

BRIDGES NETWORK

# BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 7, ISSUE 2 – MARCH 2018



## How Should Africa Engage in E-Commerce and the Digital Economy?

INTERVIEW

Talking e-commerce with Senegal's Trade Minister

DIGITAL ECONOMY

What are the challenges and opportunities for Africa?

PRIVATE SECTOR

How the private sector is shaping African e-commerce



International Centre for Trade  
and Sustainable Development

# BRIDGES AFRICA

VOLUME 7, ISSUE 2 – MARCH 2018

## BRIDGES AFRICA

Trade and Sustainable Development News  
and Analysis on Africa

PUBLISHED BY

### ICTSD

**International Centre for Trade and  
Sustainable Development**

Geneva, Switzerland

[www.ictsd.org](http://www.ictsd.org)

---

PUBLISHER

Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF

Andrew Crosby

MANAGING EDITOR

Tristan Irschlinger

ADDITIONAL SUPPORT

Fabrice Lehmann and Jocelyn Hu

DESIGN

Flarvet

LAYOUT

Oleg Smerdov

---

To join the Bridges Africa Editorial Advisory  
Board write to us at [bridgesafrica@ictsd.ch](mailto:bridgesafrica@ictsd.ch)

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

## INTERVIEW

- 4 **Talking E-Commerce with Alioune Sarr,  
Senegal's Trade Minister**

## AFRICA

- 8 **Using Digital Trade for Development in Africa**  
*Jamie MacLeod*

## E-COMMERCE

- 11 **How the Private Sector is Shaping African E-Commerce**  
*Maxime Weigert*

## DIGITAL ECONOMY

- 15 **The Digital Trade Agenda and Africa**  
*Christopher Foster and Shamel Azmeh*

## SUSTAINABLE DEVELOPMENT GOALS

- 19 **How Can Trade Help Africa Achieve  
the Sustainable Development Goals?**  
*Matthias Helble*

- 23 **Publications and Resources**

# How Should Africa Engage in E-Commerce and the Digital Economy?



*The growth and diffusion of the Internet and digital technologies are profoundly transforming the global economy in a variety of ways. One of its most visible manifestations is the rapid expansion of e-commerce. According to estimates published by the website eMarketer, e-commerce retail sales are expected to reach US\$4 trillion in 2020, or about 15 percent of expected total retail sales worldwide for that year. Although e-commerce is only one facet of the digital revolution, those numbers offer a telling glimpse into the scale of change that lies ahead.*

*While the economic potential associated with e-commerce and the digital economy is undoubtedly significant, not all countries are on an equal footing when it comes to capitalising on such opportunities. To date, the main business actors that have succeeded in leveraging digital trade and reaping its benefits are largely concentrated in developed and a few emerging economies. In many developing countries, in Africa in particular, important structural constraints – starting with the challenge of basic Internet access provision – continue to severely impede the emergence of an enabling environment to take advantage of digitalisation.*

*Recognising the need for international trade rules to keep pace with the evolution of global economic activity, policymakers and trade negotiators have shown growing interest in developing agreed frameworks for e-commerce and digital trade, with a number of free trade agreements including digital-related provisions. At the WTO, the last ministerial conference saw a group of 70 members agree in a joint statement to “initiate exploratory work together toward future WTO negotiations on trade-related aspects of electronic commerce.” So far, the only African country to have joined this initiative is Nigeria. The African Group released a statement on e-commerce ahead of the ministerial, in which it argued that developing new rules on e-commerce would be “entirely premature.”*

*In this context, how can African countries create the conditions for improved digitalisation on the continent? Are there reasons to be concerned about new trade rules in the area of e-commerce? If so, what strategy should African policymakers and negotiators adopt?*

*This issue opens with an exclusive interview with Senegalese Trade Minister Alioune Sarr, in which he reflects on the national and regional priorities for the development of e-commerce. The interview is complemented by three pieces. In the first article, Jamie MacLeod analyses the risks and opportunities associated with digital trade in Africa, and presents a number of important implications in terms of national and international governance. Maxime Weigert, for his part, looks at the challenges hindering the development of African e-commerce, as well as the strategies adopted by the private sector. Finally, Christopher Foster and Shamel Azmeh discuss recent trends towards regulating broader aspects of digital technologies and data flows through international trade rules, and reflect on the stakes involved for African countries.*

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

## INTERVIEW

## Talking E-Commerce with Alioune Sarr, Senegal's Trade Minister



**Alioune Sarr** is Senegal's Minister for Trade, Consumer Affairs, the Informal Sector, and Small and Medium-Sized Enterprises.

*Bridges Africa met with Alioune Sarr, the Senegalese Minister for Trade, Consumer Affairs, the Informal Sector, and Small and Medium-Sized Enterprises, to discuss e-commerce and related policy priorities for Senegal and Africa.*

***E-commerce is radically transforming the global economy. On a practical level, what are the barriers that are still curbing its growth on the African continent and that need to be overcome?***

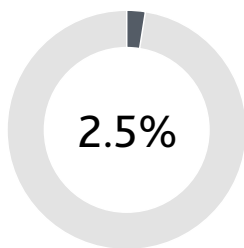
[Alioune Sarr] E-commerce is growing rapidly in almost all the world's regions. According to the United Nations Conference on Trade Development (UNCTAD), global e-commerce sales reached US\$25.3 trillion in 2015.<sup>1</sup> In Africa, although forecasts for growth are positive, with a growth rate that should increase from 2.2 percent in 2013 to 2.5 percent in 2018, e-commerce is still dominated by a handful of countries, including Egypt (US\$3.9 billion), Ethiopia (US\$0.06 billion), Ghana (US\$0.09 billion), and South Africa (US\$1.2 billion).<sup>2</sup>

The challenges with which African countries are faced in the context of e-commerce – and which hinder its development – are multifaceted. They are linked among others with infrastructure (including problems related to access to electricity, information technologies, and communication and logistics); the reliability of e-commerce platforms (implementing security measures for IT solutions and certifying these platforms); the low level of use of electronic payment methods (a penetration rate of banking services estimated at approximately 24.7 percent in African countries,<sup>3</sup> low usage of credit cards due to the low purchasing power, underdeveloped financial system, prevalence of cash transactions, etc.); the nascent legal framework in this area (certain aspects of e-commerce are rarely taken into account by the legal framework, in particular when it comes to the protection of personal data and privacy as well as intellectual property and the fight against cybercrime); alignment with international legal instruments (lack of effectiveness when it comes to enforcing legal texts, etc); the lack of IT knowledge and skills related to e-commerce from companies as well as consumers (critical mass of human resources that is still insufficient, limited capability of R&D, etc); as well as the lack of national policies and strategies on e-commerce.

***You have previously emphasised the fact that Senegal needs a "proper policy" on e-commerce. Is this already being developed? What are your government's objectives in this area?***

[AS] Senegal has e-commerce sites (approximately 60) in various sectors, electronic payment methods (Paydunya, Orange money, Wari, Joni-Joni, Poste-cash, etc.), logistics and delivery services (Rapidos, Tiak-Tiak, Carrapide, etc.), and a legal and institutional framework for e-commerce. It therefore fulfils a large amount of the conditions necessary for the development of e-commerce, but does not have a policy on this topic with a clear vision, strategy, and action plan that combine all the dimensions or fields related to e-commerce.

The fourth pillar of the "Digital Senegal 2016-2025" strategy calls for the diffusion of digital tools and solutions in key economic sectors, including e-commerce. In this area, planned actions include updating the relevant legal framework, setting up interoperability conditions among electronic financial services platforms, launching a programme to promote electronic financial services, and launching a programme to support the



In Africa, e-commerce's growth rate should increase from 2.2 percent in 2013 to 2.5 percent in 2018. However, it is still dominated by a handful of countries, including Egypt (US\$3.9 billion), Ethiopia (US\$0.06 billion), Ghana (US\$0.09 billion), and South Africa (US\$1.2 billion).

creation of e-commerce sites with a focus on local products and offering the possibility of electronic payment.

In order to handle the e-commerce dimension of the implementation of the "Digital Senegal 2016-2025" strategy, my department has been working on designing a coherent policy for e-commerce. As a result, in addition to the existing institutional framework, a national consultative framework was set up on 26 January 2017 to create a synergy of actions. It brings together players from the public sector, the private sector, and civil society that are involved in e-commerce.

Furthermore, my department has submitted a project on designing a National E-commerce Development Strategy to the Executive Secretariat of the Enhanced Integrated Framework (EIF). This project, the implementation of which is planned for April 2018, will enable us to carry out an in-depth diagnosis of e-commerce in Senegal, identify clear actions to roll out in order to develop e-commerce on a national level, and leverage opportunities on an international level, while also building a statistical database.

