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Africa rising: Shifting towards sustainable development

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PUBLISHER
Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF
Andrew Crosby

MANAGING EDITOR
Kiranne Guddoy

ADDITIONAL SUPPORT
Andrew Aziz and Nayaatha Taitt

DESIGN
Flarvet

LAYOUT
Oleg Smerdov

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Africa rising: Shifting towards sustainable development

The 'Africa rising' narrative continues to build momentum with the latest figures suggesting that 6 out of the 10 fastest growing global economies reside on the continent. Is this proving, however, to be a rising force for all, creating jobs for the unemployed youth and lifting millions out of poverty?

With the stakes becoming increasingly high for the continent to pursue development outcomes that are both equitable and sustainable, the question now confronting Africa is where it ought to strategically position itself to align with these objectives.

This is especially true amidst a rapidly changing global political economy where new developments, including the continued rise of emerging economies, the negotiation of mega-regionals, and the erosion of preference arrangements, persistently threaten to derail the continent's progress.

Notwithstanding, Africa appears to be answering back. With regional integration efforts gaining renewed impetus and talk of harnessing regional value chains, among other things, coming to the fore, it is proving altogether an interesting time for African countries to demonstrate their resilience.

With this in mind, this edition of Bridges Africa highlights Africa's attempts at recalibrating its engagement, internationally, regionally and nationally, to ensure that its developmental concerns are adequately prioritised.

The first article considers the asymmetric relationship between China and Sub-Saharan Africa. What opportunities can Africa leverage to shift higher up the value chain from low-valued, raw materials to higher valued processed products? At the regional level, other articles scrutinise the evolving trade regime, including the much talked about Economic Partnership Agreements as well as global value chains, to shed light on how their promised gains can be realised.

In a radical response, one article suggests that perhaps we need to re-think the way in which trade agreements are negotiated. Another article, looking at the national sphere, sphere, brings answers to the question of whether the green economy is the long sought-after solution to African countries' quest for inclusive and sustainable economic growth?

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

CHINA

Trade between China and Sub-Saharan Africa: Can the reliance on raw materials be reversed?

Manitra A. Rakotoarisoa and Cheng Fang

Trade between China and Sub-Saharan Africa (SSA) (minus South Africa) has been asymmetric and characterised by China's importing mainly mining and other extraction products from SSA, and the latter importing manufactured goods from China. What options does SSA have to increase welfare and reduce its heavy reliance on these raw material exports, especially to China?

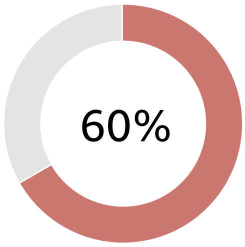
Although trade between China and Sub-Saharan Africa (SSA) has increased rapidly in recent years, the latter remains a small trading partner for China. Only 2.4 percent of China's import comes from SSA and 90 percent of these imports are crude oil and mining products. Meanwhile for SSA, China is a significant import source, supplying 10 percent of the continents' imports. In 2008, total SSA imports from China were about USD $25 billion. 64 percent of these imports are from manufacturing (light and heavy manufacturing), 22 percent from textile and apparel and the rest (14 percent) from other sectors (raw food and agriculture, services, etc). The worry is that as raw commodity prices fluctuate, such a pattern will increase the continent's risky dependence on mining and extraction products as a source of export revenue, and undermine the development of its agriculture and manufacturing sectors, the main sources of value addition and employment. Can this situation be reversed so that SSA exports less raw materials, especially less crude oil and mining, and higher value and processed products to China?

Trade policy options have limited effects

It appears that trade policy has only little room for manoeuvre. Bilateral tariff elimination will yield only limited gain because China is already one of the most open markets for African countries. China's average tariffs towards least developed countries in general, and SSA in particular, are already low: between 2005 and 2010, the weighted average tariff fell from 2 to 0.5 percent (average tariff fell from 7.14 to 2.83 percent). Because SSA's export volume to China is small, the tariff reduction has limited welfare and terms of trade effects. Similarly, subsidising the domestic agriculture and manufacturing exports is unsustainable since many SSA countries are cash-strapped; but even if manufacturing were subsidised, it would be still no match for the highly competitive nature of Chinese manufacturing in both domestic and world markets.

