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Trade and Sustainable Development News and Analysis on Africa

VOLUME 6, ISSUE 7 – OCTOBER 2017

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International Centre for Trade and Sustainable Development

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PUBLISHER
Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF
Andrew Crosby

MANAGING EDITOR
Tristan Irschlinger

ADDITIONAL SUPPORT
Fabrice Lehmann and Kiranne Guddoy

DESIGN
Flarvet

LAYOUT
Oleg Smerdov

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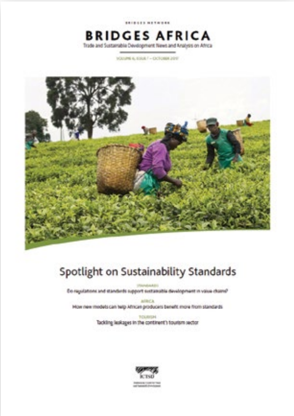
Spotlight on Sustainability Standards



In today's global production and trade landscape, developing the ability to comply with a growing number of sustainability standards has become a necessary step for many producers to access markets, distribution channels, and buyers. In global value chains in particular, an increasing variety of standards are applied by lead firms to ensure that products, services, and production processes meet a wide range of sustainability-related requirements – from labour rights and environmental norms to developmental impact on local communities and legal compliance. Often spurred by consumer demand in high-income markets, the use of such instruments has enabled firms to manage a shift from narrow economic profitability to meeting the so-called "triple bottom line" – financial, social, and environmental obligations and opportunities.

Sustainability standards, be they private or regulated, can have an important role to play in pursuing desirable economic, social, and environmental outcomes and in helping achieve the UN Sustainable Development Goals. However, while their potential to support sustainable development is generally recognised, standards can also have adverse effects. In particular, as they often serve as prerequisites for entering certain value chains or markets, standards can exclude producers – especially smaller and marginalised supplier firms in developing countries – who do not have the capacity to comply or obtain certification.

This deficient capacity can be linked to a number of constraints – including insufficient information, limited management skills, absence of training, high certification costs – which can be particularly acute in least developed countries across the African continent. As a result, the penetration of sustainability standards and the ability of African firms to access markets and benefit from their diffusion has so far remained comparatively low. It is thus essential to better understand both the opportunities and challenges related to sustainability standards from a development perspective.

In this issue's lead article, Raphael Kaplinsky and Mike Morris look at the role played by regulations and standards in global value chains and identify important policy implications in terms of sustainability dynamics. This piece is complemented by another article in which Joshua Wickerham and David D'Hollander explore how new partnership models could help African producers reap more benefits from sustainability standards. The third contribution, a note derived from a recent ICTSD study, presents a series of policy options to support collective governmental action with a view to promoting sustainable development through the improved governance and operation of private standards.

Also in this issue, the article by Jane Muthumbi, Giovanni Valensisi and Junior Davis focuses on tourism, reflecting on potential ways the African continent could retain a larger share of the economic revenues generated by the sector. Jaime de Melo's analysis, finally, offers a critical assessment of regional integration in African regional economic communities.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

SUSTAINABLE DEVELOPMENT

Do Regulations and Standards Support Sustainability Dynamics in Global Value Chains?

Raphael Kaplinsky and Mike Morris

Compliance with regulations and standards plays a central role in global trade competitiveness, in particular in the context of global value chains. What are the implications of these instruments for the achievement of the Sustainable Development Goals?

There has been an important shift in the purview of trade barriers to market entry in the high income economies, from the nation-state to the corporation and transnational agencies. Insofar as governments control import restrictions, there is a reduced emphasis on prices and a growing role for regulations which are generally mandatory for market entry. The lead firms dominating importation into high income economies employ a battery of standards to achieve multiple objectives. Directly and indirectly, standards and regulations not only determine the terms of market entry but also the extent to which different producers position themselves in global value chains (GVCs) in a manner that provides for socially and environmentally sustainable income growth.

International trade, driven by GVC dynamics, is intensely competitive. This requires producers to continuously improve skills and dynamic capabilities, because otherwise firms are unable to protect or upgrade their role in the international division of labour. Economic upgrading is hence crucial to achieving sustainability goals and may well be a precondition for attaining desirable social upgrading within companies and more broadly in the society. At the same time, there are growing demands for social and environmental standards in global export markets, and meeting them provides the social licence for lead firms to operate in these markets. Hence, producers have to develop the capabilities to respond to these multiple "triple bottom line" challenges of economic, social, and environmental upgrading.

This article examines the role played by regulations and standards in GVCs and addresses two related policy issues. First, their implications for achieving the Sustainable Development Goals (SDGs). Second, the extent to which the implementation of procedures required to achieve GVC standards and regulations builds producer capabilities to meet the competitive upgrading challenge required in GVCs if incomes are to be sustained and grow over time, and if social and environmental sustainability is to be assured.

The impact on sustainability and producer capabilities

There are two families of regulations and standards impacting on sustainability. These affect (1) the character of products (raw materials, intermediates, final goods, services), and (2) the character of the processes involved in the production of these products. Although these standards and regulations are in part defined by governments and civil society organisations, it is generally the lead firms governing the chain which are responsible for their deployment.

To ensure these standards are achieved throughout the chain's operations, and policy is transformed into practice, lead firms have adopted three strategies:

- <u>Sink or swim in the supply chain</u>: Lead firms in non-demanding markets adopt a passive policy towards standards and supplier performance by publishing their requirements, simply verifying supplier performance, and then either including or excluding suppliers from the chain.

- Lead firm supply chain management: In demanding markets requiring adherence to the triple bottom line, lead firms often cannot afford to adopt a sink-or-swim approach. Hence, they engage in supply chain management and supplier development programmes to assist suppliers attain the required standards.

- Using intermediaries: Lead firms encourage suppliers to obtain assistance from specialised intermediaries, which may be contracted to run supplier development programmes, particularly with small farmers and enterprises.

The regulations and standards determining market entry in high income markets have complex effects on the achievement of the SDGs. Inclusion is central to the SDG agenda. At face value, many of the triple bottom line standards (particularly the social and environmental) would seem to reinforce the objectives of the SDGs by promoting living standards, better forms of work, greater social inclusion, and the protection of the environment. But is this always the case? Are there contradictory impacts and trade-offs between standards? Are some producers in GVCs beneficially affected at the cost of others in the chain?

Regulations and standards in GVCs: A few insights

To examine the role of regulations and standards in GVCs/SDGs, we reviewed a variety of case study experiences drawn predominantly from low- and middle-income economies, and sectors in which small producers and unskilled labour play important roles. These are fresh fruit and vegetables, wine, fish, apparel, organics, handicrafts, leather products, the marine sector and electronics. The economies are Benin, Burkina Faso, Côte d'Ivoire, Gabon, Gambia, Guinea-Bissau, Kenya, Morocco, Senegal, South Africa, and Uganda in Africa; Cambodia, China, India, and Malaysia in Asia; Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, and Peru in Latin America. The review illustrates the complex and often contradictory sustainability outcomes arising from the incorporation of standards and regulations in GVCs. There are a number of features and conclusions[1].

Regulations affecting market entry are adopted by governments, including through intergovernmental agreements, and are binary in nature: automatic exclusion flows from non-compliance. Standards are set by non-state actors and provide more flexibility for supplier firms in meeting them.

Standards are intrinsic to the operation of GVCs and trade within GVCs is much more demanding for producers in these terms than is arms-length trade outside of GVCs. Dominant lead firms in GVCs use standards to target both an improvement in the competitiveness of the chain and the social licence to operate in global markets.

The intensity of standards in GVCs is affected by the nature of the final market: low-income consumers and low-income economies are less demanding. Regional markets have lower barriers to entry and open up important regional value chain opportunities for smaller farmers and processors who lack the capabilities to export to global markets.

Since global competitiveness is a moveable frontier, for gainful and sustainable insertion into GVCs suppliers are required to develop the capabilities to continually upgrade. Certification in relation to regulations and standards is demonstrably an important contributor to the upgrading of producers' capabilities.

Standards compliance promotes inclusion in GVCs. The evidence suggests that, as a result, wages have frequently risen, working conditions have improved, health and safety have been enhanced, environmental outcomes have improved, and, in some cases, unionisation has been strengthened. Thus it is clear that the introduction of standards has contributed to the achievement of many of the SDGs, including for example those affecting income generation, gender inclusion, and organic production and the environment.

However, notwithstanding these gains, there is evidence that standards compliance can also exclude marginal and disadvantaged producers and workers. These adverse outcomes arise because of three major obstacles to successfully meeting standards in GVCs:

- The costs of achieving the necessary certification can exclude disadvantaged groups such as small producers, small farms, women, and older producers. In some cases, small producers who had previously participated in GVCs before standards compliance became widespread are ejected from the chain.

- There are a series of additional barriers to the entry of marginalised producers, such as illiteracy, innumeracy, and lack of new management skills, which exclude small-scale producers and unskilled workers. This exclusion is often hidden in the monitoring of standards in supply chains.