***E-commerce is often presented as an area that is particularly promising for women's economic empowerment. In your opinion, how can this potential be best utilised to generate economic opportunities for African women, in particular Senegalese women?***

[AS] According to the International Labour Organization, only one third of all the companies in the world are run by women. Most of the companies run by women are micro and small-sized businesses with limited potential, in particular in developing and transition countries. According to the results of a survey conducted by the *Global Entrepreneurship Monitor* in 2015, the rate of entrepreneurial activity among women in Senegal was 36.8 percent, compared to 40.5 percent for men.

---

*Through the opportunities offered by e-commerce, combined with its rapid development, significant economic opportunities can be generated, in particular for women.*

---

Through the opportunities offered by e-commerce, combined with its rapid development, significant economic opportunities can be generated, in particular for women, by reducing transaction costs, simplifying the access of women (entrepreneurs, crafts-women, product manufacturers, and processors) to domestic and international markets, strengthening the efficiency and competitiveness of micro and small-sized enterprises, and removing constraints on supply capabilities for business-to-consumer trade, which does not need to send products in large quantities.

To help women benefit more from e-commerce, we need a strong political will to:

- Increase the training of women in the use of information and communication technologies,
- Prioritise development areas, in particular digital entrepreneurial projects by women,
- Increase women's access to digital economy resources and opportunities,
- Lower the gender digital divide.

***Although strong national policies are, of course, essential, developing e-commerce in Africa will require a certain level of cross-border alignment. What is the role of regional integration in this area? What are the efforts that have been made within ECOWAS?***

[AS] Indeed, cross-border e-commerce cannot develop without efforts to align policies, in particular on a regional level, to avoid the existing asymmetries between markets. The drive for alignment may even come from goods and services providers, in order to lower

the cost of compliance and increase the legal security of electronic transactions, but it may also come from human rights defenders focusing on the protection of intellectual property, privacy, and consumers.

This is why, within the West African Economic and Monetary Union (WAEMU), work is being carried out with the support of the EIF programme to diagnose the e-commerce sector's needs and build a development strategy for this area. In the first stage, Burkina Faso and Togo have been selected.

On the level of the Economic Community of West African States (ECOWAS), community rules on electronic transactions, cybercrime, and the protection of personal data have been developed, respectively through Supplementary Act A/SA.2/01/10, Directive 1/08/11, and Supplementary Act A/SA.1/01/10.

Despite these alignment efforts, there are still many challenges ahead. These include transposing and operationalising texts at the level of member states, in addition to popularising them and raising the awareness of stakeholders (consumers, public and private sectors, civil society).

***The member states of the African Union are also currently negotiating the African Continental Free Trade Area. E-commerce has not yet been included in the topics being negotiated, but it could be added during the second stage of the negotiations. Do you think that this should be the case?***

[AS] The African Continental Free Trade Area, for which negotiations were launched by heads of state and government of the African Union in June 2015, provides for the liberalisation of trade and investment on the continent. The first stage of the negotiations, which started on 22 February 2016, deals with trade in goods and services, whereas the second stage will focus on competitiveness, investment, intellectual property, and the movement of natural persons (people travelling on business).

E-commerce has not been explicitly included in the negotiation topics for the CFTA. However, if it is not included in the second stage of negotiations, the issue could be dealt with as part of the negotiations on trade in services. Indeed, the development of e-commerce relies on the development of certain service sectors such as computer and related services, communication services (telecommunications, postal services, etc), and financial services (electronic payment methods).

***As president of NEPAD, Senegal will once again be invited to the G20 summit this year. Is your government planning to use this opportunity to make sure that Africa's priorities for e-commerce are properly taken into account?***

[AS] The G20 summit is a very high-level meeting of the most influential countries in the world. As usual, Senegal will leverage its invitation to the G20 to bring the concerns of developing countries to the attention of these leaders, in particular regarding multilateral negotiations.

During the next meeting, which will take place in Buenos Aires, Argentina, the issue of e-commerce, as well as priorities of developing countries such as agriculture, fishing, and special and differential treatment will be raised. This will in particular include discussing with the members of the G20 the issues faced by developing countries and how developed countries could help solve them.

***You were responsible for facilitating discussions on e-commerce during the last WTO ministerial conference. According to you, what is the WTO's role in this area? Is Senegal open to new discussions, and potentially new rules, on this topic?***

[AS] The WTO's role is to further discussions among its members and formulate multilateral rules that can adequately cover international commerce in the field of e-commerce.

Since 1998, there has been a work programme to help frame discussions on this topic within the organisation. The issues raised relate to the classification of digitised products among services (GATS) or goods (GATT); the trade treatment of software delivered electronically; cloud computing; restrictions that impact the free movement of data, in particular regarding data localisation, encryption and security; the guarantee of access to and use of Internet networks and services for service suppliers; protecting personal data, confidentiality, and consumers; intellectual property in the context of e-commerce; and the implications of e-commerce for development, among others.

The WTO could help encourage transparency as well as the sharing of experiences when it comes to policies. It could also help promote lowering or eliminating unnecessary barriers to e-commerce and improving market access, while developing technical assistance and capacity-building for developing countries, in particular LDCs. Removing the constraints with which LDCs are faced would help encourage them to participate more fully in international e-commerce.

---

*Senegal, for its part, does not wish to see new rules in this area, given the current state of things, but strongly supports continuing work on a multilateral level.*

---

In light of the divergent views expressed by members at the last WTO ministerial conference, as facilitator of the discussions on e-commerce I believe that it would be a wise move to continue the work carried out through the Work Programme on Electronic Commerce, on the basis of the existing mandate, until the next ministerial in 2019. This work could then be taken forward within the relevant bodies of the WTO, namely the Council for Trade in Goods, the Council for Trade in Services, the TRIPS Council, and the Committee on Trade and Development.

Despite its interest in productive discussions on e-commerce, Senegal, for its part, does not wish to see new rules in this area, given the current state of things, but strongly supports continuing work on a multilateral level.

**Generally, the future of multilateral trade talks is still very much in doubt today. Given the situation, what should the priorities of African countries be when it comes to trade policy?**

[AS] African countries would benefit more by strengthening the integration of their markets, both on a regional and continental level, so as to better integrate global value chains and to improve their share in international trade.

However, issues of particular interest for our countries on a multilateral level must continue to receive special attention until favourable, concrete results have been obtained. This includes issues related to cotton, special and differential treatment, and agriculture.

---

① UNCTAD. "Maximizing the development gains from e-commerce and the digital economy." Note by the Secretariat, 26 July 2017.

② UNCTAD. *Information Economy Report 2015 – Unlocking the Potential of E-commerce for Developing Countries*. Geneva: UNCTAD, 2015.

③ Bempong Nyantaky, Eugène and Mouhamadou Sy. "Banking System in Africa: Main Facts and Challenges." *Africa Economic Brief* 6, Issue 5 (2015).

AFRICA

# Using Digital Trade for Development in Africa

---

Jamie MacLeod

*Digital trade is rising in Africa and throughout the world. How can it be managed to deliver development outcomes? This article appraises the challenges and opportunities related to digital trade for African countries, as well as the scope for national and international solutions.*

When it comes to the digital economy in Africa, there has been a polarised debate between its cheerleaders and sceptics. This article takes the middle road, arguing that while the rise of digital trade brings with it many challenges for developing countries, it can clearly be a tool for development. What matters, then, is how the tool of digital trade is used. So the question becomes: How exactly can it be handled such that it delivers development in Africa?

## Why worry?

Developing countries, including many in Africa, stand on the precipice of a digital divide from which it can be difficult to contemplate the beneficiaries of digital trade as being any other than the most developed countries.

Firstly, there is fear of the distributional implications between countries. Digital trade is perceived as amounting to skill-biased technological change: that which favours skilled over unskilled labour. Developing countries lack skilled workers relative to developed countries, and based on this, there is concern that digital trade will benefit the latter at the expense of the former.

Secondly, there are concerns that digital trade embodies network effects that can lead to market concentration and in turn lead to anti-competition issues. For instance, large e-commerce platforms such as Amazon – which accounts for half of all online expenditure in the US – collect vast amounts of increasingly valuable data on their customers. This data can then be used to outcompete smaller rivals which lack access to such data.<sup>1</sup> This can lead not only to serious anticompetitive threats, but also to high market concentration in developed countries.

Thirdly, there is concern that digital trade may better allow international companies to distort their taxable income through transfer pricing. For instance, if the intellectual property and operating expertise behind cross-border e-commerce is located abroad, then the cost of this may be deducted from locally generated sales to reduce taxable income in a given country.