It is often tempting for SSA countries to revert to protectionism and import substitution: restricting the import of Chinese goods to protect their domestic sectors. There too, however, a sustained welfare growth or sudden increase in manufacturing is not guaranteed. Such restrictions would even have negative impacts on welfare because households and firms in many SSA countries currently depend heavily on cheaper intermediate and manufactured goods from China. The only sector that may benefit from the protection against Chinese import is low-skill labour intensive sector like textiles, but even this will be unable to either absorb the entirety of the labour force that moved out of the depressed sectors or offer higher skill jobs that can improve allocative efficiency. Moreover, such import restrictions would cancel any spill-over effects of trade on SSA productivity.

Additionally, simulation results agree that free trade within and among Regional Trading Arrangements (RTAs) in SSA increase employment and improve welfare for the region as a whole. Free trade within and among RTAs on the continent will also increase intra-regional trade with only a minimal loss (due to trade diversion) for China, but it is not enough to reverse the export structure heavily based on extract and mining products. Overall, the combination of the elimination of tariffs on SSA's goods imported by China and free trade within and among RTAs has no significant effect on the structure of China-SSA trade.



60 percent of SSA's total export revenue comes from mining and extraction products

Manufacturing can be the key and China can help unlock SSA's potential to increase export processed goods…

In exploring feasible alternatives that could improve SSA's welfare significantly from its trade with China and reduce the former's reliance on export of extraction and mining products, it is important to examine closely the structure of these countries' trade in general. This trade is characterised by low levels of manufactured good exports: 60 percent of SSA's total export revenue comes from mining and extraction products and only 13.5 percent comes from manufactured goods other than food. This pattern is more pronounced in its trade with China: 90 percent of SSA's export to China is concentrated on mining and extractions while exports of manufactured goods represent less than 5 percent. Reversing this trend, i.e. diversifying towards expanding the share of processed and manufactured products, remains an option in the search of strategies to increase trade impacts on SSA's welfare.

90 percent of SSA's export to China is concentrated on mining and extractions while exports of manufactured goods represent less than 5 percent.

China could play a big role in this export diversification towards processing and manufacturing for three reasons. First, China remains a large export market for the rest of the world; as its per capita income continues to rise, the demands for semi-processed or even processed goods will too. Second, China is a potential source of employment for the rest of the world: with the increase in income per capita in China, the opportunity costs of labour also increase, prompting manufacturers in China to outsource activities in many developing countries in Asia (e.g. Vietnam), or even re-shore some activities back to the United States. Third, increased trade (export or import) in manufactured goods with China will increase the likelihood of technology and R&D spill-over. After all, as mentioned earlier, 64 percent of SSA's total imports from China come from the manufacturing sectors (light manufacturing 22 percent, heavy manufacturing 42 percent) and 22 percent from the textile and apparel. Overall, China's roles as an export market destination, a provider of employment and a source of technology and R&D spill-over have been overlooked but now deserve serious consideration.

… But SSA's human capital stock, productivity and technology needs to shift up

SSA's manufacturing export has been lagging behind due to its low labour productivity and lack of technical progress. Projections in labour-productivity growth rates by sector in selected regions concur that China and SSA are at two opposite ends of the labour-productivity spectrum, especially in manufacturing. Skilled and specialised labour force remains scarce or less mobile across sectors. To be able to diversify exports towards semi-processed and processed goods or to benefit from spill over effects from manufacturing imports especially from China, SSA's labour and total factor productivities in the manufacturing sector need to grow and fast. Unless its labour productivity and technology shift up quickly, SSA will be unable to take advantage of the outsourcing of China manufacturing activities.

How much technological progress and labour-productivity increases are needed to stimulate this growth, manufacturing production and export and increase welfare? Simulation results show that even modest increases in labour productivity and technological shift at 2 percent or 3 percent per year in both agriculture and manufacturing can raise welfare significantly and increase production and export of processed goods. This high responsiveness is not surprising given the current low level of productivity in SSA. Moreover, a R&D spill over from trade with industrialised China can help. But can large increases (10-15 percent) in labour productivity and technical progress in SSA's manufacturing sectors significantly reduce the high share (90 percent) of mining and extraction export to China? The answer is no, at least, not immediately. The reason is that the current value and share of export is too high to be reduced in a few years.