- Health and safety standards often require pre-existing knowledge about basic health practices and involve actions by parties (such as local and national governments) which are not directly involved as producers in the chain.

The introduction of standards has contributed to the achievement of many of the SDGs, but there is also evidence that standards compliance can exclude marginal and disadvantaged producers and workers.

One consequence of these adverse developments is the segmentation of producers. A minimum cadre of skilled core workers and trusted suppliers is retained, and the remaining tasks are outsourced to informal enterprises and casualised (and often migrant) labour.

There are also frequently unavoidable trade-offs between the different dimensions of sustainability. In some cases, the trade-offs occur between the different triple bottom line dimensions (for example, economic versus environmental sustainability); in other cases, there may be trade-offs within the triple bottom line dimensions (for example, between female and male workers).

Hence, in summary, there is considerable evidence that meeting standards and regulations in GVCs contributes to the achievement of many of the SDGs and to the building of dynamic capabilities among many producers. But, at the same time, the very same achievement of standards can be exclusionary in character, and often shut out the least advantaged producers.

Policy implications

What are the policy conclusions from this review of the role of standards and regulations for developing country producers?

To varying degrees and with sectoral, locational, and temporal specificities, regulations and standards in GVCs have considerable implications for a large number of the SDGs. As in the case of all multidimensional development processes, conflicts and trade-offs between objectives are an unavoidable fact of life.

Policy actors need to take steps to correct for market failures which limit the capabilities of producers to meet standards and regulations. This requires them to fill information gaps (such as what standards apply in which markets), to help cover the costs of certification for small and marginalised producers, and to assist producers in developing the upgrading capabilities to meet these standards in a dynamic context.

While the policy challenge outlined applies to all producers in GVCs, including those in supply chains, there is a particular need to assist the capacities of poor and marginalised producers (such as women, small producers, and distant producers) to meet these standards. This requires focusing policy support on the least advantaged in the chain.

Civil society organisations play an important role not just in defining and monitoring those standards which address the social licence to operate, but also in assisting disadvantaged and marginalised producers in developing the capabilities to meet these standards.

Governments, lead firms, and civil society organisations must be aware of the danger that the degree of standards compliance is hidden by the exclusion and informalisation of producers in the chain, and must take the necessary action to counter these excluding developments.

Standards impact differentially depending on the final market. Regional markets with lower technical and sanitary and phytosanitary standards have lower barriers to entry and open up important regional value chain opportunities for smaller farmers and firms who lack the capabilities to export to global markets.

Some of the actions required to meet standards and regulations are not under the control of producers, such as dealing with environmental factors which affect phytosanitary conditions and the provision of education for disadvantaged producers. Government action should be targeted to ensure that these external determinants of compliance are supported, particularly for disadvantaged producers and communities.

The intensiveness of standards and regulations in GVC trade has implications for trade policy, including within the WTO, but this issue requires separate discussion and is not considered here.

The meta policy conclusion is that trade-offs are central to the role of standards and regulations in GVCs. Economic, social, and environmental standards do not always align. Moreover, exclusion and inclusion are intrinsic outcomes of participating in GVCs. Consequently, although there is scope for minimising and shaping the nature of these trade-offs, development is an inherently political process.

1 Forthcoming ICTSD paper.

Raphael Kaplinsky
Honorary Professorial Fellow,
Science Policy Research Unit,
University of Sussex

Mike Morris
Director of the Policy Research
on International Services
and Manufacturing (PRISM),
and Professor of Economics,
University of Cape Town

AFRICA

New Models for Increasing Producer Benefits Through Sustainability Standards and Trade in Africa

Joshua Wickerham and David D'Hollander

The potential for sustainable trade to be a catalyst for socially and environmentally sound development on the African continent is enormous. How can new partnerships and approaches to developing and implementing sustainability standards in Africa drive more benefits to producers?

Despite its enormous size, the dynamism of its inhabitants, and the natural riches of its territory, the African continent accounts for less than two percent of international trade. Given the potential of sustainable trade flows to be a driving force for achieving the Sustainable Development Goals (SDGs), the question of how African producers can benefit from sustainable value chains (GVCs) is crucial to answer.

The reasons for Africa's lack of connectivity to global trade are many and complex. The newly-ratified Trade Facilitation Agreement (TFA), aid for trade programmes, and other approaches aim at addressing some of these structural issues. However, for GVCs to contribute effectively to sustainable development, their development has to go hand in hand with responsible business conduct and social and environmental safeguards.

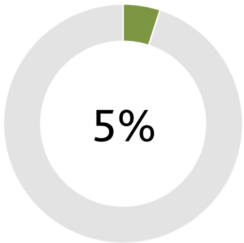
Credible sustainability standards systems are tools for promoting sustainable trade flows. By defining sustainable or responsible performance for a certain production process, sector, or commodity (which can be adapted to local conditions depending on the system) in a transparent and inclusive manner and coupling this to impartial and independent certification or verification, sustainability standards systems are increasingly shaping global trade flows. This article reflects on how the use of sustainability standards in Africa can foster new value chains with the potential to accelerate the continent's progress towards the SDGs.

Sustainability standards, sustainable value chains, and the SDGs

Complying with standards to gain access to international markets is nothing new for producers and exporters in Africa. In export-oriented industries such as mining or certain agricultural markets such as cocoa, vegetables, and fresh flowers, the use of quality and safety standards are common. Companies operating in African countries are well aware of the need for complying with technical, quality, safety, or management standards (for example HACCP, GlobalGAP, ISO 9000, or ISO14000, etc).

Apart from such standards, voluntary sustainability standards have a wholly different scope; they address a range of production factors ranging from working conditions and labour rights to soil and waste management or biodiversity protection. In doing so, they go beyond mere quality or safety issues. Developed for specific production processes or commodities through transparent standard-setting processes, they address sustainability challenges in a concrete manner. Their criteria and requirements are linked to one or more of the 17 SDGs and often connect to various other international sustainability agendas (such as the Convention on Biodiversity, the New York Declaration on Forests, the Paris Climate Agreement, etc.). This means that the implementation of a credible sustainability standard by a company or producer can contribute to achieving SDG progress within the broader sector or industry, in the country where it is applied, and at the global level.

In contrast to their increasing role in global trade, the uptake of credible sustainability standards in African countries is limited. Exceptions include the West-African cocoa producing countries, where standards systems such as UTZ, Fairtrade, organic, and



The African continent provides around 5 percent of global cotton production, and cotton production is the mainstay of the livelihood of more than 2.5 million Africans.

Rainforest Alliance have a long track record in creating sector-wide changes by providing incentives to producers. Certain standards systems such Fairtrade also have a long-standing presence in various agricultural markets (coffee, tea, and other crops), with Fairtrade certification active in nine African countries. In forestry and timber production, the use of the Forest Stewardship Council (FSC) standard has been growing in Africa, with 7,708,888 hectares of forest area certified in 2017.

Challenges

Despite these inroads, sustainable production verified by independent standard systems is still rare and represents a fraction of Africa's total production in any sector. Indeed, for a number of reasons, African producers have difficulties in using sustainability standards to their advantage and fully capitalising on the rising demand for sustainably-produced goods and products.

The adoption barriers that prevent the implementation of sustainability standards in Africa are not specific to the continent. They are prominent in many contexts characterised by poor regulatory and governance capacities. One specific challenge relates to the lack of clear property rights, especially land tenure and use. The informal and fragmented nature of smallholder production is another important factor, which in turn complicates access to credit and investment. In this context, the costs for producers to implement sustainable practices and undergo assessment to a standard is high and upfront finance difficult to obtain.

Many efforts, often supported by international cooperation and investment, have sought to overcome such barriers. However, a recurring problem is the lack of clarity on consistent, long-term demand for sustainable certified products, which prevents producers from assessing the potential returns on investment.

For each of these challenges, there are high expectations and limited abilities for sustainability standards to address all of the issues on their own. To be accessible, effective, and impactful, sustainability standards require coherent and concerted support efforts that bring together producers and their communities, policymakers at various levels, and coalitions of private actors (retailers, traders, investors, etc.) committed to achieving sustainability goals. The need for such partnerships is nowhere greater than in Africa.

Transforming African markets through new partnerships

New partnerships – especially partnerships with governments – offer new potential for producers to access international markets while making progress on sustainable development. These partnerships involve building local ownership and capacity to meet the standards, while also ensuring a connection to the demand side in consuming markets and reducing compliance costs through new models.

One ongoing effort is the creation of sustainable cotton value chains in Africa through the Better Cotton Initiative (BCI) and its Better Cotton Standard System (BCSS). The African continent provides around 5 percent of global cotton production, and cotton production is the mainstay of the livelihood of more than 2.5 million Africans. The BCI was established to improve cotton production practices globally and has taken off in three major African cotton producers: Mali, Senegal, and Mozambique. Through strategic partnerships, BCI engages strategic stakeholders in these cotton-producing countries to implement the principles and practices set by its standard. Government extension services are strengthened by the BCI's support, thus facilitating sustainability improvements and compliance with the BCI standard. Importantly, the BCI and its partners are supported by an increasing number of buyer commitments from large producers and retailers, which ensures export markets and reduces price volatility.

