single roof. How can we preserve the integrity of our bilateral discussions on core trade barriers, while ensuring that—at the multilateral level—we are not simply engaged in an expensive monitoring exercise?

#### **Engaging in the real trade agenda in Geneva**

All too often, the negotiations in Geneva that have the potential to unleash economic growth, open markets, create jobs, and reduce poverty seem to occur in a parallel reality. The broad consensus is that the plurilateral agreements<sup>①</sup> (within and outside of the WTO), the discussions on agriculture, accessions, monitoring, and dispute settlement are the active, trade-creating agenda in Geneva. Yet all too often, this agenda does not involve the smallest, poorest, and most vulnerable members.

Post-Nairobi, there is a genuine risk of this isolation growing over time. If trade discussions in Geneva move towards more flexible approaches and newer, non-Doha issues—

particularly those with real development potential, such as the digital economy—how can we ensure that our core constituency is not left behind?

The answer lies in crafting a specific, practical, forward-looking agenda. The post-Nairobi narrative on trade and development cannot be based on outright rejection, indifference, or calls for exemptions and flexibilities, reflexive responses which are often grounded in fear of the unknown or simple force of habit. The answer is not isolation, but rather engagement.

Roberto Azevêdo, the Director-General of the WTO, has asked the organisation's members to move from the abstract to the specific. Within the development community, this implies moving away from ideological discussions, and instead crunching hard numbers, and asking specific questions.

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### *What trade outcomes can spark genuine domestic reform in the smallest and poorest countries, linking their enterprises to global value chains and catalysing trade-led poverty reduction?*

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Which countries could reap developmental benefits from engaging in new approaches and issues? Which countries could be placed in jeopardy? What impact would the elimination of subsidies and support mechanisms (at home and abroad) have on exports and rural poverty?

What are the risks for specific countries, rather than the broad negotiating groups which have been an intrinsic part of the old Doha architecture, yet whose internal interests may differ widely with regard to a given issue or sector? How can regional integration—the tangible trading reality for most small countries in the WTO—be reconciled with the variable landscape of the post-Nairobi world?

Most importantly, what trade outcomes can spark genuine domestic reform in the smallest and poorest countries, linking their enterprises to global value chains and catalysing trade-led poverty reduction?

At this early stage, all we can do is ask the right questions, knowing that no single country or institution has all the answers. The Tenth Ministerial Conference has created new and exciting possibilities for trade-led growth and poverty reduction. As the post-Nairobi conversation gathers momentum, both inside and outside the halls of the WTO, let's ensure the trade and development community stands ready to seize the opportunity.

*This article is the author's personal point of view and does not represent the official view of the UK Government.*

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① These include the Environmental Goods Agreement, the Information Technology Agreement, the Trade in Services Agreement, and the Government Procurement Agreement.



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## AFRICA

# Five years on, the progress and the future of the UK's Africa Free Trade Initiative

Darlington Mwape and Peter Lilley

*With recent developments in trade and regional integration in Africa, the UK All-Party Parliamentary Group on Trade Out of Poverty is launching an inquiry into the progress and future of the UK's Africa Free Trade initiative (AFTi). This article reviews some progress and opportunities around the AFTi.*

It has been five years since the Africa Free Trade initiative (AFTi) was launched. With the aim to help African countries integrate with each other and into the world trade system, the AFTi was a top priority in the UK's five-year trade strategy published in February 2011. Though the AFTi has contributed to notable milestones in designing and implementing policies and programmes in the area of regional integration and trade facilitation in Africa, much more can be achieved in today's fast-changing landscape of global trade. The inquiry into AFTi (see section below for more details) launched by the UK All-Party Parliamentary Group on Trade Out of Poverty (APPG TOP) comes at a good time to explore the emerging opportunities in further expanding Africa's trade; as an instrument to achieve sustainable growth, employment and poverty reduction; as well as defining the role of development partners, including the UK, in supporting countries so that they can realise these opportunities.

## The Africa Free Trade initiative

Boosting trade and investment policy tools to achieve economic growth and development has been a priority in the UK's trade strategy. The AFTi provides investment, technical and political support to trade reforms, with the aim to facilitate trade between African countries and the rest of the world.

The AFTi has since brought together regional trade initiatives from across the UK's Department for International Development (DFID), the Department for Business Innovation and Skills (BIS) and the Foreign and Commonwealth Office (FCO) to cut red tape, reduce tariffs, and improve infrastructure in Africa.

One of the ambitions of the AFTi was to link landlocked countries with the sea, and subsequently increase market access for these countries, by investing in One-Stop Border Posts (OSBP) and building soft and hard infrastructure to streamline trade bureaucracy. TradeMark East Africa, a US\$700m multilateral Aid-for-Trade vehicle initiated by the UK, has been instrumental in reducing trade barriers in East Africa, such as implementing OSBP in countries including Burundi, Uganda, Tanzania and Kenya, and reducing custom clearance times at borders. For example, in Tanzania, time to cross borders was reduced by 30 percent through setting up four OSBPs in Holili, Mutukula, Kabanga, and Tunduma.