Finally, what does the growth of the digital economy imply for the export-oriented industrialisation strategy that has historically fuelled many countries' development? New technologies, like 3D printing and increased automation, reduce demand for labour-intensive manufacturing. Some worry that these technologies will reduce the incentives for businesses to invest in manufacturing in low-labour cost developing countries – a phenomenon traditionally at the heart of many countries' industrialisation.

## But digital trade also presents clear opportunities

Digital trade is of particular benefit to micro, small, and medium-sized enterprises (MSMEs), and more than 80 percent of enterprises in Africa are MSMEs.<sup>2</sup> It can help them connect with purchasers abroad for cross-border orders and provide the supportive services necessary to facilitate their exports, including simplified payments and logistics. For instance, firms in developing countries such as Chile, Jordan, Peru, or South Africa can advertise and sell their products to foreign markets through eBay and other e-commerce platforms.<sup>3</sup> Beyond goods, professional service platforms such as [Freelancer.com](https://www.freelancer.com) and [Elance.com](https://www.elance.com) connect professionals in developing countries to freelance opportunities



around the world. Here, digital trade provides an unrivalled service for the MSMEs of African and other developing countries.

Digital trade can also be a tool for boosting intra-regional trade, as demonstrated by MercadoLibre – the largest online marketplace in Latin America –, which helps foster intra-regional trade by connecting buyers and sellers in this region, and providing online payment services for the regional businesses that do not have bank accounts.<sup>4</sup> On the other side of the equation, digital trade is of considerable benefit to consumer welfare. It provides new possibilities for more effectively searching for, paying for, and receiving delivery of traditional goods and services, as well as access to wholly new digital products.

But perhaps most significantly, digital trade is largely inevitable. There is relatively little that can be done in terms of digital protectionism that does not impose significant economic costs. For example, data localisation requirements, which require data to be stored or processed locally, are estimated to have implied substantial negative effects on the GDP of Brazil (-0.8 percent), the EU (-1.1 percent), India (-0.8 percent), Indonesia (-0.7 percent), and the Republic of Korea (-1.1 percent), with even stronger negative implications for investments and welfare.<sup>5</sup> The solution is to craft a system of governance that addresses the challenges of digital trade while seizing its opportunities.

### **National governance**

Having considered the benefits and challenges of e-commerce, and its inevitability, policymakers must seek to integrate digital trade into their development planning. Some African countries are actively involved in UNCTAD's "eTrade for All" initiative. This is a platform through which policymakers can deepen their understanding of the opportunities, challenges, and solutions relating to leveraging digital trade for development. Others, such as Cote d'Ivoire, have utilised the resources of the International Trade Centre to develop e-strategies. Doing so can help ensure that digital trade is, rather than a threat to African industrialisation, used for its breadth of opportunities.

On the particular challenges of market concentration, anti-competition, and taxation of cross-border digital trade enterprises, countries must develop the appropriate measures of regulatory governance. For instance, policies such as mandatory data-sharing can make data available to local competitors such that it does not pose an anti-competitive challenge. One example of such a regulation is the EU's General Data Protection Regulation, which will apply from May 2018, requiring online service suppliers to make it easy for customers to transfer their information to other providers and even competitors.

Another approach is to devise better competition regulations to treat large e-commerce platforms like the traditional natural monopolies to which they bear resemblance.<sup>6</sup> E-commerce platforms operate similarly to utilities, providing critical marketing, payment, and delivery services to the businesses that operate on them. New approaches to competition policy can account for this. Similarly, new approaches to taxation can address the new business models of the digital trade era.

If the abovementioned threats can be managed, digital trade can be harnessed for its many developmental benefits. However, some of these challenges spread across borders, and will thus require international cooperation to implement appropriate solutions.

### **International governance**

Digital trade is global in nature, and so international solutions are also necessary. These can relate to consumer confidence enhancing measures, like frameworks for cross-border consumer protection, data privacy, or cyber security that help consumers feel safe when shopping online, as well as measures, such as those proposed at the WTO, for ensuring cross-border data flows, supporting e-payments, ensuring the validity of e-signatures and e-authorisations, or promoting electronic single windows.

At the WTO's Eleventh Ministerial Conference (MC11) in December 2017, trade ministers failed to agree to even a ministerial declaration. There was a failure, too, to advance on

any of the so-called "new issues", including e-commerce. The most likely pathway ahead is that of plurilateral deals. Already by the end of MC11, a joint ministerial statement on e-commerce had been issued by 71 members of the WTO, including Nigeria. This group will "initiate exploratory work together toward future WTO negotiations on trade-related aspects of electronic commerce." Such an approach ostensibly allows willing countries to move ahead on issues in which they find agreement and conclude plurilateral agreements, which other countries could subsequently join when ready. However, it risks establishing as international norms rules that are inappropriate for the countries which are not party to the negotiations. The WTO may, furthermore, not be the ideal platform for negotiations on these issues, which encompass aspects that extend far beyond the traditional trade issues that comprise its mandate.

If progress is impossible at the multilateral level, negotiations on e-commerce can move at the regional level. A regional approach is a reformulation of the plurilateral way forward posited above, but through which countries can build upon their regional similarities and existing regional infrastructure to more easily find agreement.

African countries are aware that their small and fragmented domestic markets will impede the long-term development of their own e-commerce enterprises. They understand that as a regional grouping, they also stand on a more even footing when it comes to e-commerce capability than when they stand by the full spectrum of WTO members. They have more similar appetites for particular digital trade rules. Perhaps most pertinently though, they have already at hand the ideal platform: as negotiations for the first phase of the African Continental Free Trade Area come to a close, negotiators are now looking to phase two issues, including investment, intellectual property, competition, and potentially also e-commerce.

Regional approaches work. The ASEAN region has achieved much success in cooperating over issues of digital trade facilitation, infrastructure gaps, access to payment solutions, and online security through a Coordinating Committee on E-Commerce. The EU has prioritised the creation of a "Digital Single Market" to harmonise policies for a more effective digital marketplace. In Africa, the African Continental Free Trade Area could serve as a basis.

### Conclusions

Digital trade presents a number of challenges for African and other developing countries, but these should not dissuade such countries from pursuing the clear benefits that it can bring. Instead, the solution is to design a system of governance that would both tackle the challenges associated with digital trade and capitalise on the opportunities it offers. Doing so will require governance measures at the national level, including through development planning that integrates digital trade to e-strategies, as well as regulations appropriate for the new challenges of the digital trade era. Digital trade being fundamentally global, international solutions must also be crafted. While agreement at the multilateral level seems as yet far off, regional approaches offer promising opportunities. For Africa, this includes using the African Continental Free Trade Area as a platform for cooperating over digital trade issues and creating an improved digital market in Africa.



**Jamie MacLeod**  
Trade Policy Fellow, African  
Trade Policy Centre (ATPC) at  
the UN Economic Commission  
for Africa

- 
- ❶ LaVecchia O & S Mitchell. "Amazon's Stranglehold: How the Company's Tightening Grip Is Stifling Competition, Eroding Jobs, and Threatening Communities." Institute for Local Self-Reliance, 2016.
  - ❷ World Finance. "SME growth key to Africa's future, says African Guarantee Fund." 18 November 2014.
  - ❸ World Bank. *World Development Report 2016: Digital Dividends*. Washington, DC: World Bank Group, 2016.
  - ❹ World Bank. *World Development Report 2016: Digital Dividends*. Washington, DC: World Bank Group, 2016.
  - ❺ Bauer, Matthias, *et al.* "The Costs of Data Localisation: Friendly Fire on Economic Recovery." ECIPE Occasional Paper 3. Brussels: ECIPE, 2014.
  - ❻ Khan, Lina. "Amazon's antitrust paradox." *The Yale Law Journal* 126, no. 3 (2017).

## E-COMMERCE

# How the Private Sector is Shaping African E-Commerce

Maxime Weigert

*The growth of the Internet can generate significant economic opportunities in Africa, in particular when it comes to e-commerce. What are the challenges hindering the development of African e-commerce, and how can the private sector reap the opportunities?*

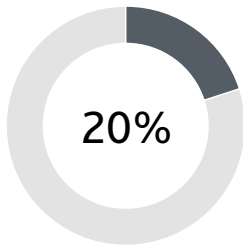
After the dramatic take-off of mobile telephony in Africa, the growth of the Internet is the next technological revolution expected on the continent, encouraged by urbanisation, the development of the middle class, and the high demographic proportion of young people. For now, the trend seems to be developing. Internet adoption is increasing, in particular south of the Sahara where the percentage of individual users grew from 7 percent to 20 percent of the population between 2010 and 2016 according to the World Bank. This evolution seems promising for Africa, as the growth of the Internet should help solve some of the major issues hindering the development of all the social and economic sectors, such as high transaction costs, spatial constraints, limited information exchanges, and lack of access to international markets. Digital solutions are appearing in non-market sectors, such as health, education, and governance. However, the growth of the Internet also presents new opportunities related to domestic e-commerce, that is to say the trade of goods and services through the Internet between companies (B2B) and between companies and consumers (B2C).