Another example is that of South Africa's experience with the Marine Stewardship Council (MSC) certification for its hake fishery. This certification played a significant role in allowing the South African hake sector to weather the 2008 financial crisis by ensuring strong value-added export markets for its sustainably-caught fish. The government of South Africa has been a strong partner for the implementation of MSC. Specifically, the government has developed the Government's Offshore Resource Observer Programme, which contributes scientific data and enforcement capacity to ensure that fish trawling is sustainable, resulting in a "co-management" of the fishery that leverages the strengths and resources of each partner.

Oil palm cultivation in Africa provides another area of collaboration. The African Palm Oil Initiative (APOI), a pan-African multi-stakeholder initiative covering ten West and Central African countries, was established in 2011 through engagement with the Roundtable on Sustainable Palm Oil (RSPO), the leading international palm oil sustainability standard. The programme works to establish principles of national action on sustainable palm oil and goals of implementation at the national level. By working toward local ownership of the sustainability agenda, this initiative works to help growers in Africa strengthen their ability to achieve sustainable palm oil production with support from government, industry, and civil society. While still in its early stages, the APOI is developing the potential to recognise the sustainable production of palm oil at a landscape level, an innovative approach that could make sustainable production more accessible for producers.

Standards and beyond: Can policymakers create positive incentives?

The use of sustainability standards as building blocks for sustainable supply chains is already opening up promising avenues. The above examples are not just good illustrations of how new partnerships are making sustainability standards more accessible to African producers; they also indicate a renewed interest of governments in producing countries to engage with standards systems constructively.

The use of sustainability standards is already opening up promising avenues. However, to create sustainable trade flows, governments in both import and export markets have a range of unused options at their disposal to provide strong incentives.

However, to create sustainable trade flows, governments in both import and export markets have a range of unused options at their disposal to provide strong incentives. Policymakers at national, sub-national, or international levels can explore various measures to ensure adopting credible sustainability standards makes economic sense for producers.

Various trade-related instruments already integrate commitments or provide trade benefits linked to sustainability or other international norms. These include the Generalised System of Preferences (GSP) and free trade agreements (FTAs) – which often integrate sustainability aspects, but without effective enforcement. Other instruments, such as EU regulations and directives, have been developed to focus on specific issues such as illegal logging, conflict minerals, and sustainability criteria for biofuels. These targeted instruments have already introduced strong incentives aimed at making supply chains leading into Europe more responsible and sustainable.

Governments could facilitate the trade of sustainable goods further by revising their GSP frameworks or other trade-related benefits (subsidies, development aid, etc.) to go beyond the country level and target the sector, cluster, or individual firm level – using credible standard systems as the basis for an effective co-regulatory approach to provide such incentives. Additionally, aid for trade and other development assistance aimed at helping producers reach credible sustainability standards can help ensure that investments achieve sustainability impacts.

Asides from trade-related measures, stronger demand can be mobilised at national or subnational levels. The implementation of sustainable public procurement has been an impactful way for policymakers to incentivise sustainable GVCs. A more recent development is the rise of multi-stakeholder sectoral "covenants" in countries such as Germany and the Netherlands, whereby governments aim to lock in whole industries towards greater sustainable sourcing. A promising measure, although untested so far, would be to reduce the value-added tax for sustainably-produced products, something which national governments could decide unilaterally to offset the additional costs of sustainable production.

In all of this, it is important to underline that credible sustainability standards provide the most accurate and transparent way to enable differentiation based on sustainable and responsible practices. Under the WTO's Agreement on Technical Barriers to Trade, governments are asked to take "reasonable measures" to ensure that standards operating within their jurisdiction meet WTO principles and disciplines. Governments should take WTO norms into account when using private sustainability standards in public policy that affects trade and only work with standards that are accessible, transparent, and minimising overly burdensome requirements. To do this, a growing body of information is available to policymakers to understand the differences between different types of sustainability standard systems, including ISEAL's Codes of Good Practice, the ISEAL Credibility Principles, and the Standards Map of the International Trade Centre.

Just like public regulation, even the most established private standards systems are not perfect. Nevertheless, the best systems are continuously improving. Crucially, they also provide much-needed clarity and consistency in terms of sustainability criteria, and link this to transparent and impartial enforcement through certification or other assurance mechanisms.

To unlock the potential of sustainable trade for African producers and markets, public and private actors will need to collaborate to provide enabling conditions, immediate investments, and long-term incentives. Credible multi-stakeholder sustainability standards offer themselves as points of convergence for such collective efforts.

Joshua Wickerham
Policy and Outreach Manager at the ISEAL Alliance

David D'Hollander
Senior Policy and Outreach Coordinator at the ISEAL Alliance

STANDARDS

Acting in Concert on Private Standards to Foster Sustainable Development in Value Chains

ICTSD

Compliance with product, service, and process requirements is a must to trade through global value chains. As some of these requirements are operated through private standard schemes, how can the governance and operation of such schemes be improved to support the realisation of sustainable development objectives?

Product and process requirements that are set and/or operated by private companies, consortia, and/or civil society organisations (CSOs), have become a constitutive element of international commercial transactions, as well as a powerful and effective tool to mainstream environmental, social, and economic sustainability considerations in purely economic operations. Frequently referred to as private standards schemes, these sets of requirements may cover physical characteristics and/or processes and production methods for a wide range of goods, and also address the services sector.

Private standards, by definition, do not impose mandatory requirements for accessing a country's market. Only the government can impose mandatory market access requirements on its national territory, generally by way of laws and regulations. Yet private standards impose mandatory requirements for accessing the consumers or clients of a given distributor, or a specific product/service market. Given that consumers and clients are the "engines" of often long and globalised trains of buyer–seller transactions, known as global value chains (GVCs), the requirements imposed by private standards are of primary concern for GVC players.

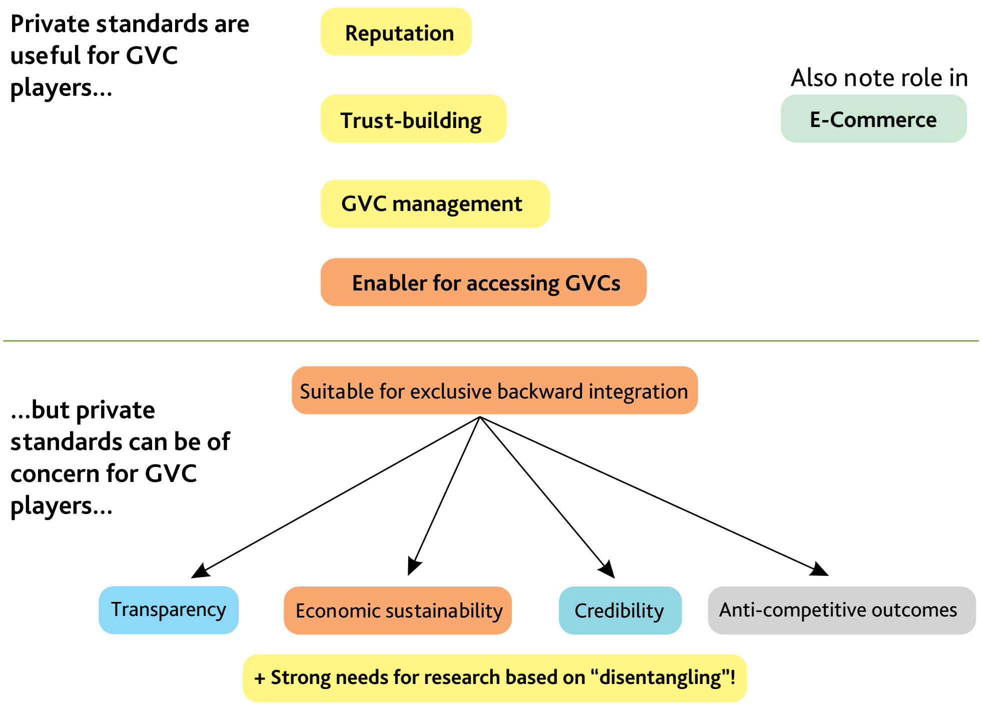
Summarising the main findings of a recent study published by ICTSD, the objective of this note is to present a series of policy options to support collective governmental actions on the issue of private standards, with a view to promoting sustainable development through better governance and operation of such standards.[1] Accordingly, the note focuses on private standards with direct and indirect sustainable development objectives or impacts (including on human rights, economic, environmental, or social sustainability, food and product safety, and quality, etc.).

What is the issue of private standards?

The private standard schemes addressed in this note are those that are set and/or implemented by businesses, CSOs, or a combination thereof. There are both confusion and misconceptions as to the nature of the market-access (or rather, buyer-access) problems ascribed to the setting and operation of private standard schemes. In particular, more research is needed on the specific downsides of private standards, disentangled from other general factors hindering access to markets, buyers, and key distribution channels. Nonetheless, taking a closer look at private standard schemes, it can be highlighted that they:

- have made significant contributions to the advancement of sustainable development priorities;
- may be driven by consumer preferences, businesses' market penetration strategies, CSOs lobbying, or a combination thereof;
- have effects in terms of reputation and trust-creation along GVCs;
- are management tools to shift risks, costs, and responsibilities along GVCs; but
- are also suitable to be used for the unfair exclusion of smaller or would-be GVC players, while potentially leading to anti-competitive outcomes.