The AFTi has also provided technical and financial support to Africa's regional integration efforts. Most notably, the AFTi has contributed to the launch last year of the Tripartite Free Trade Area which encompasses Africa's largest regional economic communities namely, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern African Development Community (SADC).

As AFTi reaches its five-year mark, it is important to take a fresh look at the current progress and the new areas of opportunities where the UK can play a role in supporting trade and regional integration in Africa.



### Opportunities for the future of African trade

With the changing landscape of global trade (See *Bridges Africa*, Volume 5, Number 2), new opportunities are opening up for African countries to expand, restructure and increase the value of their trade, both regionally and internationally.

The progress being made in regional and continental integration efforts in Africa presents significant potential for trade, economic and social gains. Negotiations on the Continental Free Trade Agreement (CFTA) – Africa's own mega-regional agreement – began in February 2016. Once implemented, it is estimated that the CFTA would contribute to an increase in intra-African trade US\$35 billion per year by 2022. The Tripartite Free Trade Agreement (TFTA) has also entered into a new phase of negotiations which will tackle issues beyond trade barriers of goods, such as trade in services and intellectual property. These are catalysts to long-term economic growth for a number of African countries.

Beyond trade agreements, changes in the global economy have created new market opportunities for African countries to tap into. With the number of mobile phone subscribers reaching 348 million in Sub-Saharan Africa in 2014, there has been much excitement and hope that digital technology can enable African countries to leapfrog traditional stages of industrial development. The changing economic structure and consumer demands of emerging economies, such as China, also provides a potential for African countries to accelerate their process of industrialisation. Trading through global value chains has real potential for Africa to realise its comparative advantage and participate in various levels of the value chain.

In light of these new opportunities for African countries, there is a need for development partners, such as the UK Government, to reflect on how the past and current policies can be redesigned to help African countries to overcome new challenges in order to realise these opportunities.

### Inquiry into the UK's Africa Free Trade initiative

With a new UK government in place since May 2015, and a new aid strategy launched in November 2015, now is a good time to review the progress, potential and future of the AFTi.

Launched by the All-Party Parliamentary Group on Trade Out of Poverty, the inquiry into the AFTi is examining the lessons that can be learned, reviewing the challenges and barriers to achieving the goals that were set out, and considering what a future AFTi should look like, in particular the targets it should seek to achieve, and the means and partnerships through which it will be delivered. As part of the inquiry, the Committee<sup>1</sup>, co-chaired by Lord Stephen Green, former UK Minister of State for Trade and Investment, and Ali Mufurki, Chairman of Infotech Investment Group, is engaging with a range of stakeholders to understand the recent developments on the African trade agenda, and examine what has been achieved in AFTi since 2011.

This inquiry can contribute to building on AFTi's successes and creating a greater, more sustainable impact in Africa in the future. The report will be published and presented to the UK Prime Minister and Ministers from the Department of International Development (DFID), Foreign & Commonwealth Office (FCO) and Department for Business, Innovation & Skills (BIS) in the summer of 2016. The findings will then be discussed with African governments, secretariats of Regional Economic Communities, the African Union, and other key policy making bodies.



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<sup>1</sup> Other Committee Members are Myles Wickstead, former Head of Secretariat, UN Commission for Africa and Darlington Mwape, Senior Fellow at International Centre for Trade and Sustainable Development (ICTSD) and former Permanent Representative of Zambia to the WTO.

# The newsroom

Be sure to visit [ictsd.org/news/bridgesafrica](http://ictsd.org/news/bridgesafrica) regularly for breaking African trade and development news.

## UN endorses SDG indicators

The United Nations Statistical Commission endorsed last month a set of 230 global indicators as the basis for reviewing progress towards the UN's 17 Sustainable Development Goals (SDGs), called the "last missing piece" of the 2030 Agenda for Sustainable Development. The 230 indicators will be refined over the next few months and over time, as they are used by countries and international agencies to measure progress towards the 169 targets supporting the SDGs.

The 2030 Agenda, including the SDGs, was adopted last year at the UN Sustainable Development Summit in New York following nearly five years of negotiations. The SDGs themselves replace the Millennium Development Goals, which expired at the end of 2015. Progress towards target 2.b on correcting and preventing trade restrictions and distortions in world agricultural markets, part of Goal 2 on ending hunger, will be measured using levels of producer support estimates and agricultural export subsidies.

## UN fights against illegal wildlife trade

The UN announced on 3 March 2016 the launch of a global campaign to stop illegal wildlife trade. The initiative was unveiled on World Wildlife Day, which was held under the theme "The future of wildlife is in our hands."

