tralac in Addis Ababa, Ethiopia (16-20 May 2016)

by Ron Sandrey, tralac

1. Workshop on trade related matters: African Trade Policy Centre

During the week of 16-20 May the African Trade Policy Centre (ATPC) and partners held a week-long workshop on trade related matters. tralac was represented by Associates Hans Grinsted Jensen and Ron Sandrey to further develop their special interest in services trade data and computer modelling of services trade liberalisation in Africa. Monday and Tuesday was fully devoted to services trade data and the modelling of this trade, and this same theme continued on as one of the two concurrent sessions on the Wednesday morning and later group sessions. Hans made a special presentation of the tralac research to date on African services trade liberalisation. The meeting was attended by several of the top international experts on this issue, and grew out of a proposal for tralac to have a bilateral meeting with the ATPC. A special thanks is due to the Economic Commission for Africa (ECA) and in particular Simon Mevel.

The meeting was opened with a brief introductory welcome from David Luke, ATPC Co-ordinator of the Economic Commission for Africa.

The first contributed discussion was from Maximiliano Mendez-Parra from the British Overseas Development Institute (ODI) team. He presented a very enlightened discussion on the work that he and others have been doing on economic transformation and the role of the value-added component of this along with the issue of market size in enhancing profitability. With many and often smaller markets this confirms the need for trade, as there is clearly a two-way relationship between trade and value-added competitiveness. The standard developed growth model to date has focussed on the technological gains from the switch from agriculture, but he quested as to whether this model was suitable for Africa and suggested that perhaps Africa may do better to examine services and especially those services embedded in merchandise trade as for many LDCs (but perhaps not the more developed African economies of South Africa and Kenya) this has been one of the factors leading to services growing faster than agriculture and manufacturing. Their preliminary research highlights the crucial importance of intra-African exports, as this represents some 94.49% of the continental services trade. Although this seems very high it is not significantly higher than other regional groups examined, thus emphasising that most services trade takes place close to home. In questions he considered that services protection and the resultant impacts upon investment was more of a problem for LDCs than was protection in agriculture.

Professor Emmanuel Ogunkola from Nigeria gave a summary of the relevant chapter on the role of services in structural transformation in the UNECA's Economic Report on Africa 2015. He agreed that the development model of transferring resources from agriculture to services may well be more appropriate for Africa, and especially so when from their survey of 12 African countries agriculture employed 47% of the workforce, and even this may be an underestimation as informal trade underestimates the services trade. Switching to services and investment he emphasised the importance of the travel and transport service sectors in foreign direct investment (FDI) in Africa and although perhaps we know a lot about the inter-links between services, investment and GDP there is also much that we do not know. In question time there was discussion about technology in African agriculture and the need to improve this, along with an acknowledgement that tourism often similarly locked local workers into low productivity and hence low wages.

The next speaker was Emmanuel Chinyama from ECA who spoke on their research on the investment agreement landscape in Africa (the bilateral investment treaties or BITs). There had been a surge of FDI into Africa but with the recent commodity price declines this had flattened somewhat, and most of this FDI was into the extractive sector, infrastructural development and energy related investments. Within Africa there were around 1,000 BITs, and this represents a significant share of global BITs. Conversely Africa had been involved in a lesser share of investment disputes in recent years (113 involving African countries from 560 globally). Unfortunately Africa too often loses these disputes, in part because of the cost in both monetary terms and the expertise needed to argue these cases. He urged Africa to look closely at their BITs and dispute resolution procedures, and considered that too much emphasis was placed upon protecting investors. Coincidentally on the same day, Yılmaz Akyüz, the chief economist of the South Centre, in another forum wrote on the same theme:[1]

> "*Policy space in several key areas affecting the contribution of FDI to the pace and pattern of industrialization might be somewhat constrained by the WTO Agreement on TRIMs, but it is still possible for EDEs (developing economies) to encourage positive spillovers without violating the WTO commitments. However, many of the more serious constraints are in practice self-inflicted through investment and free trade agreements. There are strong reasons for EDEs to avoid negotiating the kind of BITs promoted by AES (developed economies). They need to turn attention to improving their underlying economic fundamentals rather than pinning their hopes on BITs in attracting FDI. Where commitments undertaken in existing BITs seriously impair their ability to use FDI for industrialization and development, they can be*

[1] The article was based on South Centre Research Paper 63 entitled "Foreign Direct Investment, Investment Agreements and Economic Development: Myths and Realities", available at http://www.southcentre.int/research-paper-63-october-2015/

renegotiated or terminated, as is being done by some EDEs, even if doing so may entail some immediate costs."