Figure 1. Pros and cons of private standard schemes



Source: Meliado, Fabrizio, presentation at the event "Realising Inclusive Economic Growth Through Value Chains: The Role of Private Sustainability Standards." June 2017.

As described in Figure 1, among the elements that can lead to such unfair exclusion, four issue areas can be identified: (1) transparency, (2) economic sustainability, (3) credibility, and (4) potential anti-competitive outcomes.

Transparency

Lack of transparency appears as a key failure in the operation of several private standard schemes. While improvements have been observed in the field of company corporate social responsibility (CSR) codes and company sustainability reporting, difficulties linger in terms of access to information relating to compliance requirements and conformity assessment techniques for private standards, as well as to participatory approaches in standard development processes.

Economic sustainability

The economic sustainability of a private standard scheme, particularly from the perspective of a small business that considers whether or not to invest in certification, depends on complex cost–benefit considerations, as well as on the ability of that certification scheme to ensure a minimum degree of interoperability.

The ITC and the European University Institute (EUI) undertook a quantitative observation of the subdivision of certification costs per group of economic operators across a population of 181 voluntary sustainability standards (VSS). They found that in 54.6 percent of these VSS schemes, producers alone bear the total certification costs, whereas for implementation costs this rate increases to 64.4 percent of the observed schemes. Certification costs are shared between producers and GVC players in 26.1 percent of cases, and between producers, GVC players, and the standard-setting system in only 1.7 percent of the observed population. In addition, again over this population of 181 VSS, schemes provide varying types and levels of support, including supporting documentation (166 VSS), technical assistance on the requirements for compliance (105 VSS), technical assistance beyond compliance requirements (50 VSS), and financial assistance to suppliers (only 25 VSS).[2]

In terms of interoperability, the situation appears to be equally, if not more, problematic. Scheme requirements are reportedly often misaligned both with each other, and in relation to regulatory requirements in one or multiple jurisdictions.

Credibility

The credibility of private standards appears to be a function of two distinct variables: (1) the scientific justification of their requirements, particularly with regard to SPS-and environment-related standards; and (2) the conformity assessment/auditing techniques used to certify and maintain compliance. The scientific base of a standard is an important element to justify its necessity and credibility. Yet if the scientific justification even of governmental measures is often problematic and questionable, one can imagine how problematic it can become in the context of private governance initiatives. The credibility of a standard scheme can also be assessed against the verification, auditing, and certification techniques it foresees.

Potential anti-competitive outcomes

Exclusive vertical integration dynamics (whereby large exporters and other downstream players are incentivised to source from larger suppliers, thus excluding potential external suppliers) may materialise, for instance, in the absence of corrective measures such as effective and fair contract farming schemes, or incentives for group certification. These dynamics may take place at various levels moving downstream along a GVC, and to the extent that they can be proven to unlawfully limit competition (under the competition laws of a given national jurisdiction), they can be considered anti-competitive practices. Likewise, the verification, auditing, and certification techniques that accompany the implementation of private standard schemes may also be suitable for abuses of market position.

Building on some of the elements highlighted above, Table 2 summarises some of the factors that play a role in making standards in general "successful," and compares them with factors that can make private standards more successful.

Figure 2. Factors of success in standards and private standards

Some factors that can make standards in general "successful"	Some factors that can make **private** standards **more** "successful"
Interoperability	Improved transparency and credibility
Critical mass of users	↑ Interoperability + ↑ B2B technical and financial assistance = ↑ economic sustainability
Support to "subscribers"	Controls against anti-competitive outcomes

Source: Meliado (2017)

Against these considerations, international concerted action on private standards would appear to be justified and desirable. Businesses and CSOs, if left alone by state actors in handling sustainability issues, cannot see the bigger picture in relation to the welfare losses potentially caused by the operation of private standard schemes, while also running the risk of being captured by sectoral interests. However, as discussed in the next section, achieving results based on hard-law reforms at the level of international governmental organisations has so far proved quite difficult, suggesting a need for more flexible approaches.

What lessons can be drawn from multilateral and bilateral experiences?

Concerns related to the market access impact, credibility, design, and operation of certain private standard schemes have been officially voiced at the WTO since 2005. The first element that stands out from a review of the key developments in the 2005–2016 WTO discussions on private standards is the value these talks have created in terms of open global dialogue, issue scoping, knowledge sharing, and awareness raising. Nonetheless, it is a fact that WTO members have not yet succeeded in agreeing on a way forward on the "issue of private standards." Three factors can help explain the lack of solutions in WTO discussions: (1) the lack of clarity as to the specific nature of the problem being discussed; (2) the fear of agreeing on language that might later be used in WTO disputes; and (3) the excessive emphasis placed on the downsides of private standards.

In this context, three lessons can be drawn from the WTO experience. First, the discussion ought to be focused more pragmatically on trade impacts, i.e. avoiding the risk of getting stuck in semantics. Second, the positive aspects of private standards too need to inform the discussion more prominently. Third, more factual information is needed on the unnecessary or unjustifiable buyer-access hurdles that can be attributed exclusively to private standards.

Beyond the multilateral rules-based system underpinning the WTO, the case of bilateral or small-club free trade agreements (FTAs) is also particularly telling and useful to understand the complexity of bringing about concerted actions to address the potential downsides of private standard schemes. There is indeed limited evidence of FTA norms directly addressing private standards governance issues, whereas less specific attempts to harmonise regulatory approaches on standards and standardisation issues showcase both success stories, as is the case for the conclusion of mutual recognition arrangements in connection with bilateral FTAs, and stories of persistent difficulties, particularly in connection with the harmonisation of standardisation policies across national legal frameworks.

What could be done?

Various options appear to be available to improve the governance and operation of private standards. Six non-hierarchical, mutually reinforcing options for international concerted action on private standards are presented below. They include actions taking place both inside the WTO (options 1–3) and outside of it (options 4–6).

1 Creating a joint sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) transparency mechanism for private standards;
2 Establishing a public–private cross-pollination mechanism under the Agreement on Government Procurement (GPA);
3 Launching a work programme on sustainability-related public–private partnerships (PPPs) within the framework of the Trade Facilitation Agreement (TFA);
4 Expanding the work programme of the United Nations Forum on Sustainability Standards (UNFSS), so as to officially include international, regional, and national standards bodies;
5 Using the United Nations Global Compact (UNGC) to promote transparency and accountability principles; and
6 Using a model for international regulatory cooperation, open to the whole United Nations (UN) membership.

The potential strengths, weaknesses, opportunities, and challenges of these actions are set out in the following table.

Table 1. SWOT analysis of adjustments proposed

Concerted Action	Strengths	Weaknesses	Opportunities	Threats
SPS–TBT transparency mechanism for private standards	- Low transaction costs. - Existing stock of knowledge and experience.	- None identified.	- Leveraging existing convergence between SPS–TBT notification systems.	- Political blockage.
GPA work programme on cross-pollination	- Already an element of the GPA work programme.	- Potentially significant transaction costs.	- Leveraging existing trends at the national level.	- If implemented in isolation would improve but not solve the main issues at the full WTO membership level.
Sustainability-related PPPs in the TFA framework	- Level of interest in technical assistance and financial activities connected with implementing the TFA.	- Potentially medium-level transaction costs.	- Leveraging existing trends at the country level. - Mainstreaming an official sustainability dimension in the TFA.	- None identified.
Expanding the UNFSS family	- High level of engagement and coordination of various UN agencies.	- None identified.	- Building on the body of knowledge and the network of the UNFSS. - Increasing openness and dialogue.	- None identified.
Adding "Principle 11" to the UNGC	- High level of private sector engagement.	- Implementation on a voluntary basis subject to structural limitations.	- Building on the success of the UNGC.	- If implemented in isolation, issues of monitoring and enforcement might remain unsolved. - Might overlap with other meta-governance schemes.
Using a model for international regulatory cooperation	- Flexible and ready-to-use framework to both agree on meta-principles and administer their implementation at the UN-wide level.	- Potentially high transaction costs.	- Using an existing institutional framework at the UN-wide level. - Creating a flexible mechanism to bring together the existing meta-governance tools through the "reference to standards" clause.	- None identified.

Source: Meliado (2017)

❶ Meliado, Fabrizio. *Private Standards, Trade, and Sustainable Development: Policy Options for Collective Action*. Geneva: ICTSD, 2017. http://bit.ly/2wWCuKt

❷ International Trade Centre (ITC) and European University Institute (EUI). *Social and Environmental Standards: Contributing to More Sustainable Value Chains*. Geneva: ITC, 2016.

AFRICA

Tackling Leakages in Africa's Tourism Sector

Jane Muthumbi, Giovanni Valensisi and Junior Davis

Africa's tourism sector can contribute to sustainable development. How can African countries ensure the retention of a larger share of gross tourism revenues within their economies, and increase the sector's contribution to Africa's GDP?

