Africa’s industrialisation: Trade policy instruments, value chains and industrialisation – the case of Rules of Origin

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Cross-border value chains and Rules of Origin (RoO)

Value chains cover the range of activities from design to the final disposal of a good, → in context of Rules of Origin (RoO) the focus is on production/processing activities

Cross-border value chains relate to fragmented production across several countries

Rules of Origin are the laws, regulations and administrative procedures used to determine the economic nationality (origin) of traded goods (a “passport” for goods)

Design of RoO can have a major impact on cross-border trade

→ in terms of trade in the final good
→ the feasibility of several countries contributing production processes, resulting in regional value chains based on resource endowments and competitiveness
RoO and the AfCFTA

A functioning preferential trade area requires agreement on RoO (and tariffs)

**Ambition** of AfCFTA’s approach to RoO has changed:

→ From a **generic Africa-wide approach**
→ to establishing line-by-line product / sector criteria, applicable to preferential trade outside of the FTAs in the 8 recognized RECs

Where are we now?

**Annex 2 on RoO:** main provisions concerning key principles, provisions on what constitutes wholly obtained products, cumulation of origin, processes not conferring origin, administrative procedures, *de minimis*, direct consignment and customs control, fisheries...

100% finalised

**Appendix IV on product-specific criteria:**
What defines ‘substantial transformation’?

92.3% finalised
RoO and the AfCFTA

Recent developments

Until recently, there were outstanding rules in several sectors:
- wheat flour, oils, dairy products, fruit juices, animal feeds, sugar products, fish, leather products, textiles and clothing, motor vehicles...

Finding compromise, then a greater focus on African production:

Flexible rules now (generous allowance for non-originating content), subject to a 3-5 year review, or with automatic transition from flexible to rigid rule after 5 years

Outstanding RoO:

Two important industrial sectors remain without agreed RoO
- Textiles/clothing (Chapters 50-63)
- Vehicles and parts (Chapter 87)
RoO and the AfCFTA – challenges and value chain issues

Textiles and clothing:

- Should the processing activity, or the material, or both together confer origin?
- Africa’s strengths – unprocessed versus processed material trade (cotton, wool) – 2/3 raw
- “AfCFTA origin” – adopt a single or double transformation methodology?

What is Africa’s experience with textile and clothing RoO?

- MMTZ → South Africa (1-stage)
- AGOA 3rd country fabric (1-stage)
- AGOA denim provision (2-stage)
- SADC (2-stage) → little import under RoO
- COMESA, EAC (1-stage), SACU (no RoO)
- ECOWAS (1-stage)
RoO and the AfCFTA

Automotive sector:

Automotive production requires large markets (even largest African economies on their own lack market size for a viable sector – need wider offset markets)

What is an appropriate allowance on non-originating (non-African) material to help drive local manufacture, but not too low to threaten existing production capacity?

Diverging interests: Reconciling national vs. regional focus, full producer countries vs. light assemblers

- SKD (semi-knock-down) imports, assembly without local content
- Tariff policies (0%) on SKD component vs (high %) on built-up vehicle imports
- South Africa / Morocco (full) - Egypt, Kenya, Ghana, Nigeria, Ethiopia (light), (Zambia - Gonow?)
- Liberal policies on second-hand car imports may be the biggest constraint to an expanded auto value chain (consumer welfare vs. incentivizing local production)
RoO and the AfCFTA

→ Automotive sector (ctd):

Cumulation provisions – will RoO flexibility support expanded value chains?

- **Helpful** but won’t drive the sector
- **Proximity** usually too important for lead firms
- **Constrained** by high cost of intra-Africa logistics
- **Constrained** by exclusions / sensitive product exemptions

Reality check: Sector requires large single adjoining market (e.g. Mexico / USA) or large regional market (comprising smaller proximate markets with full access)

Appropriate local content thresholds to confer origin status are critical, but ineffective in isolation of unchecked tariff policies, rampant second-hand imports and other constraints to intra-Africa trade
Linking AfCFTA RoO and tariffs

Incentivising greater value chain development through RoO?

- What is impact of RoO on a product’s final competitiveness - what are the cost implications on final products of having to comply with (e.g. rigid) RoO, vs. MFN trade?

Link between tariffs and RoO:

- Coordination of tariff outcomes with the RoO – how does one feed into the other?
- Preference margins determine effectiveness of RoO (low margins = low RoO impact)