The state of play on regional African trade in services regulations and the potential benefits of further liberalisation/harmonisation was introduced by William Davis from the ATPC/ECA. He emphasised that Africa has a far from liberal trading regime, and in fact many countries ranked very low in the World Bank Restrictiveness Index. Bilateral data is hard to get, but the main exported sectors from African countries are in areas such as construction, education, franchises, health services and market research. It made sense to concentrate upon liberalisation in these sectors (although this ignores the concept of 'trade chilling' where trade in other sectors). Overall Africa has a significant services trade deficit.

Day two concentrated upon the trade data availability and the data gaps in Africa.

This section was introduced by David Primack from Canada's International Lawyers and Economists against Poverty (ILEAP). He started from the base of what we do know about services data, what the best practice approach was, examined some recent studies and pondered on where to. There are several Institutions such as the World Bank, UNCTAD and the OECD offering data bases, but unfortunately data on these bases is incomplete. Perhaps at this stage it would be useful to introduce some terminology to assist readers on definitions of the 'Modes'. These are listed below and represent the WTO definitions as used by trade negotiators and others:

1. from the territory of one Member into the territory of any other Member (**Mode 1** – Cross border trade);
2. in the territory of one Member to the service consumer of any other Member (**Mode 2** – Consumption abroad);
3. by a service supplier of one Member, through commercial presence, in the territory of any other Member (**Mode 3** – Commercial presence); and
4. by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member (**Mode 4** – Presence of natural persons).

David then spoke on the difficulties of getting data on these modes, and especially the services data problem – to disentangle the amount of services which are 'embedded' in the manufacture and related activities generally associated with goods trade. The definitions are very subjective and uncertain, and the manufacturing/service 'blurring' is associated with the modern emphasis to understand the concept of Value-added (VA) in goods trade. Assembling quality trade in services data is a real challenge for developed countries, and for many LDCs it is simply impossible. There are however some LDCs who are doing a good reporting job, and even a couple who publish bilateral services trade flows (Bhutan and Kyrgyzstan), but these are very much the exception as not that many developed countries publish bilateral flows. There are also questions over the reliability and timeliness of much of the services data, and there were also many problems such as confidentiality and the time and monetary resources needed to undertake firm level surveys to get 'on the ground' data. He emphasised that of course there were two steps in our trade data modelling exercise: the first was to get the data while the second was to assess restrictiveness indices.

Basiel Bogaerts and Yared Befecadu from the International Trade Centre (ITC) gave two presentations. The first session was a comprehensive outline of the ITC data and the new features that they are building into this data. The new services data that has been introduced included re-export data for several countries, although unfortunately several of these were non-African countries. The site is also introducing new data such as tariff-rate quota data for some products and economies, data relating to special and different data for goods and countervailing duties. Perhaps the best news for a session involved with services data availability is that the services trade data is becoming more and more available. Some 49 economies now have bilateral services data on the site, and new data relating to the linkages between goods and services with respect to 'goods for processing' is changing the nature of trade reporting. Similarly, more comprehensive data on FDI was increasingly becoming available. This includes an increasing availability of firm level data on FDI, although care must be taken in using this data. Overall, the ITC data quality and availability is rapidly improving, although there are several challenges left that they are working on.

The second ITC presentation was on behalf of a colleague who was analysing the Trans-Pacific Partnership (TPP) Agreement. They concentrated on the market access issues, and in particular tariff reductions and preferential margins and their erosions. For Africa they found that in percentage terms, Lesotho was the biggest loser, with both Kenya and Egypt also featuring. Having written a paper the previous week looking at Lesotho's clothing exports to the US, Ron Sandrey was able to support their conclusions with a very short addition on the actual tariff margins in the clothing sectors and the real threat from Viet Nam from both preference erosion and rules of origin advantages.

A very comprehensive presentation on the tralac services trade modelling was given by Hans Grinsted Jensen. This was especially important, as it was this draft paper that spurred the week-long workshop into being! Hans went through his preliminary paper, while stressing that it was very much an initial step into modelling African services trade liberalisation. He discussed the earlier research that he was basing his approach on, and set the scene for the detailed discussion sessions later in the week that were involved with specifically addressing the challenging issues on the way forward. This discussion continued over the next two or three days.