Over the last two years, this sector has been hugely popular with investors and entrepreneurs, galvanised by the current and expected dynamism of the e-commerce market in Africa, which could represent 75 billion dollars in 2025.<sup>1</sup> However, those who have embarked on this adventure are not finding it an easy ride. Regardless of the enthusiastic speeches about the technology leap in Africa, the spread of the Internet is limited on the continent by the low level of development as well as the market conditions. The simple transfer of e-commerce models that exist elsewhere does not work as it is ill-suited, which explains why international leaders of the sector such as Amazon and Ali-Baba have not yet established themselves there. The constraints with which operators are faced in Africa – both upstream and downstream – force them to develop skills and innovations unlike those that are needed in developed country markets. Through their actions, these key players help shape the structures and the ecosystem of African e-commerce.

## The challenges of e-commerce in Africa

E-commerce was first developed in the more advanced countries. Its growth was fuelled by the wide-scale adoption of the Internet in these societies, which gave birth to a critical mass of connected consumers, in addition to company strategies that successfully captured this developing market. However, it is also connected to other contextual factors, in particular material factors. In these developed markets, online traders were able to levy the necessary logistical infrastructure, such as effective transport networks and postal systems, in order to be supplied and to deliver to customers. They turned to consumers from high-income countries who, due to their high purchasing power, their use of the banking system, and their trust in legal systems, quickly occupied e-commerce's intangible market space.

Africa does not present such a favourable environment. The low level of development creates many barriers to the development of e-commerce, on top of the general obstacles related to the business climate.<sup>2</sup> The first barrier, which is present before the launch of any e-commerce activity, is related to the income level of Africans and gives grounds for questioning the true potential of the sector. Indeed, the growing interest for e-commerce



Internet adoption is increasing in Africa, in particular south of the Sahara where the percentage of individual users grew from 7 percent to 20 percent of the population between 2010 and 2016 according to the World Bank.

in Africa is fuelled by hope arising from the emergence of an African middle class as a consumer class. However, although this middle class is today estimated at 350 million people, 60 percent of them belong to the “floating” middle class and have an income of between US\$2 and US\$4 per day, just above the poverty line.<sup>3</sup> In total, more than three quarters of these people have an income under the US’ poverty line, which is set at US\$13 per day. Although this international comparison in absolute terms is biased, as purchasing power depends on the cost of living, it provides an idea of the limits this level of wealth sets for the trade of consumer goods and services in Africa. On average, more than half of the expenditure of African households is on food.<sup>4</sup> After adding housing, transport, health, and education costs, the part of the budget devoted to purchasing non-essential goods is minimal for the lower categories of the middle class, in both absolute and relative terms.

The issue of purchasing power is crucial for e-commerce, as it limits the capacity of Africans not only to buy IT equipment, but also to access the Internet. In Côte d’Ivoire, for example, prepaid offers of 100 mega octets of browsing cost on average US\$0.75, which represents a significant transaction cost for online purchases for these specific income levels. In addition, the number of potential consumers in the middle class, represented here on a continental level, is further reduced by the fragmentation and limited integration of African markets, which generally restrict the operational scope to national markets only. Furthermore, beyond the issue of purchasing power, other upstream structural constraints limit the development of the e-commerce market. For example, there are cognitive barriers related to illiteracy, or at least to the low level of digital literacy, while in some countries the geographically uneven development of telecommunication networks hinders the wide-scale spread of the Internet.

It therefore seems as though e-commerce’s target market must limit itself to the richest classes and the upper middle class, as well as the diaspora community, as illustrated by the case of Afrimarket, a start-up which allows people to order online items from France and then organises their delivery to several French-speaking African countries. However, even though the segments of connected consumers are expanding, operators are also confronted with downstream operational constraints that are preventing them from easily penetrating this market. One of the main obstacles is the low penetration rate of banking services and the predominance of cash transactions, which further limit the development of online cashless transactions, all the more so as these cause mistrust due to the real or perceived digital insecurity that prevails in African countries. Furthermore, e-commerce is stymied by social and cultural practices in countries that have still not fully transitioned towards supermarkets and where markets are still a community activity and a place for socialisation. Finally, even once these constraints have been overcome, online traders are still confronted with logistical nightmares. The inadequacy of road networks, even in large cities, and the lack of a postal system create costly regularity and flow issues in the product delivery phase. Along with the issue of purchasing power, managing the “last mile” is probably one of the main challenges with which of these operators are faced.<sup>5</sup>

#### **A sector that appears dynamic**

Despite these constraints, e-commerce shows itself to be a dynamic sector in Africa. A recent report entitled *Afrishopping* identified 264 companies engaging in e-commerce activities in 23 African markets, in various subsectors of online sales, including capital goods, clothing, taxi services, and travel.<sup>6</sup> The report also identified a high concentration in a few national markets such as Kenya, Nigeria, and South Africa. Within the sector, there is a wide variety of players, both in terms of size – with the presence of small start-ups as well as large multinational groups – and of industrial trajectory. Indeed, a few companies specialised in e-commerce from the start, whereas others came to it from another activity, like the Safaricom group in Kenya which intends to apply its understanding of mobile payment technology to sales through its online platform Masoko.

This apparent dynamism does not belie the difficulties and constraints mentioned above. On the contrary, several experiences have revealed the extreme vulnerability of businesses, including those with the most support, such as Kenyan company Kalahari and

South African company Mocality, who ceased trading in 2011 and 2013, respectively, and the French company Cdiscount which, in 2016, limited its activity from three countries to one country – Côte d'Ivoire. These three companies, just like others, stated that they could not find the expected profitability in these African markets. The *Afrishopping* report mentioned above estimated that less than 30 percent of e-commerce ventures generate profits. De facto, the current trend is much more complex than it seems. The case of the Jumia group, sometimes called the "African Amazon", may help determine its nature.

Jumia is an e-commerce platform founded in 2012 in Nigeria by the Africa Internet Group, a subsidiary of the German company Rocket Internet. The group has progressively become more international while developing several start-ups specialising in various e-commerce subsectors (sales, real estate, catering, etc.). After being united in 2015 under the umbrella of the Jumia Group, they became an ecosystem of nine companies that are currently active in 23 African countries. In 2016, the group received investments of several hundreds of millions of euros from large investors such as Goldman Sachs and Axa Assurances, turning Jumia several months later into the first African "unicorn", valued at more than a billion US dollars. However, these trust marks struck a false note in comparison with the group's actual results, as it has constantly shown deficits since its creation, despite a remarkable increase in revenue from 29 to 135 million euros between 2012 and 2015. This interest for Jumia can be explained by the rhetoric of its leaders. They describe their project as a long-term opportunity which aims to position the group advantageously in a market that is about to emerge.<sup>7</sup> In other words, Jumia is not looking to make an immediate profit but to prepare its future conquest of the African e-commerce market. This forward-looking perspective, which is used by other key players, does not mean that they are passively waiting for this emergence: faced with significant constraints, they are designing adaptation and transformation strategies.

---

*The current dynamism of e-commerce in Africa stems from a forward looking and forward-planning approach on behalf of the operators.*

---

### **The strategies of African e-commerce firms**

Given the market conditions, e-commerce firms implanting themselves in Africa cannot be content with reproducing online sales models that exist elsewhere. In order to operate, they must adapt themselves to material constraints and consumption patterns. The main break with the original e-commerce model is the high level of investment made in offline activity and associated human resources. This can be seen, for example, through the development of call centres, responsible for monitoring orders and relationships with a customer base that is often inexperienced, and the acquisition of a fleet of vehicles dedicated to delivering items and collecting cash payments. Given the lack of street names, the knowledge of traffic and delivery areas acquired by the drivers thus becomes a competitive advantage. Another example of tangible investment is the creation of exhibition halls for items that will then be sold online, which helps develop personal connections with customers while slowly gaining their trust.<sup>8</sup> Through these adjustments, operators may progressively penetrate the consumer market as it exists today.