According to Ban Ki-moon, the Secretary-General of the United Nations, the fight against poaching and trafficking of protected species requires addressing "both the demand and supply of illegal wildlife products through agreed goals, targets, and international instruments, such as CITES."

In a joint statement, UNEP, UNDP, the UNODC, and CITES stressed the severity of the situation. Fuelled by strong demand, the illegal wildlife trade has in recent years escalated into a global environmental crisis. In order to tackle this issue, the global campaign launched on 3 March called on individuals, businesses, civil society, and academia to use their spheres of influence to end the illicit trade in wildlife.

## Ratifications of the TFA are on the rise

Ratifications of the WTO's Trade Facilitation Agreement continue to arrive, with 70 members having now notified the global trade body that they have approved the deal's terms domestically. (This information was first published on 18 March 2016).

The multilateral deal requires approval from two-thirds of the WTO's 162 members – in other words, 108 members – in order to enter into force. While the current tally is still short of that number, the pace of ratifications is now such that members have been urged to prepare for the deal's eventual entry into force.

During a 3 March meeting of the Preparatory Committee on Trade Facilitation, members were reportedly encouraged to notify the WTO secretariat of any support they may need – for instance, in terms of technical assistance and capacity-building – in order for the multilateral pact to enter into force smoothly.

## The IMF revised downward its growth projections

In its latest World Economic Outlook (WEO), the International Monetary Fund revised downward its earlier projections for growth this year and next. According to the 12 April report, global growth should hit 3.2 percent this year and 3.5 percent in 2017 – down from the earlier projections of 3.4 and 3.6 percent released in January.

The sobering update came as finance and development officials from nearly 200 countries were gathering in Washington for the Spring Meetings of the International Monetary Fund and World Bank Group, held on 12-17 April. The Spring Meetings bring together the Fund's International Monetary and Financial Committee (IMFC) and the joint World Bank-IMF Development Committee. With these prospects in mind, the IMF has recommended that countries undertake a "three-pronged approach" that incorporates a mix of structural reforms, fiscal support and stimulus, and monetary policy measures. Details of how this policy mix should work were under debate during the past weekend's discussions.

# Publications and resources



## **The Role of PPMs in Extractive Industries – E15 – March 2016**

This paper primarily addresses the potential responsibilities of home states and third countries importing extractive industry products. It explores the potential role of trade law and regulation in addressing deficiencies and bringing about a better balance of risks. Linking trade, investment, human rights, and the environment is in its infancy and research gaps loom large. The author seeks to address these gaps by exploring the role of process and production methods (PPMs) in regulating international trade of commodities. <http://bit.ly/1SNFnSs>



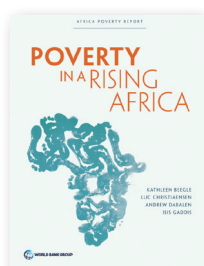
## **The Evolving Global Business Landscape: Implications for the International Investment Policy Regime – E15 – March 2016**

This paper presents a summary of the Organisation for Economic Co-operation and Development's (OECD) recent and ongoing work on the evolving global business landscape. It begins with a brief survey of global investment trends and then examines three factors that could have implications for the international investment policy regime: changes in the ways companies organise their international operations; increases in government involvement in some segments of the global economy; and gaps in the governance of international investment flows. <http://bit.ly/1Wa4Zfg>



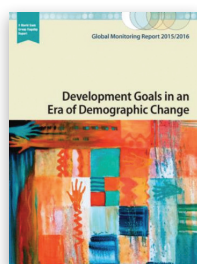
## **Trade, Finance & Development: Overview of Challenges and Opportunities – E15 – February 2016**

This paper reviews recent work, including by the author, on the relationship between geography, institutions, trade, finance, economic growth, and development. It argues that high levels of financial depth, measured by credit as a fraction of GDP, is associated with less, rather than more, economic growth. <http://bit.ly/1o9auxt>



## **Africa Poverty Report: Poverty in a rising Africa – The World Bank – March 2016**

This new report is the first of two that the World Bank has planned for the coming months on poverty in Africa, with the findings suggesting that poverty levels may be lower than what has been noted in recent estimates, but at the same time noting that significant poverty challenges remain and the number of those who still live in circumstances of extreme poverty has increased over the past couple of decades. One of the key points made by the authors is the importance of having better data to inform decision-making processes. <http://bit.ly/1XeiBoD>



## **Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change – The World Bank – March 2016**

This report looks at the complex relationship between demographics and development in the context of the expiry of the Millennium Development Goals (MDGs) and the beginning of the Sustainable Development Goals (SDGs), as well as the World Bank's own goals of ending extreme poverty while ensuring shared prosperity. The report looks towards the potential impacts that demographic trends could have – in terms of both new potential and increased challenges – in achieving such goals. <http://bit.ly/1NnrZ29>

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