Tourism's potential to contribute to sustainable development is increasingly recognised in policy frameworks, including in the 2030 Agenda for Sustainable Development and the African Union's (AU) Agenda 2063. In the First Ten-Year Implementation Plan (2014-2023) of Agenda 2063, the AU Commission has identified the doubling of tourism's contribution to the continent's gross domestic product (GDP) by 2023 as a target that countries will need to meet for the sector to support Africa's development aspirations.

Africa's tourism sector, however, loses significant revenues through economic leakages. Such leakages occur primarily as a result of foreign-owned tourism businesses repatriating profits to their home countries rather than reinvesting them in destination countries. Similarly, the reliance on imported inputs for use by tourism establishments in African countries contributes further to these leakages.

The importance of foreign value added in the continent's tourism sector reflects its integration into global value chains. From a developmental perspective, however, strong dependence on foreign value added affects the sector's development in African countries to the extent that it impedes the development of strong intersectoral linkages and reduces the multiplier effect generated through the tourism sector's demand.

Reducing leakages in Africa's tourism is thus critical, as it can ensure the retention of a larger share of the sector's revenues in African economies, which, in turn, can boost tourism's contribution to the continent's GDP, and support the achievement of the Sustainable Development Goals (SDGs). This article examines how strengthening linkages between tourism and other economic sectors, increasing the participation of local entities in the tourism value chain, and boosting intra-regional tourism can help reduce leakages and increase the sector's contribution to Africa's GDP.

Increasing tourism's contribution to Africa's GDP

Despite tourism's robust growth in recent years, with the sector's share of Africa's GDP rising from 6.8 percent in 1995-1998 to 8.5 percent in 2011–2014, its contribution to the continent's GDP remains below the global average of 10 percent. Doubling the sector's contribution to Africa's GDP, from an estimated US$ 173 billion in 2014 to US$ 346 billion by 2023, will be a challenge for many African countries.

While tourism is expected to grow steadily, the sector's projected total contribution to Africa's GDP by 2023 is for the moment well below the US$ 346 billion target – the World Travel and Tourism Council estimates it will reach US$ 210 billion in 2022. This implies that for tourism to meet the AU's target of doubling its contribution to the continent's GDP by 2023, the sector will need to grow faster than GDP and accelerate its growth rate to levels not seen since the global financial crisis. This will require African countries to significantly raise their investment in the sector.

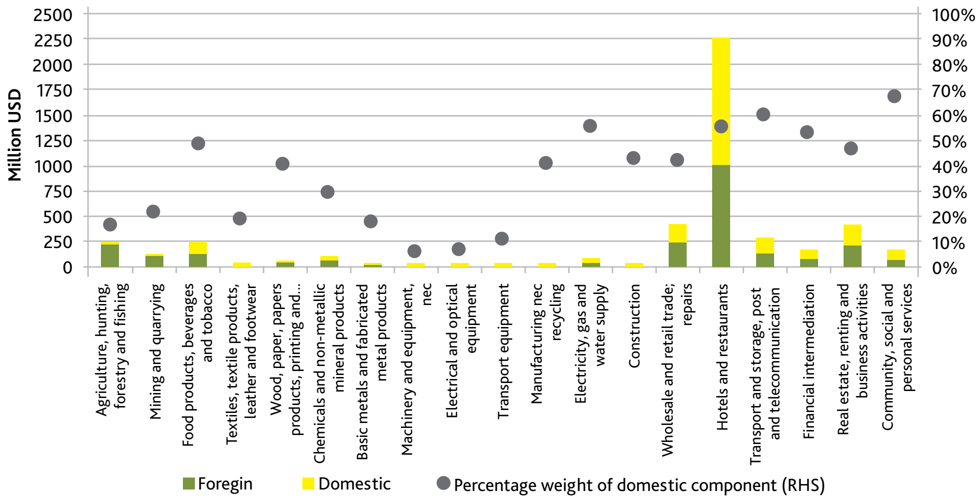
The issue of leakages

Despite the sector's potential to develop multiple linkages with other productive sectors throughout its value chain, tourism in Africa is characterised by weak intersectoral linkages, largely due to limited domestic productive capacities across sectors.

The dominance of foreign-owned airlines, tour operators, travel agencies, and hotel chains, and the heavy reliance on imported inputs by tourism establishments in African countries contributes to high economic leakages in Africa's tourism sector. This not only results in significant losses in foreign exchange earnings and the limited retention of economic benefits in local communities in tourism destinations, but also constrains the sector's potential to contribute to local economic development.

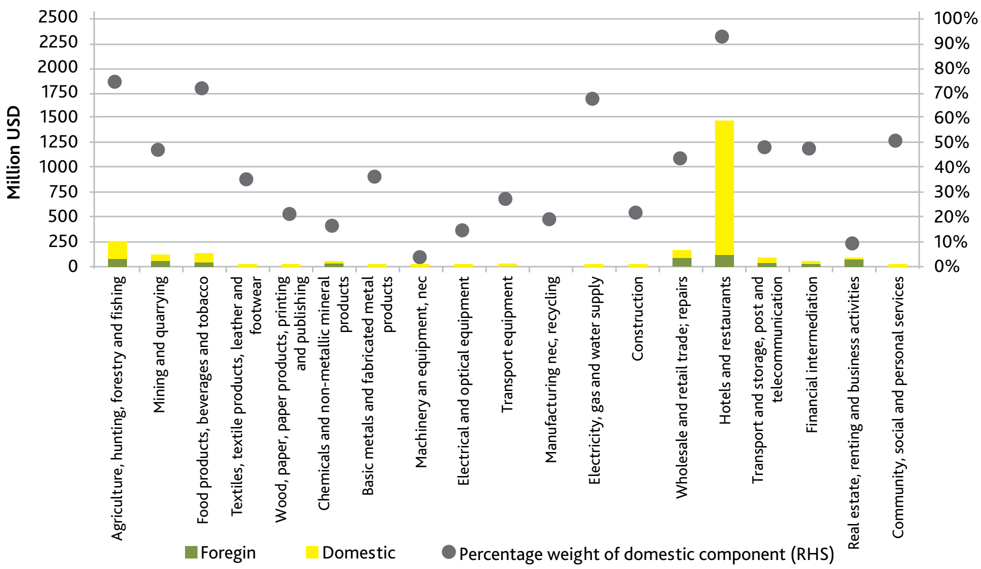
The charts below use data from the Trade in Value Added (TiVA) database to shed light on the patterns of tourism's intersectoral linkages and the corresponding degree of leakage in different sectors in South Africa and Tunisia.[1] The analysis distinguishes between source industries and between the domestic or foreign origin of value added content in hotels and restaurants' final demand.

Figure 1. Value-added content in final demand by hotels and restaurants sector, by source industry and origin, South Africa, 2011



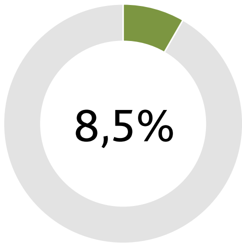
Source: UNCTAD calculations, based on OECD and the World Trade Organization (WTO)'s TiVA database

Figure 2. Value-added content in final demand by hotels and restaurants sector, by source industry and origin, Tunisia, 2011



Source: UNCTAD calculations, based on OECD and the World Trade Organization (WTO)'s TiVA database

As Figure 1 shows, South Africa's tourism sector is characterised by a generally high degree of leakages by international standards, with foreign sources of value added accounting for almost half of the final demand (45 percent) by hotels and restaurants. Moreover, the reliance on foreign value added is especially high in agriculture and manufacturing, suggesting that linkages with domestic entities are relatively limited in these sectors. Conversely, leakages appear to be significantly lower in Tunisia's tourism sector. As Figure



The tourism sector's share of Africa's GDP has increased from 6.8 percent in 1995-1998 to 8.5 percent in 2011–2014, but its contribution to the continent's GDP remains below the global average of 10 percent.

2 illustrates, Tunisian hotels and restaurants rely far less on foreign sources of value added, which only account for 25 percent of the sector's final demand, and domestic intersectoral linkages are more effectively exploited, especially with agriculture and the food-processing industry.

Developing strong intersectoral linkages

Fostering intersectoral linkages in Africa's tourism sector is essential, as it can go a long way in ensuring that a larger share of the sector's revenues is retained in African countries, while enhancing the scope for tourism to support economic diversification and broader development objectives.

Critically, developing strong intersectoral linkages can create demand for local goods and services. Besides generating business opportunities for local suppliers, strong backward linkages developed by tourism establishments can indirectly foster employment creation, and generate multiplier effects in other economic sectors, including agriculture, food processing, handicrafts, and other complementary services such as trade, transport, and financial intermediation. Tourism establishments can also develop forward linkages with sectors that stimulate markets for products or services consumed by tourists, such as conference services, handicrafts, or recreation and entertainment.