These strategies are not limited to adaptations. Faced with the weaknesses of the market, operators have set up corrective actions on several levels in order to promote the use of their platforms and grow the consumer market.<sup>9</sup> This approach consists of investments into training suppliers on their B2B information and online ordering systems and into marketing campaigns to reach the population. For example, Jumia sends its "JForce" to regions and neighbourhoods that are poorly connected: agents with tablets who present the platform to passers-by and show them how to order. Online traders are also investing into the development of multilingual mobile applications in response to the preferred use of smartphones to access the Internet as well as the ethnic diversity of potential consumers. The crucial element is the integration of mobile payment technology to

increase the volume of cashless transactions and limit processing costs for cash payments. This payment method is sometimes promoted through discounts for those who use it to pay for their purchases. Finally, operators are using their experience of the market and the data gathered to lobby the authorities on e-commerce, for example by producing reports on the state and weaknesses of this sector – something Jumia does regularly – or by implementing social and environmental self-regulation in order to strengthen their reputation among leaders and consumers, like the Kenyan group Kilimiali which recently joined the “Buy Kenya Build Kenya” initiative.

### Conclusion

The current dynamism of e-commerce in Africa stems from a forward-looking and forward-planning approach on behalf of the operators. By establishing themselves in immature markets, they are shaping an original model of African e-commerce. It differs from that of developed countries through its intense offline activity, which is necessary in order to overcome the many constraints of the marketplace. The operators are implementing adaptation and mitigation strategies, the purpose of which is firstly to position themselves on the market and then to consolidate this position, respectively. By contributing in this fashion to the spread of e-commerce, they are providing an example of the role the private sector could play in Africa's economic transformations. However, they still need to be supported by the states through high quality infrastructure, the effective promotion of Internet access, and more favourable business regulations. Given the positive effects of e-commerce on development, including by enhancing market access for populations, boosting the economy's performance, and encouraging the formalisation of trade (thereby increasing tax revenue), African states have a crucial role to play alongside operators in the co-construction of the digital economy.

- ❶ McKinsey Global Institute. *Lions go digital: The Internet's transformative potential in Africa*. November 2013.
- ❷ Elsmami, Rusha, Rahim, Abdul, and Mahmoud Mohammed Abdelgadir. "A Review of the E-commerce Barriers Faced by the SMEs in Africa." *International Journal of Innovation and Business Strategy (IJIBS)*, Vol. 7, No. 1 (2017).
- ❸ African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. *African Economic Outlook*. Paris: OECD, 2017. The following analysis on income details is based on an analytical and methodological study of the middle-class published by the ADB in 2011, to which the AEO refers when it comes to assessing the scale of the middle-class: Ncube, Mthuli, Lufumpa, Charles Leyeka, and Steve Kayizzi-Mugerwa. "The Middle of the Pyramid: Dynamics of the Middle-class in Africa." *Market Brief*, African Development Bank, 2011.
- ❹ See also for example Bricas, Nicolas, Tchamda, Claude and Florence Mouton (eds.). *L'Afrique à la conquête de son marché alimentaire intérieur. Enseignements de dix ans d'enquêtes auprès des ménages d'Afrique de l'Ouest, du Cameroun et du Tchad*. AFD, "Études de l'AFD" collection, no. 12, 2017.
- ❺ Expression borrowed from Jonathan Rosen's article "Ghana's last mile", *MIT Technology Review* 120, no. 1 (Jan/Feb 2017).
- ❻ Disrupt Africa, *Afri-Shopping: Exploring the African E-commerce Startup Ecosystem Report 2017*, 2017.
- ❼ RFI. "Jérémy Hodara, co-fondateur et co-dirigeant de Africa Internet Group." 9 January 2016.
- ❽ See the example of Chinese company Amambo in West Africa in Sarkar, Sudeshna, "Sino-African e-commerce takes off". *African Business* 439, March 2017.
- ❾ Weigert, Maxime. "Jumia Travel in Africa: Expanding the boundaries of the OTA business model." *Tourism Review*, 2018 (In press).



**Maxime Weigert**  
Geographer specialised in Africa

## DIGITAL ECONOMY

# The Digital Trade Agenda and Africa

Christopher Foster and Shamel Azmeh

*Digital technologies and data flows are increasingly the subject of provisions in trade negotiations. How do African states position themselves in these discussions in order to expand their digital economies and support digital industrialisation?*

In this article, we discuss recent trends towards regulating broader aspects of digital technologies and data flows through international trade rules. Given the growing importance of digital technologies and data, these changes are likely to shape the future directions of digital economies, industrialisation and structural change in Africa. Yet, at present there has been little consideration of the specific challenges that African countries face.

### From e-commerce to digital trade

In recent years, trade policymaking in the areas of digital and data has rapidly evolved. Trade chapters concerning “e-commerce” are now being discussed in terms of “digital trade”. This change in terminology signals an expansion in focus towards regulating a broader set of cross-border digital issues.

It is worth considering the drivers behind the move towards “digital trade”. The most important factor is the rapid expansion of digital technologies, tools, and services globally. As connectivity is expanding across the globe, digital services and data are becoming an integral aspect of economies in areas such as e-commerce and e-government. We are also at the cusp of a whole new set of innovations in areas such as artificial intelligence (AI), cloud computing, digitally-integrated machines, and big data that promise to shape global economies over the coming decades.

There has also been the expansion of firms with global business models that exploit digital tools and data flows. This includes well-known digital firms as well as global firms that are incorporating the digital delivery of goods, services, and data into their core models. These firms, typically originating from the US or the EU, have often encountered barriers when seeking to enter foreign markets. In some regions, rules preventing data flows or limiting trading in foreign markets have limited firm expansion. Moreover, uneven regulatory frameworks across countries increase the cost of the global business models of these firms. Given the growing political mobilisation by such firms, their agendas for free digital trade have consequently become part of national trade goals, particularly in the US.❶

These drivers have led to the introduction of binding rules in various trade negotiations, with the goal of preventing so-called digital trade barriers. Examples of rules that have been proposed include rules which would force nations to allow free flows of data across borders, rules which would prevent foreign firms from being forced to store data locally, and rules which would prevent market conditionalities or tariffs being applied to foreign digital firms. Instituting such rules in trade deals make them subject to dispute settlement mechanisms, meaning that even for states without significant national digital assets, diverging from these rules could be damaging through retaliation in other sectors of their economies.

Within bilateral and regional trade agreements, the most notable success around digital trade has come in the agreed e-commerce chapter of the Trans-Pacific Partnership (TPP) – which is likely to remain in place in the modified Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) agreement following US departure from this trade bloc. Digital trade and data flows are also part of the for-now-stalled Trade in Services Agreement (TISA) and Transatlantic Trade and Investment Partnership (TTIP)

negotiations. Renegotiations of the NAFTA agreement are addressing some of the digital issues as well. Some bilateral free trade agreements (FTA) already include digital trade rules, such as the EU-Japan and US-Korea FTAs. While such rules will only directly affect states that are party to these agreements, they will indirectly affect other countries through increasing the pressure to adopt such rules multilaterally. Indeed, we are already seeing similar proposals at the WTO to expand the existing work programme on e-commerce to more broadly include digital trade (see next section).

In Africa, many policymakers are still grappling with the challenges of basic provision of digital connectivity. Only a few have begun considering the broader implications of the digital economy and digitisation. However, these issues have major implications for the African continent. In terms of trade rules, there are questions of how digital trade rules will interact with existing trade agreements. In services, for instance, a number of African countries have maintained protections under the General Agreement on Trade in Services (GATS) agreement of the WTO. Rapid growth in digitally-delivered services is weakening these protections and many countries suspect that digital trade rules are a way to push for complete free market access for services. There is also a growing focus by African states on industrialisation and structural transformation. In an era where the digital is increasingly becoming central to industrialisation and technological catch-up, understanding the impact of digital trade rules is vital for industrial strategies.

---

*In Africa, many policymakers are still grappling with the challenges of basic provision of digital connectivity. Only a few have begun considering the broader implications of the digital economy and digitisation.*

---

Our analysis suggests that, at present, only Nigeria is coherently pushing national digital policy, through legislation supporting local digital content and forcing foreign firms to localise their data. In these actions, Nigeria is clearly attempting to leverage digital access to its large market to promote local digital capacity. Outside Nigeria, there is a scattering of legislation that might be highlighted as falling within the scope of digital trade. For example, Algeria and South Africa have local rules on e-commerce considered challenging for foreign firms. In the bigger picture of digital trade, however, these rules in Africa are likely to be having only marginally effects on digital sectors or data flows today.

#### **African negotiating positions**

There are good reasons why African countries might sign up to digital trade clauses in trade agreements. In the short term, it could support the development of the digital economy nationally, particularly on the consumer side of the economy. Consistent rules could help attract foreign digital firms who are developing global business models. For instance, growth in digital payment ecosystems and logistics can be an enabler of e-commerce at a national scale. In the medium term, rules also provide a basis for digital or digitised businesses to expand beyond their borders without risk of barriers. This might be particularly valuable in smaller African countries where regional reach is central to firm growth.