Simon Mevel from ATPC/ECA spoke on the latest research that they are involved with in modelling the emergence of the mega-regionals (the TPP and the proposed US-EU agreement) and the more detailed analysis of their impacts on Africa. This moved to an analysis of the possible merging of the TPP and the African Continent FTA (CFTA). Other possible alliances simulated included an agreement between Africa and other Asian partners, and here the important player for Africa was India. He stressed that their analysis of a TPP+CFTA scenario is something that they did not really give short-term creditability to but undertook the research as an exercise to see whether African countries would win by engaging deeper with Central and South American developing partners. His very sound conclusions were that the CFTA must be the priority for Africa, but this was not enough. There must be a greater emphasis placed on Africa-Asian and Africa-Middle East cooperation. This research will be presented at the forthcoming GTAP Conference.

Mohamed Chemingui, ESCWA, spoke on their latest report, the 2nd edition of *Assessing Arab Economic Integration*. An emphasis was given to the service trade issues associated with integration in the Arab countries. As with Africa, intra-trade in goods in this region is low, and hence much of the focus shifts to issues such as the services trade, FDI and remittances. Of special interest was the issue of the Value-added services content in manufacturing, and similarly this is also low in much of the Arab world. Chapter 5 examines services trade in general, while Chapter 6 examines the liberalisation of this trade with a focus on the EU-Arab linkages. Particular attention is paid to the three important sectors of maritime services, banking and insurance, and he considered that some countries lacked their own domestic capacity. For their next report they will be giving attention to the issue of trade in value-added (TIVA) services and issues concerning imperfect competition in the region.

Emmanuel Ngokp from the ACS/ECA spoke on their ongoing efforts to improve data on services and investment in Africa. There certainly were challenges, and a comprehensive approach was taken. The main data source was the countries themselves, while a secondary source was the International Institutions. The main emphasis was on investments and capital formation and the revenues from foreign investments. Their forward goal was to study the trade in value-added trade in the global chains, and while this was data intensive they were cooperating with International Institutions such as the OECD.

The way forward

Wednesday morning continued the session on Africa's industrialisation and engagement with emerging markets, with the presentations based upon ATPC/ECA work or forthcoming work. Much of this focussed on the need to evaluate trade at a disaggregated level when using trade models and the attempts to assess areas where Africa may have a comparative advantage. Central to this are the well-known measures such as reducing or eliminating tariff levels on imported inputs into local manufacturing and paying closer attention to domestic NTBs. Clearly the future emphasis must be closer cooperation with emerging enterprises and the need to integrate into regional and global value-added production chains. Case studies were planned to assess the current trade profile and performance and tariff barriers for African exports to China, India, Turkey and Brazil from a possible FTA relationship with these partners.

From mid-morning Wednesday the workshop split into two groups. One concentrated upon trade and gender issues, the other into a specific workshop group that was the focus of tralac's interest. It was a session in the nature of a general discussion on what data was available, who was undertaking data analysis (both within the group and outside) and what was technically feasible and, perhaps more importantly, practical to do in the short to medium term. It was agreed that the working note that tralac has presented to the meeting for initial discussion would be refined into a full working paper by Ron and Hans in the short term, and that Simon would circulate some more information of interest to the group. Another working session would be held on Thursday afternoon.

Simon Mevel summarised the progress made to assist in discussions, and that note is used as the basis for reporting here without going into too many technical details. He stressed that his note was to aid thinking and briefly recap progress made on issues surrounding modelling of trade in services and investment, but it is close to the final agreement. Participants were left with some major questions to answer from Hans Jensen's presentation:

- Which Model to use?
- Which Data?
- How to shock the model (i.e. scenarios)?

From subsequent discussions the following points (which require further reflection) were made:

- The modelling exercise should probably not only look at services Mode 3 but also Mode 4;
- Once the type of shock has been decided, the magnitude of the shock should be clearly justified;
- It is necessary to investigate the STRI (i.e. what has been put into it; methodology);
- Should all services be considered in the liberalization exercise or only a sub-set of them?

The final agreement from the trends on the above is as follows:

<u>Model</u>: Among the 3 models suggested by Hans, FTAP model seems to be the most comprehensive and suitable; however, from information shared by Houssein Guimbard (from CEPII, who joined the discussion through Skype), a version of MIRAGE currently being developed and taking into account firm heterogeneity may be a good fit (although there will be some codes to add to model services and investment properly).

<u>Data</u>: a) Global SAM for the model: it would be preferable to use GTAP version 9 database as much as possible (to have post-crisis data for model calibration in the base year); b) FDI data to be used to calibrate shares of domestically vs. foreign owned capital could be those proposed by CEPII. However, their data are only for the year 2004. CEPII has informed the group that they have a 2007 beta database in preliminary draft form which they can share with the group but have no plan for other updates anytime soon; c) Repatriation of profits: Similarly CEPII has agreed to share with tralac at least one year of their BoP dataset so that the country coverage can be checked. If satisfactory this could be a good option.