Intersectoral linkages can be vital in promoting economic diversification into new sectors and tourism market segments, such as cultural and medical tourism, that generate new revenue sources for countries. Medical tourism in countries like Kenya, Morocco, South Africa, and Tunisia can generate foreign exchange earnings from health exports, while driving business growth in sectors such as accommodation and transport, with horizontal linkages contributing to economic benefits beyond the tourism sector.

Viable intersectoral linkages can ensure a greater capture of tourist expenditures, a key determinant in facilitating the transfer of economic benefits from the sector to local communities. Incomes derived from employment and business opportunities created through tourism can improve livelihoods in local communities, and potentially lift millions of Africans out of poverty.

Three policy priorities to tackle leakages in Africa's tourism sector

In order to reduce leakages and ensure the retention of a larger share of the sector's revenues in national economies, African countries can take steps to promote local sourcing, encourage local entities participation in the tourism value chain, and boost intra-regional tourism.

Promote local sourcing

Tourism establishments can create demand for local agricultural products and services, with supply opportunities enabling local producers to capture a greater share of tourists' food expenditures. In addition to fostering the participation of domestic agricultural producers, economic opportunities created through agritourism or ecotourism can reduce poverty in rural areas, and contribute to the achievement of SDG 1 on poverty reduction. As women smallholder farmers dominate Africa's smallholder agriculture, engaging them as suppliers to the tourism sector can create markets that increase their incomes and offer a path out of poverty, with the economic opportunities fostering social inclusion and advancing gender empowerment.

Critically, constraints that hinder the development of viable agriculture-tourism linkages should be addressed. Enhancing local suppliers' capacities to meet tourism establishments' sanitary and phytosanitary standards, and to supply agricultural produce consistently and reliably is vital. Tourism establishments can provide advice on product safety and standards requirements that will enable local enterprises to become viable suppliers. Reducing costs associated with obtaining certification for organic produce that may be required by some tourism establishments, and are often prohibitive for smallholder farmers, can also facilitate market access for local suppliers.

Such measures aimed at promoting local sourcing can play a crucial role in stimulating demand for local products. South Africa's National Responsible Tourism Development Guidelines (2002), for example, encourage the procurement of local goods and services by tourism establishments from locally owned enterprises that meet quality, quantity, and consistency standards.

Encourage local entities' participation in the tourism value chain

Encouraging local entities' participation in the tourism value chain as well can reduce leakages and ensure a larger portion of the economic benefits from the tourism sector are reaped by the local communities in African countries.

Joint venture partnerships between tourism establishments and local communities can allow local communities to participate in and derive economic benefits from tourism. Royalties earned from leasing of community land and other fees paid by tourism establishments can boost local communities' revenues from their assets. Similarly, stimulating supply opportunities for local enterprises can increase incomes, including through employment created in enterprises, spur local entrepreneurship, and support rural economic development more broadly.

Incentives aimed at encouraging tourism establishments to actively integrate local entrepreneurs and enterprises in the tourism value chain can support local linkages development. An interesting example is Namibia's community-based natural resource management policy, which provides incentives aimed at enabling communities to earn incomes and other economic benefits from their assets, while sustainably managing environmental resources.

In order to ensure the retention of a larger share of the sector's revenues in national economies, African countries can take steps to promote local sourcing, encourage local entities participation, and boost intra-regional tourism.

Promoting domestic ownership of tourism enterprises through concrete measures can also strengthen local linkages development and support these businesses' integration into the tourism value chain. Ensuring access to finance and business development services can significantly enhance the capacity of small enterprises to start and operate viable tourism-related businesses. Zambia's national tourism policy, for example, encompasses measures aimed at supporting the participation of local enterprises in the sector.

Access to training and capacity building programmes focusing on tourism is also key, as it can enable young people to obtain the skills needed to gain employment in the sector. The Ghana Tourism Authority plans to establish a tourism school that will equip students with the practical skills that the sector demands. Such initiatives, besides addressing youth unemployment on the continent, can support the development agenda on decent work.

Boost intra-regional tourism

Strong demand for local goods and services by intraregional tourists suggests that intraregional tourism could offer opportunities to stimulate the development of viable local linkages that reduce leakages. With intra-African tourism poised to grow as incomes on the continent rise and fuel Africans' demand for travel, its prospects to further contribute to Africa's economic development are promising. Moreover, since intra-African tourism is less susceptible to the effects of seasonality – both in demand and employment – that is associated with the North America and Europe-dependent tourism, Africa stands to reap further economic benefits from its growth.

African countries thus need to work on addressing the constraints that hinder intra-African tourism, notably limited air connectivity and high air transport costs, which also impede Africa aviation's competitiveness. Liberalising air transport can increase airline competition, improve the affordability of air services, and as a result boost intra-African tourism. Results of a study on Africa's aviation suggest that if 12 countries on the continent implemented the Open Skies for Africa Agreement, this could create an estimated 155,000 jobs and result in an increase of almost 5 million passengers per year, generating almost $1.3 billion in GDP and $1 billion in consumer benefits.[2]

Relaxing restrictive visa requirements that create disincentives for travel within and across regions on the continent can facilitate travel for African tourists. Since abolishing visa requirements for East African Community nationals in 2011, the number of intra-regional tourists to Rwanda increased significantly, from 283,000 in 2010 to 478,000 in 2013. At the regional level, universal tourist visas that allow African tourists to travel within regions, such as the Kavango-Zambezi Transfrontier Area (KAZA Univisa), can facilitate travel and boost intra-regional tourism.

Conclusion

The robust growth of tourism in Africa underpins the sector's growing importance as a foreign exchange earner. Yet, African countries can reap further economic benefits from tourism and better harness its potential contribution to socio-economic development. The creation of greater economic opportunities, including for women and youth, through supply opportunities and employment in the tourism industry can ensure the retention of a larger share of the sector's revenues in local economies and contribute to the achievement of sustainable development objectives, in particular by reducing poverty in rural areas. Diversification into new sectors and tourism market segments can generate new revenue sources for countries, including from export opportunities created beyond the sector. Similarly, intra-regional tourism can generate foreign exchange and intra-regional exports, and boost tourism's share in services exports. Taken together, harnessing the potential of tourism to contribute to socio-economic development in Africa hinges on reducing leakages through enhancing linkages across sectors and market segments and strategically exploiting the scope for intra-regional tourism. This could potentially increase the tourism sector's total contribution to the continent's GDP and act as a springboard for economic diversification.

This article is based on UNCTAD's Economic Development in Africa Report 2017: Tourism for Transformative and Inclusive Growth: http://bit.ly/2srP1mX

Jane Muthumbi
Economic Affairs Officer, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD

Giovanni Valensisi
Economic Affairs Officer, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD

Junior Davis
Chief of the Africa Section, Division for Africa, Least Developed Countries and Special Programmes, UNCTAD

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1. The Trade in Value Added database only contains data for these two African economies.

2. InterVISTAS, *Transforming Intra-African Air Connectivity: The Economic Benefits of Implementing the Yamoussoukro Decision*. Bath, U.K: InterVISTASConsulting Ltd., 2014.

REGIONAL INTEGRATION

A Fresh Look at Africa's Integration in Regional Economic Communities

Jaime de Melo

A comparison of progress in integration in African regional economic communities with that of other South–South regional integration arrangements reveals slow progress in meeting overly ambitious objectives.

Following an aborted early phase of integration in 1980 under the Lagos plan, regional cooperation in Africa began in earnest with the Abuja Treaty in 1994, which set ambitious and wide-ranging objectives that reflected the need to accommodate heterogeneity of interests across the continent. Progress would be achieved by integration within regional economic communities (RECs) that would, through closer economic and political ties, lead to a united economy: the African Economic Community. The RECs continue to be the glue to cement African unity.

How have these RECs performed? Drawing on indicators along multiple dimensions (geographic, economic, cultural, and institutional), a recent progress report takes a fresh look at trade outcomes for each of the eight African RECs relative to those of three other South–South regional integration arrangements: the Andean Community, the Association of Southeast Asian Nations (ASEAN) and MERCOSUR, the Common Market of the South.[1] The RECs have their roots in the political forces determined by the colonial legacy. This resulted in a configuration of highly heterogeneous states along multiple dimensions (ethno-linguistic, religious, cultural) and artificial boundaries (splitting tribes, disregarding natural boundaries like rivers or mountains)—a great challenge for countries wishing to integrate to accelerate industrialisation. The selected indicators are intended to inform on this diversity across RECs.

Implementation difficulties symptomatic of capability traps ...