However, there are also risks in agreeing to overly-broad rules on open digital trade. Whilst multilateral trade negotiators and experts might argue otherwise, digital trade is still a very loosely defined term and the implications of digital trade rules are still not well understood. The lack of knowledge of digital policy also comes from the fact that digital technologies are still rapidly evolving, with significant developments in areas such as AI, drones, and digitisation emerging in the past one or two years.

Committing to binding rules at this early stage appears problematic and could impact the ability of nations to build coherent “digital industrial policy”. It may be that to develop



## A plurilateral initiative on e-commerce

At the WTO's Eleventh Ministerial Conference in Buenos Aires, a group of 70 WTO members signed a joint statement, indicating that they "will initiate exploratory work together toward future WTO negotiations on trade-related aspects of electronic commerce." So far, this initiative does not include any African country except Nigeria..

more rapidly in the digital area in the future, African states will look for more strategic policy options aimed at fostering structural change, rather than simply committing to liberalising agendas. Such an approach might lead to a push for more interventionist measures, or more likely intermediate positions around digital trade where sectoral or dynamic rules are implemented with respect to digital trade.

### Manoeuvring at the WTO

Discussions on e-commerce were an important part of the 2018 WTO ministerial conference in Argentina and in line with our discussion above, there were attempts to broaden the WTO e-commerce agenda to include digital trade. The history of the e-commerce work programme goes back to its initial establishment in 1998. Discussions waned somewhat during the mid-2000s due to a lack of interest, but recently debates have been revived alongside growing demands for digital trade rules.

Exploring the negotiating positions that were formulated by WTO members ahead of the ministerial, we see a number of attempts to broaden and reposition the e-commerce agenda towards digital trade. In early discussions, the US looked to outline a list of digital issues in an attempt to open up the negotiations, reaching well beyond e-commerce.<sup>3</sup> However, with the change of administration, the US drastically reduced their activity in later discussions. With the US fairly muted, negotiations were pushed forward within an "e-commerce for development" agenda driven by Costa Rica, with support from an alliance of other developing countries such as Pakistan and Colombia.<sup>4</sup> This alliance was argued to be more focused on e-commerce, with particular emphasis on the potential for SMEs to become involved in exports through e-commerce. This proposal also had the implicit support of China, who with ambitions of global e-commerce expansion supports similar agendas.

During negotiations, strong opposition to these proposals came from a number of fronts. Notably, opposition came from a well-organised African Group who repeatedly questioned the proposals put forward.<sup>5</sup> Concerns were that African economies, still to be industrialised, would potentially lose from expanded rules. In their most combative submission, the group argued that "the multilateral rules as they are, are constraining our domestic policy space and ability to industrialize".<sup>6</sup> Even the more modest positions from Costa Rica were questioned and considered as disguising other agendas, with the document stating that "the African Group views the so-called 'E-commerce for Development Agenda' as a 'Trade Liberalization Agenda'." The African Group's position was to ensure that they retained their "policy space", with emphasis on the need to iron out technical challenges but without installing new directions on e-commerce – be it under the current work programme or within a new framework.

---

*Given that the future directions of digital trade are already starting to be institutionalised, it is essential that African leaders are able to articulate their position in order to shape agendas going forward.*

---

Prior to the ministerial, there were statements that this would be the "e-commerce summit", with revived impetus and agendas showing the potential of the WTO to modernise. In the end, however, no substantial multilateral outcome was reached, with WTO members adopting a relatively neutral ministerial decision that only preserved the status quo. A group of 70 members also signed a joint statement, indicating that they "will initiate exploratory work together toward future WTO negotiations on trade-related aspects of electronic commerce," though notably this did not include any African country except Nigeria. Whilst this lack of multilateral result was perceived as a failure in some quarters, it might be seen as a success for African negotiators in terms of agenda setting.

### Towards African alliances in digital trade

Principally, our argument is that the appropriate directions for digital trade policymaking are not well established. At this early stage, stalled debates and conflicts should not be seen as a failure but an important part of the process of finding equitable policy directions, particularly for regions such as Africa. In our view, it is too early for African states to commit to the types of digital trade policy typically being set out in negotiations. It makes sense that Africa looks to undertake rules at the margins to smooth the availability of foreign platforms and e-commerce, but with attention to avoiding overly committing to rules that will have long-term impacts.

Given that the future directions of digital trade are already starting to be institutionalised, it is essential that African leaders are able to articulate their position in order to shape agendas going forward. The outcomes of negotiations in agreements such as the CPTPP and TISA are likely to be taken as norms for future multilateral rules. This then poses the more difficult question of how African states can best engage to avoid problematic rules being imposed on them in the future.

The WTO discussions highlight useful directions going forward for Africa. African negotiators were able to come together, understand the issues more deeply, and clearly articulate their position. In the WTO process, various positions, alliances, and potential directions emerged through critical discussions involving a broad set of stakeholders beyond just technology firms, and this should continue. It would also be recommended that debates on digital trade be expanded outside the pressured, non-transparent environment of trade negotiations. Expanding the use of multi-stakeholder fora such as the UN World Summit for Information Society (WSIS) process or the Internet Governance Forum (IGF) with a view towards building alliances and suitable policy approaches would be prudent. There is also a responsibility on leading digital nations in Africa, notably Nigeria and Rwanda, who can drive African alliances forward in the future.

To summarise, we have discussed the move from rules around "e-commerce" towards "digital trade" within the international trade regime. As should be evident, digital trade is a rather loosely defined area, often driven by those who set the agenda. In a world of digital disruption and evolving data flows, there is a strong need for a better understanding of best policy practices, and even more so in the context of African economies.

Moving forward, African leaders need to be careful not to undertake policy commitments that would bind their hands too much for the future. They should be building an understanding of the way forward and nurturing alliances as a means for making their agendas more coherent. Now is the time to begin to form these agendas which are likely to remain at the forefront of trade debates in the coming decades.



**Christopher Foster**  
Lecturer in ICT and Innovation,  
University of Sheffield



**Shamel Azmeh**  
Assistant Professor of  
International Development and  
International Political Economy,  
University of Bath

- ❶ Azmeh, Shamel, and Christopher Foster. "The TPP and the Digital Trade Agenda: Digital Industrial Policy and Silicon Valley's Influence on New Trade Agreements." Working Paper. International Development, Working Paper Series (16-175). Department of International Development, London School of Economics and Political Science.
- ❷ ECIPE. "Digital Trade Estimates Database." Brussels, Belgium: European Centre for International Political Economy, 2017.
- ❸ WTO. "Work Programme on Electronic Commerce: Non-Paper from the United States." JOB/GC/94.
- ❹ WTO. "Work Programme on Electronic Commerce: Communication from Costa Rica." JOB/GC/139.
- ❺ Not all the region was united, for example Nigeria with its growing push for e-commerce took a different position
- ❻ WTO, "The Work Programme on Electronic Commerce: Statement by the African Group." WT/MIN(17)/21.

## SUSTAINABLE DEVELOPMENT GOALS

# How Can Trade Help Africa Achieve the Sustainable Development Goals?

Matthias Helble

*Beyond its effect on incomes, trade can also have significant developmental impacts through its influence on the price, quantity, and quality of goods available within markets. How can African countries use trade policy to improve their population's access to products that are important from a sustainable development perspective?*

The UN Sustainable Development Goals (SDGs) commit developed and developing countries alike to an ambitious agenda of progress across the full spectrum of development issues. Rightly, there is no trade goal: trade is a means to an end, not an end in itself. But it is recognised as an important “means of implementation,” although subsequent work on targets and indicators has left much to be desired from the perspective of trade economists.

### **Trade and development: An alternative perspective**

The standard argument long put forward by economists linking trade with development runs through the channel of income. Trade openness promotes specialisation by comparative advantage and supports productivity gains at an economy-wide level. To the extent that these gains translate into higher incomes, they provide countries with the necessary means to move forward on other aspects of development, such as health and education.