<u>Shock</u>: The option of using AVEs of STRI is on the table; yet, there is need to dig deeper into the STRI. CEPII has done recent work on this which tralac will need to look at and see if it is a better option than OCED/WB STRIs. Econometric work is required to assess by how much

a reduction of x% in restrictiveness would increase inward FDI stock (suggestions were made that Colleagues in RITD/IPS or UNESCWA could possibly assist with this).

2. Meeting at the Swedish Embassy

On Thursday 19 May, Hans Grinsted Jensen and Ron Sandrey met with the development team at the Swedish Embassy to liaise with one of tralac's leading financial sponsors. The Swedish team was represented by Fantu Farris, Programme Officer; Ingela Juthberg, Programme Specialist (based in Stockholm); and Camilla Bengtsson, Counsellor, Head of Section Regional Development Cooperation of Africa South of Sahara.

It was very forthright discussion. The Swedish team was very interested in tralac's work and perhaps in particular its linkages with other Institutions in Africa and elsewhere. It was explained that tralac was a compact Institution, but a network of Associates is used to enhance the knowledge and expertise of the core team. tralac's presence in Addis Ababa and the close cooperation with the ECA modelling team was discussed, highlighting how the original two-day meeting had grown into a full week-long workshop whereby the ECA brought several international experts along to examine and continue the tralac work (and especially so since tralac did not have the full resources that the ECA and others had). They were very interested in tralac's results, which are 'baby steps' in the area of services liberalisation but based on early research showing that infrastructural development (a component of services trade) was more restrictive than tariffs on goods to intra-African trade, the ECA were extremely interested in continuing tralac's early work.

The Swedish team discussed the issue of regionalism and development in Africa. The term 'coalition of the willing', which was introduced last year in tralac's African integration modelling work, was also noted. Concerns about the medium to longer term integration, industrialisation and economic development issues for Africa were considered. Ron stressed that his view was that this required getting several areas to move forward in a cohesive manner. The issue of what sequencing meant was discussed, and Ron emphasised that regional integration was as much an issue of infrastructural development and sound domestic policies as it was about goods trade (emphasis on the first would lead to the second).

The team stressed that they would warmly welcome discussions with other members of the tralac network who were in Addis Ababa, and this was reciprocated by an expression of appreciation for the Swedish support to tralac.

3. Meeting with Dr. Adama Coulibaly, Chief Economist, Food Security, Agriculture and Land Section, UNECA

Hans Jensen and Ron Sandrey held a very interesting and productive bilateral meeting with Adama on Thursday afternoon 19 May. The main purpose of our meeting beyond a courtesy call was to discuss the book that tralac, in association with the South African National Agricultural Marketing Council (NAMC), is in the process of undertaking on the general topic of agriculture, Africa and the WTO. Dr. Coulibaly was given a copy of the short note summarising the agreed upon objectives and outline for the book, after which his research work and general perspectives on the issues relating to the book were discussed.

He outlined how he considered that from an African perspective the WTO had yet to deliver on its expectation on the development agenda, but that it was still essential for Africa to remain a part of the Institution. It was agreed that perhaps the direct gains for African agriculture may be limited, but for the wider issues relating to what could be considered new agenda areas such as food security, climate change and trade facilitation the WTO remained important. He considered that internal reforms in Africa were perhaps the key to reforms and development for Africa, and that in general the WTO may have a longer term role to play in facilitating countries to make these domestic reforms.

Specifically on the WTO he considered that it had helped in areas such as India's food stocks that was beneficial to developing countries, and that cotton remained as a 'flash point' for Africa when the WTO is examined. His team is presenting a paper at the upcoming GTAP Conference where they examine what the Doha Agenda may mean for African agriculture, and both Hans and Ron expressed a lot of interest in that paper. (Dr. Coulibaly has an impressive background in both quantitative analysis and modelling combined with policy advice in the agricultural area).

We discussed with him the possibility of him contributing a paper to the tralac/NAMC book. Ron indicated that what had been outlined during the discussion in general terms regarding the WTO and African agriculture would be a perfect over-arching theme to follow the paper from Miriam Omolo on the agricultural background to the WTO, and this broad perspective backed up by a specific summary of the GTAP analysis would combine to be a very valuable contribution.