The RECs have imported the EU integration model where the bet was that creating similar institutional bodies focusing on consensus decision-making would lead to a reduction in "heterogeneity costs" across the different European populations.[2] This integration process, resting on a high implementation capability, was spread over a 50-year period and involved the creation of 13 institutions. African RECs have set up a large number of institutions at early stages of integration. The Economic Community of West African States (ECOWAS) has six institutions, 10 specialised agencies, and two private sector organisations. The Common Market for Eastern and Southern Africa (COMESA) has 11 institutions, and the East African Community (EAC) has eight institutions. This attempt at accelerated integration through transplanted best practices appears symptomatic of a "capability trap" "where [systems] adopt organisational forms that are successful elsewhere to hide their dysfunction."[3]

Three examples of implementation difficulties are suggestive of capability traps. Most recent is the discord among the 26 members of the Tripartite Free Trade Agreement (TFTA) in July 2016 – the TFTA, between COMESA, the Southern African Development Community (SADC) and the EAC, was initiated in 2008 and to be launched in 2017 as a watered-down "variable geometry" free trade agreement. At the meeting, countries failed to reach an agreement on a list of goods for tariff removal that would cover between 65 percent and 85 percent of tariff lines. The TFTA is an example of the trade-off between breadth (large membership to extend market size) and depth (small membership favourable to deeper integration, as in the EAC).

Second, when ECOWAS adopted supplementary protection measures (SPMs) (C/REG.1/09/13) to allow for temporary duty (up to five years) above the corresponding five-band common external tariff (CET) rate adopted by the ECOWAS customs union in 2015, the directive specified that SPMs were for most favoured nation (MFN) tariffs that were above the CET rate but "forgot" to envisage that SPMs could also apply to MFN tariffs heavily below the CET rate. This omission would have severely penalised small countries like Liberia where three-quarters of tariffs outside the five-band CET are on the low side.[4]

As a final example, take the conclusions of the report of the 2014 meeting of the Council of Ministers of the 19 COMESA members that took stock of progress in implementing the customs union adopted in 2009.[5] Taking a tally of the 217 decisions reported in the COMESA gazette from 2009 to 2012, the report notes that 13 percent of decisions were not addressed to any party. Regarding the signing and ratification of COMESA instruments that were to be carried out from 2009 to 2012, 75 percent (of the 12 instruments) had been signed by the majority of members states, but this percentage drops to 42 percent (or five instruments) when it comes to ratification. Among the 12 legal instruments considered, only one, namely the COMESA Treaty, had been signed and ratified by all members.

In sum, the establishment of functioning supranational entities to carry out this integration requires a delegation of authority (to confront the trade-off between the benefits of common policies and the costs of a loss of sovereignty in policy decisions). Successful implementation requires capabilities and trust which are difficult to build under any circumstance, but particularly so in Africa's landscape of great diversity.

… exacerbated by heterogeneity in economic, cultural and institutional indicators …

Relative to comparators, on average, the eight RECs have a much lower per capita income and are smaller in economic size, with larger dispersion across REC members. The RECs also have a large diversity in membership (least developed countries (LDCs)/ non-LDC, landlocked/coastal, large/small). Most RECs also have lower average indicator values of trust (greater genetic distance, greater ethno-linguistic fragmentation) than comparators. As to the quality of domestic contracting institutions (captured by the law component of the World Governance Indicators), which have been found to be as important in explaining differences in comparative advantage across manufactures as factor endowments emphasised by traditional trade theories, average indicator values for the RECs do not compare favourably with those in the comparator group (except for the Andean Community, which has similar average values).

… reflected in low regional trade intensity and persistently high trade costs

When entered in cross-country correlations of bilateral trade in manufactures, these economic, cultural, and institutional indicators are significant predictors of the intensity of bilateral trade. Of importance is that, after controlling for the usual factors in gravity trade models (distance, multilateral resistance, common language, etc.), poor institutional quality and bilateral genetic distance are negatively correlated with the intensity of bilateral trade, and that trade costs are a greater impediment to trade in low-income countries. Comparing estimates from South-South with North-North samples suggests that a doubling of trade costs (proxied by the value of the distance coefficient) would reduce bilateral trade by 35 percent and 14 percent respectively. In conclusion, these results give support to the importance of indicators of culture, trust, and institutions in bilateral trade as co-determinants with economic indicators of bilateral trade. These have been overlooked in progress reports on integration in low-income countries.

When comparing the intensity of bilateral trade before and after the signature of the agreement, the data only reveal a clear break for ASEAN. By contrast, the share of intra-bloc imports remains very low throughout all other regional integration arrangements (including the RECs). Another indicator showing no significant change after integration is the "average distance ratio" of trade among members of the RECs. The value of this ratio would fall if the ensemble of integration measures did indeed reduce the costs of intra-regional trade relative to trade costs with other partners. Except for the EAC and

MERCOSUR, the average distance of trade did not fall 10 years after signature of the agreement. In sum, trade costs have remained persistently high among the RECs.

How deep are the RECs?

Figures 1 and 2 compares the depth of integration measures in seven sub-Saharan Africa (SSA) regional trade agreements (RTAs) (including four RECs) and 108 other South-South RTAs. Classification is two-dimensional: coverage (both regarding WTO+ provision, i.e. those covered by the WTO, and WTO-X provisions, i.e. those not covered by the WTO); and the degree of legal enforceability based on the wording in the provision.[6] The tally shows, not surprisingly, that legal enforceability is much higher for WTO+ than for the WTO-X provisions that are not covered by the WTO, with a lower legal enforceability for WTO+ measures for SSA RTAs. As to the WTO-X provisions (all those that are not covered by the WTO negotiations), coverage is more than twice as high in African RTAs, but, at 5 percent, the legal enforceability is as low as in other South-South RTAs. On average, however, legal enforceability is always lower for African RTAs than for other South-South RTAs. The high coverage of WTO-X provisions in SSA RTAs could reflect a combination of three factors: (1) a high coverage inspired by coverage in EU agreements; (2) a way to build trust by including preferences of all participants; and (3) a sign of diplomacy among countries with large differences in preferences.

Figure 1. Coverage of WTO+ provisions in RECs and South-South RTAs, by category of obligations

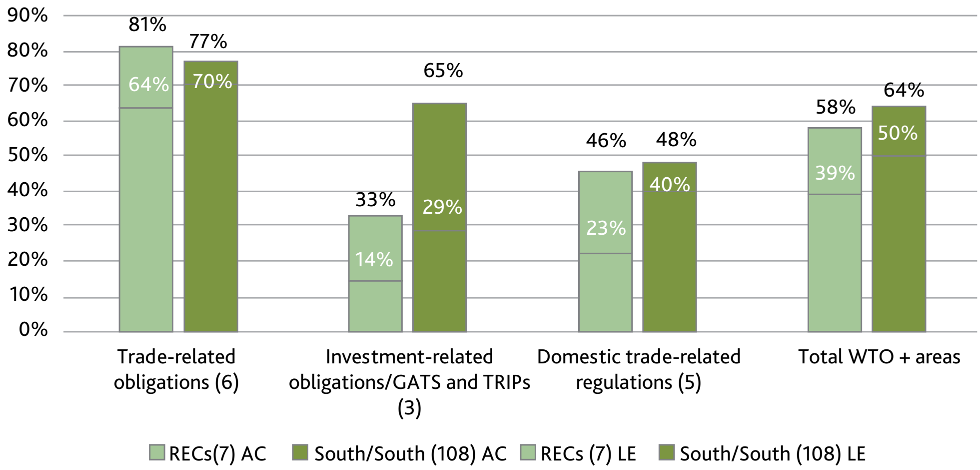
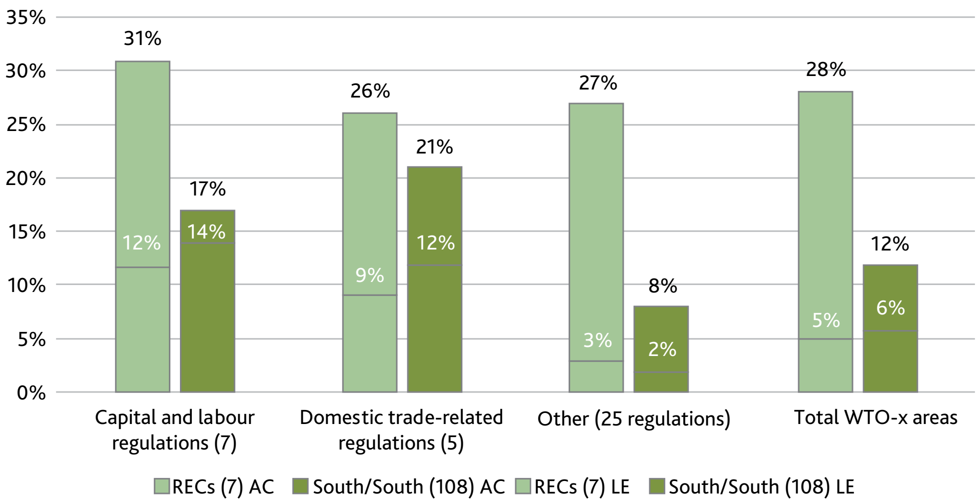


Figure 2. Coverage of WTO-X provisions in RECs and South-South RTAs, by category of obligations



Note: Of the seven SSA RTAs (COMESA, EAC, ECOWAS, SADC, Central African Economic and Monetary Community, Southern African Customs Union and West African Economic and Monetary Union), only the first four are RECs. Percentages are by category of areas covered (AC), distinguishing those deemed legally enforceable (LE). For example, in Figure 2 for the seven SSA RTAs, of a total of 49=7x7 possible coverage for capital and labour requirements, 31 percent of provisions (i.e. 15) are covered, with 12 percent (i.e. 6) deemed legally enforceable.
Source: de Melo, Nouar and Solleder (2017).