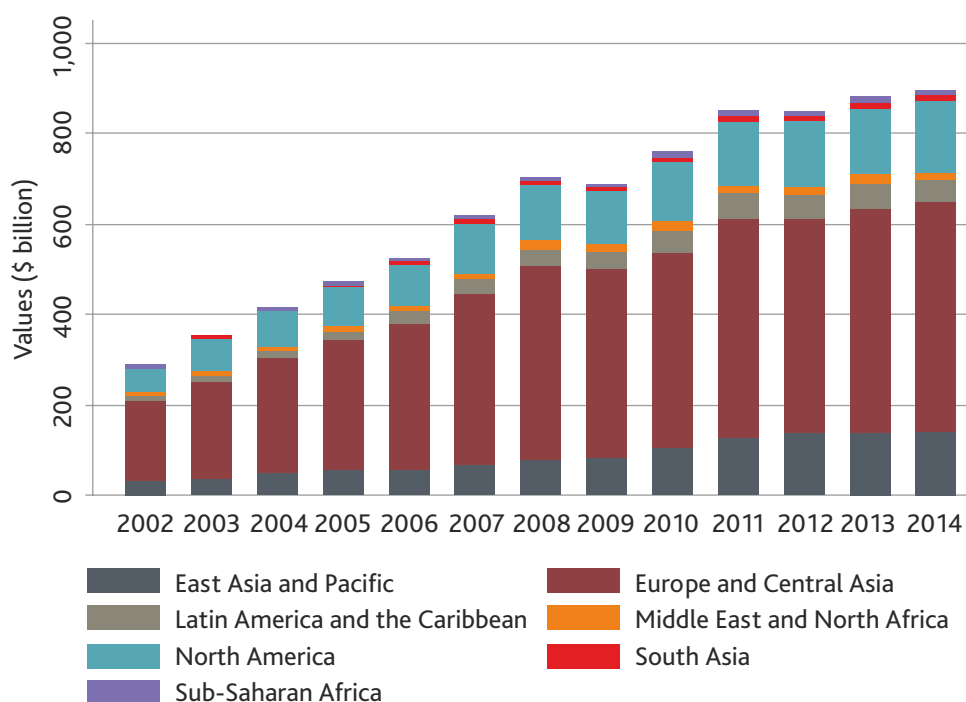
However, the literature linking trade and income growth is highly controversial. On balance, most trade economists agree that openness is a necessary but not sufficient condition for development gains. Some development specialists in other fields are skeptical even of that claim.

That is why in a [new book](#) on trade and the SDGs, Ben Shepherd and I have chosen to focus on the non-income linkages between trade and development. In other words, we look for instances where trade can help reduce the prices and increase the availability of goods or services that are important from a sustainable development perspective. The book brings together a group of leading trade experts to discuss in what ways good trade policy, which supports efficiency in resource allocation, can also be good development policy. As African countries integrate further into the world economy, such an alternative approach to exploring the trade and development nexus is important, as it suggests that in addition to promoting income growth and structural change, trade can also create important development benefits in a range of other areas.

### **Trade is good for your health**

One issue that deserves particular attention is health. Trade in health products, has been increasing over time, but Africa remains marginalised (Figure 1). Interestingly, this marginalisation is true even though Africa's tariffs on health products have been falling, to now only a few percent ad valorem on average. However, this average masks important variation. When looking at the data in more detail, we find that some countries place high rates of tariff protection on particular health products. For instance, 54 countries have a tariff rate above 10 percent on cameras for medical or surgical examination, while 30 have tariffs above 10 percent on surgical gloves. While many countries have zero or low tariffs on imported pharmaceuticals, that is not always the case. In Africa, for example, Djibouti applies a rate of 11 percent.

**Figure 1: Trade in health products, 2002-2014, by region (billion US\$)**

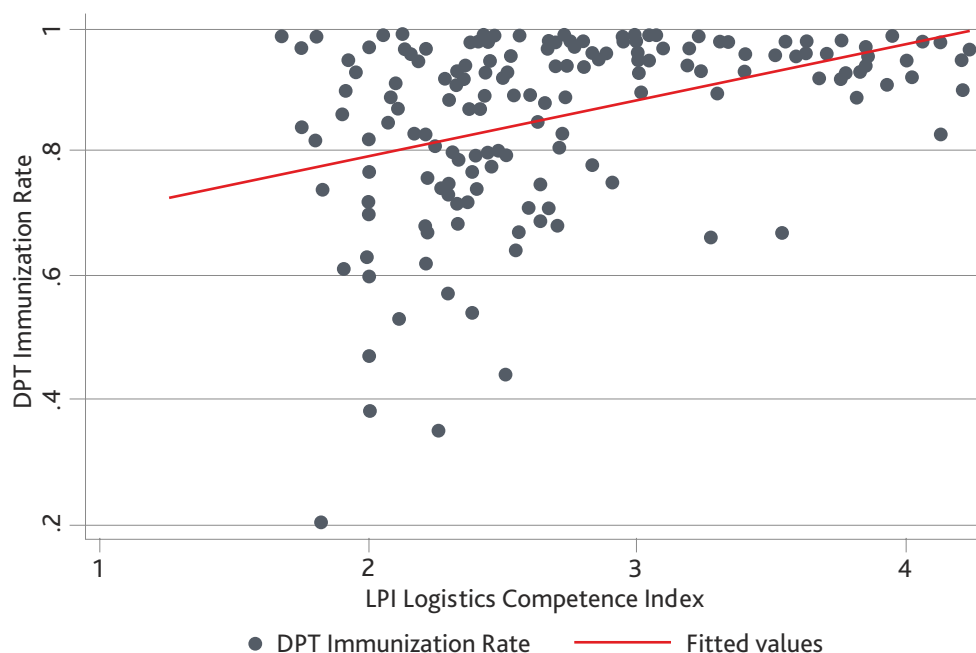


Source: Helble and Shepherd (2017).

Traditionally, many countries have justified high rates of protection either as ways of promoting local infant industries, or as “pro-poor” taxes on imported luxuries. These two justifications are hard to maintain in the case of health products. First, many countries have no or very little domestic production capacity for health products, particularly technologically sophisticated ones like specialised cameras, or pharmaceuticals. Second, it is quite inappropriate from a development perspective to classify health products as “luxuries” that should be taxed: they are necessities of life, which should be made available as widely as possible and at as little cost as possible. Clearly, there is much that developing countries, including African countries, can do to liberalise their trade regimes in relation to some health products. We could expect those reforms to produce concrete gains in terms of health outcomes domestically, which is a vital part of the overall SDG agenda.

Of course, tariffs are not the only policies that matter for trade, or for health. Non-tariff measures also play an important role. In some cases, regulations affecting trade in health products are absolutely necessary and appropriate: for instance, to protect consumers and ensure a certain level of quality. But in other cases, broader obstacles to trade integration have particular implications for health. For instance, poor trade facilitation – which increases border crossing times and results in sometimes lengthy delays – affects products like vaccines and some pharmaceuticals, which need to be kept in controlled environments and moved rapidly to the final user. Figure 2 shows that there is a robust correlation between logistics performance, which is a comprehensive measure of trade facilitation, and vaccination rates around the world. Moving beyond the figure, an econometric model shows that the association continues to be significant even after controlling for factors like per capita income, health spending, and government effectiveness. Again, moving forward on trade can help increase the availability and reduce the cost of important health products.

**Figure 2: Correlation between logistics performance and DPT immunisation rate**



Source: Helble and Shepherd (2017).

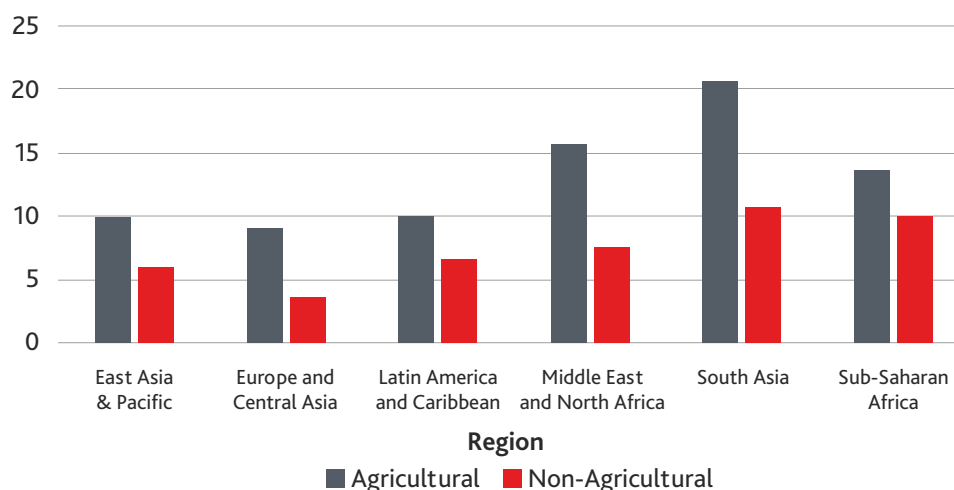
### Trade and women's empowerment

Development is fundamentally about enabling all people to realise their full potential. Nevertheless, there is a clear need for special measures to empower historically marginalised populations, including women. Women interact with the international economy in a variety of ways: as consumers, as workers, and as business owners. Can international trade do anything to support women's empowerment in Africa?

As we did for health products, we can again start by looking at how trade policies affect female consumers. Relatively little is known about the different consumption patterns of men and women in Africa or in most other parts of the developing world – indeed, the need for new and better data is patent in this area. However, it is widely known among development professionals that women spend their income relatively more on basic necessities, particularly food, than men do. But Figure 3 shows that tariff rates of protection on agricultural goods are much higher than for non-agricultural goods, a difference of close to 50 percent in Africa. Combining this information with different spending patterns reveals that the burden of trade policy falls particularly heavily on women in this case. A more liberal approach would enable women to purchase food more easily, thus not only empowering them but also bringing ancillary development benefits in areas like health, nutrition, and education. Of course, liberalising agricultural trade policies in Africa is complex, as activist trade policies tend to redistribute purchasing power from consumers, including women, to farmers, many of whom are poor. It therefore needs to be considered carefully in all its dimensions, but from a gender perspective, there is likely scope for reforms that both improve allocative efficiency and give women greater control over their economic lives.

To make the point even more clearly, we can consider a subset of products that are essentially consumed only by women: sanitary products. Countries in Sub-Saharan Africa applied an average tariff of 15 percent to these products in 2016, which was about 50 percent higher than the average tariff for all non-agricultural goods. At the country level, both Angola and the Central African Republic applied tariffs about twice as high, even though their domestic manufacturing capacities are likely very limited, if there is any at all. Even more clearly than in the case of agriculture, these trade policy measures not only redistribute income away from women, but also disempower them economically and socially. There is clear scope to implement policies that could both boost trade and improve women's purchasing power, thus advancing the gender equality aim within the SDGs.

**Figure 3: Tariff rates of protection on agricultural versus non-agricultural goods, by region**



Source: Shepherd and Stone (2017).

### Policy recommendations

We have addressed just two areas in which trade can, through non-traditional mechanisms, help promote the SDGs. There are many more, from education to water use, which are explored in detail in our [new book](#). What can policymakers take away from this discussion?

First, although some in the development community are skeptical of trade benefits, we would emphasise that this skepticism is typically due to the process of result and counter-result that played out in the now superseded literature on openness and growth. Before it affects incomes, trade influences prices, quantities, and quality of goods available within markets. As such, there is scope to use trade liberalisation to improve these variables in areas that matter for development, such as health and education (trade in services). We believe there is a strong case for individual countries to identify lists of development products – those that are consumed relatively intensively by the poor or historically marginalised communities, as well as those with direct application in sectors like health and education – and to liberalise them unilaterally. Doing so will increase availability and reduce prices for consumers. In some cases, this process will need to be done carefully, especially when poor local producers may stand to lose out. So it is not a simple process, but the analysis is worthwhile undertaking.

Second, although policymakers focus on the gains that can come from exporting, trade economists often emphasise the virtues of importing. Indeed, the indicators assembled by the UN to track progress on the SDGs are quite mercantilist in their treatment of trade, in the sense that they focus on export growth, but say nothing about import growth. In reality, these two margins move together: large exporters are also large importers. But more fundamentally, it is important for policymakers in Africa and elsewhere to realise that tariff barriers and unnecessary non-tariff measures restrict the ability of the people they serve to access sometimes vital goods – such as food and products used in the health sector. As far as these products are concerned, there is a clear case for reform.

African countries have done much over recent years to liberalise their import regimes, and this stands to their credit. Nevertheless, increased attention to the non-income effects of trade policy can help inform their continued moves towards leveraging trade to support development. Trade can not only help promote structural change and income growth, but also support development in a very immediate, human sense.



**Matthias Helble**  
Senior Economist and Co-Chair  
of the Research Department,  
Asian Development Bank  
Institute

① Helble, Matthias and Ben Shepherd. *Win-Win: How International Trade Can Help Meet the Sustainable Development Goals*. Tokyo: Asian Development Bank Institute, 2017.

# Publications and Resources



## Promoting Capability Enhancing Development – ICTSD – March 2018

The WTO's Eleventh Ministerial Conference did not deliver on special and differential treatment (S&DT). Partly, this is because the debate on S&DT and policy space rests on different views on the optimal nature and scope of trade policies, and on the role of governments in promoting structural transformation. The discussions presented in this policy brief bring to light the need to acknowledge the rising call from a number of lower income developing countries to consider ways in which multilateral trade rules can best support the design of trade and trade-related policies enabling of economic transformation. <http://bit.ly/2FQEniR>



## Updating the Multilateral Rule Book on E-Commerce – ICTSD – March 2018

This policy brief seeks to provide a birds-eye perspective on current and future developments in e-commerce rules at the WTO. The Joint Statement on Electronic Commerce issued at the WTO's Eleventh Ministerial Conference, which aims to "initiate exploratory work toward future WTO negotiations on trade-related aspects of electronic commerce," marks an important moment. This brief presents the most salient issues around the organisation of discussions on e-commerce in the WTO and options relevant for the development of frameworks for international and multilateral rule-making in this area. <http://bit.ly/2FgBUP1>



## Advancing Multilateral Trade Negotiations on Fisheries Subsidies – ICTSD – March 2018

At the WTO's Eleventh Ministerial Conference, ministers adopted a Decision on Fisheries Subsidies directing negotiators to continue talks with a view to adopting an agreement by the next ministerial conference. The ministerial decision also re-commits members to implementing their existing notification obligations to strengthen transparency of the fisheries subsidies. This policy brief aims to summarise the main issues in the negotiations and to clarify the decisions facing members as they construct a comprehensive and effective agreement on fisheries subsidies. <http://bit.ly/2GmdOQa>



## Value Chain Upgrading for Competitiveness and Sustainability: A Comparative Study of Tea Value Chains in Kenya, Sri Lanka and Nepal – ICTSD – February 2018

Developing countries have long exported agricultural commodities in the hope of bringing the benefits of globalisation to the rural poor. Yet many agricultural sectors remain stuck in low-value exports with few development dividends. This paper conducts a comparative analysis of the export tea value chains in Sri Lanka, Kenya, and Nepal with a focus on how policy influences chain upgrading and the implications this has for trade patterns, competitiveness, and sustainable development. <http://bit.ly/2Hqh1xi>



## Opportunities for Sustainable Development in Global Value Chains: A Case Study of the Myanmar Garment Sector – ICTSD – February 2018

Myanmar is benefitting from an investment boom in the garment sector. This has resulted in fast-growing exports to global markets, job creation for up to 300,000 workers and initiatives to improve competitiveness and social upgrading in the industry. This paper analyses the dynamics of Myanmar's participation in the apparel global value chain and proposes policy recommendations to support economic upgrading, and social and environmental sustainability for the industry. <http://bit.ly/2CkcvBD>

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

## PASSERELLES

Analysis and news on trade and sustainable development  
*Francophone Africa focus - French language*  
[www.ictsd.org/news/passerelles](http://www.ictsd.org/news/passerelles)

## BRIDGES

Trade news from a sustainable development perspective  
*International focus - English language*  
[www.ictsd.org/news/bridges](http://www.ictsd.org/news/bridges)

## BRIDGES AFRICA

Analysis and news on trade and sustainable development  
*Africa focus - English language*  
[www.ictsd.org/news/bridges-africa](http://www.ictsd.org/news/bridges-africa)

## PUENTES

Analysis and news on trade and sustainable development  
*Latin America and Caribbean focus - Spanish language*  
[www.ictsd.org/news/puentes](http://www.ictsd.org/news/puentes)

## МОСТЫ

Analysis and news on trade and sustainable development  
*CIS focus - Russian language*  
[www.ictsd.org/news/bridgesrussian](http://www.ictsd.org/news/bridgesrussian)

## PONTES

Analysis and news on trade and sustainable development  
*International focus - Portuguese language*  
[www.ictsd.org/news/pontes](http://www.ictsd.org/news/pontes)

## 桥

Analysis and news on trade and sustainable development  
*International focus - Chinese language*  
[www.ictsd.org/news/qiao](http://www.ictsd.org/news/qiao)



### International Centre for Trade and Sustainable Development

Chemin de Balexert 7-9  
1219 Geneva, Switzerland  
+41-22-917-8492  
[www.ictsd.org](http://www.ictsd.org)

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

#### DFID - UK Department for International Development

#### SIDA - Swedish International Development Agency

#### DGIS - Ministry of Foreign Affairs Netherlands

#### Ministry of Foreign Affairs, Denmark

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

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

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



This work is licensed under the Creative  
Commons Attribution-NonCommercial-  
NoDerivatives 4.0 International [License](https://creativecommons.org/licenses/by-nc-nd/4.0/).

ISSN 2519-8866