In figures 1 and 2, regulations faced by producer services fall under the following categories: investment-related obligations, domestic trade-related regulations, and capital and labour regulations. For all these categories, on average, the African RTAs have lower enforceability than in other South-South agreements. This is particularly so for the investment-related obligations (General Agreement on Trade in Services (GATS), Agreement on Trade-Related Investment Measures (TRIMs), Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)), which have lower coverage and lower enforceability. The importance of producer services in production is confirmed in panel regressions of bilateral trade in parts and components that are exchanged in supply chains for the sample of South-South RTAS of figures 1 and 2. Controlling for other determinants of bilateral trade, three measures of depth – all provisions, core provisions (WTO+ provisions plus competition and movement of capital), and the percentage of provisions covered – are all statistically significant contributors to bilateral trade in parts and components.

Moving ahead

The RECs have been the driving force for integration across the African continent, where small, fragmented, and isolated economies with a very unequal distribution of geographic characteristics make a compelling case for integration on a regional basis by reducing the thickness of borders to exploit scale economies and reap efficiency gains. The comparative review suggests four takeaways. First, relative to the three South–South comparators, the RECs have greater disparity in membership characteristics, and weaker indicators of the quality of domestic institutions. Second, progress has been slow towards meeting overly ambitious objectives suggestive of an implementation capability trap. Third, since their inception, reorganisation in the pattern of trade in manufactures towards REC partners has been small, suggesting that regional trade costs have not fallen, at least relative to non-regional trade costs. Fourth, compared with other South-South regional integration arrangements, the RECs have moved towards deeper integration by including a high number of provisions not covered in WTO negotiations. However, these provisions have low legal enforceability. Reducing intra-regional trade costs by tackling the removal of barriers to trade in goods and trade in services remains a challenge for successful integration across African RECs.

1 Melo, Jaime de, Mariem Nouar, and Jean-Marc Solleder. "Integration along the Abuja Road Map: A Progress Report." Ferdi Working Paper 191, July 2017; see also Melo, Jaime de. "The Tripartite FTA: Is It the Way to Deepen Integration in Africa?" Brookings, 4 November 2014.

2 Spolaore, Enrico. "The Political Economy of European Integration." In Badinger, Harald and Volker Nitsch, eds, *Handbook of European Integration* (Abingdon: Routledge, 2015).

3 Pritchett, Lant, Michael Woolcock, and Matt Andrews. "Looking Like a State: Techniques of Persistent Failures in State Capability for Implementation." *Journal of Development Studies* 49, n°1 (2013): 1–18.

4 Melo, Jaime de, and Anne Laski. "Will West Africa's Common External Tariff Protect Consumers?" International Growth Centre blog, 17 December 2014.

5 COMESA. "Report of the Thirty Second Meeting of the Council of Ministers." 2014.

6 See Horn, Henrik, Petros Mavroidis, and André Sapir. "Beyond the WTO: An Anatomy of EU and US Preferential Trade Agreements." *World Economy* 23, n°11 (2010): 1565–88.

Jaime de Melo
Emeritus Professor, University of Geneva, Scientific director, FERDI, and Academic advisor, Geneva Business School.

Publications and Resources

The Role of Aid for Trade in Building the Capacity of Developing Country Firms to Meet Sustainability Standards – ICTSD – October 2017
One of the major contemporary challenges facing developing country firms, and especially small and medium-sized enterprises (SMEs), is the ever increasing number of regulations and sustainability standards required of them if they are to integrate into global value chains. This paper focuses on the potential role that aid for trade can play in assisting those developing country SMEs and small producers who are struggling to comply with the sustainability standards required by value chains. http://bit.ly/2zfzwRU

Information Economy Report 2017: Digitalization, Trade and Development – UNCTAD – October 2017
The digital economy has already had, and will continue to have, globally transformative impacts on the way we live. The scope and uncertainty associated with the next digital shift call for more facts, dialogue and action by all stakeholders. The analysis contained in this report contributes to this process and proposes ways in which the international community can reduce inequality, enable the benefits of digitalization to reach all people and ensure that no one is left behind by the evolving digital economy. http://bit.ly/2xMumwz

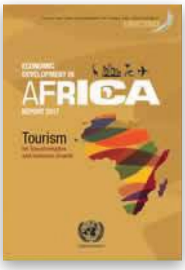
Reforming Logistics Services for Effective Trade Facilitation – ITC – October 2017
Difficult customs procedures, barriers to investment, and labour regulations limiting movement and hiring of personnel are the most stringent obstacles for logistics services providers in developing countries. The report offers practical guidance for policymakers and logistics services providers to drive regulatory reforms in the sector – including through coordination and dialogue between key stakeholders –, a stepping-stone towards connecting small businesses to international markets. http://bit.ly/2fUoUmO

Small-scale Fisheries and Subsidies Disciplines: Definitions, Catches, Revenues, and Subsidies – ICTSD – September 2017
This information note summarises how small-scale fisheries are identified in international instruments and academic literature and provides estimates of the proportions of total catch, landed value and subsidies that are generated and received by this sector. It provides specific suggestions, based on the findings reported in the paper, of how this socio-economically important sector could be distinguished in the context of subsidy rules in the World Trade Organization. http://bit.ly/2hAtbsa

Leveraging the Services Sector for Inclusive Value Chains in Developing Countries – ICTSD – September 2017
This paper analyses how increased competitiveness in services can drive sustainable development opportunities in value chains in developing countries. By arranging the services components of value chains in the most socially and economically optimal manner, new opportunities for the private sector can emerge, domestic supply-side capacity can be enhanced, and steps towards the achievement of sustainable development objectives can be made. http://bit.ly/2xOrn9u

Social and Environmental Standards: From Fragmentation to Coordination – ITC – September 2017
Voluntary standards have been rising fast, leading to similar standards operating in the same markets. This study finds multiple standards in 86 of 90 markets it reviewed, which creates confusion for consumers and producers alike. This joint report with the European University Institute is the second of a series that goes from identifying social and environmental standards to outlining markets that are most fragmented. It offers recommendations for coordination for standard-setting organizations and policymakers. http://bit.ly/2yBsYg3

New Pathways to E-commerce: A Global MSME Competitiveness Survey – ITC – September 2017
This first ITC e-commerce survey provides valuable insights that will allow countries to shape policies and practices that address the real business needs on the ground. It surveys 2,200 micro, small and medium-sized enterprises (MSMEs) in 111 countries, and identifies key factors for MSMEs to be able to benefit from e-commerce – including better access to e-platforms, payment and delivery services; streamlined customs procedures; and targeted skill building. http://bit.ly/2jYwldF



Economic Development in Africa Report 2017: Tourism for Transformative and Inclusive Growth – UNCTAD – September 2017
Tourism is an important sector in many African economies, and its growth is increasingly driven by tourists originating from the continent itself. However, most African countries still face significant challenges and constraints in exploiting its potential. This report identifies the main barriers to unlocking the potential of tourism in Africa to help structurally transform the continent's economy and provides policy recommendations on how to overcome them. http://bit.ly/2tPV7Rg

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Private Standards, Trade, and Sustainable Development: Policy Options for Collective Action – ICTSD – August 2017
This paper analyses private standard schemes as management tools used to shift risks, costs, and responsibilities along global value chains. It argues that policymakers can facilitate the trade-creating potential of private standard schemes by acting in concert – at the international level – on their design and operation. The author further reviews relevant multilateral and bilateral work in this area and puts forward six policy options to support concerted governmental action on private standards. http://bit.ly/2wWCuKt

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Fuelling Digital Trade: The Global Landscape and Implications For Africa – ICTSD – July 2017
The purpose of this paper is to propose specific ways in which developing countries can best fuel trade in the digital era. It pays special attention to eastern and southern Africa, regions where e-commerce is still quite nascent and can play a transformative role. The paper argues that gains from digitisation to trade and growth are not automatic in developing economies. Rather, these gains depend on an adequate infrastructure and on supportive policies. http://bit.ly/2jFIbtc

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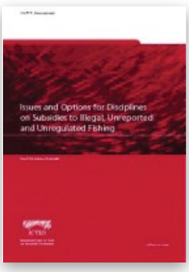

Issues and Options for Disciplines on Subsidies to Illegal, Unreported and Unregulated Fishing – ICTSD – July 2017
This paper identifies issues that have arisen in the WTO negotiations on disciplines to subsides related to IUU fishing and provides information for reference, as well as options, that might be helpful to negotiators as they design new rules. It focuses on the question of how IUU activity might be identified for the purpose of subsidy disciplines, and on the implications of using national legislation to identify IUU activity. It also addresses several specific questions relating to the application of the new disciplines. http://bit.ly/2vRGiLC

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ICTSD

International Centre for Trade and Sustainable Development
Chemin de Balexert 7-9
1219 Geneva, Switzerland
+41-22-917-8492
www.ictsd.org

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