A way forward

What to do then? Free trade and increases in labour productivity and technology will raise SSA's welfare and its manufacturing exports but are still not enough to immediately reduce the high share of raw material exports, especially mining and extraction products. Some voluntary quantitative restrictions on these exports by African countries' governments may be needed to alter the pattern significantly. But these restrictions, unless well managed, remain controversial and can be counterproductive as they reduce government revenue and often lead to black markets especially in countries where market institutions are weak. Another option is outsourcing some parts of the processing activities to SSA to retain some value-added and provide employment. For that to happen, these countries will have to meet the levels of infrastructure and human capital necessary to run the operations.

There is indeed an urgent need for SSA to pursue high growth rates in labour productivity and technology to seize and expand the gain in trade with China and the rest of the world.

There is indeed an urgent need for SSA to pursue high growth rates in labour productivity and technology to seize and expand the gain in trade with China and the rest of the world. Technical progress and increase in labour productivity stem mainly from effective policy aimed at building and training skilled labour force and investing in extension and research. China can help SSA to smoothen that path to industrialisation, if the R&D spill-over effects from China-SSA trade are enhanced by a direct transfer of technology and direct investment in agriculture and manufacturing, and if China's already strong support (currently 34 percent of projects being implemented in Africa) for infrastructure development continues. But the path will even be smoother if both parties first start to agree that sustainable gains can be acquired by focusing less on trade of raw materials (such as mining and other extraction products) and more on trade of processed and manufactured goods.

Views expressed in this article are the authors' own and do not represent the views of FAO.

Manitra A. Rakotoarisoa
Trade Economist at the Trade and Markets Division, FAO.

Cheng Fang
Trade Economist at the Trade and Markets Division, FAO.

WTO NEGOTIATIONS

Transparency in trade negotiations: How much is enough, how much is too much?

Simon Lester

Some critics of trade negotiations allege that the process is too secretive, and draft texts should be made public. I argue that more transparency is needed, but that releasing drafts in this way could impede the process. Instead, transparency should be expanded at an earlier stage, when policy is being formulated, and at the end, when the benefits of completed trade agreements are explained to the public.

Over the past few years, as controversial trade negotiations such as the Trans-Pacific Partnership (TPP) and The Transatlantic Trade and Investment Partnership (TTIP) have progressed, there has been much debate has about whether trade talks are sufficiently transparent. Critics of trade agreements have stepped up their attacks on the "secrecy" of negotiations. Keeping these negotiations behind closed doors, with input only from corporate advisers, they argue, undermines democracy and the rule of law. As a partial remedy, critics have called for governments to make public the draft texts being discussed.

Governments have fought back against these charges, arguing that, in fact, they have been actively engaged with the public and with other branches of the government, keeping everyone fully informed of the state of trade negotiations.

Which side is in the right here? Are governments doing everything they should to be transparent about trade negotiations? How much secrecy is possible and desirable in this context? In this piece, I explore several aspects of the transparency issue that help inform the debate. I then offer suggestions for how governments could more effectively approach the issue.

Trade negotiations in the internet era

People who have been around trade negotiations for decades sometimes suggest that the transparency of trade talks has been getting worse over time. However, when you take into account the emergence of the internet, the current situation is actually not very surprising.

In the pre-internet era, when trade negotiators exchanged and discussed draft texts, they could be relatively casual in their conversations with outsiders and with their distribution of documents. If a government official passed along a text to an interested party, that text might get circulated to a handful of other people, and perhaps published in a specialised news source. But that would usually be the end of it. No matter how controversial the substance, it is unlikely that the text would spread broadly and lead to any mainstream discussion and criticism.

Now, by contrast, documents that are given out in this way will, inevitably, be posted on the Internet, where they will be dissected by bloggers and activists immediately. This can impede sensitive negotiations because government officials will be overwhelmed by lobbying and criticism right in the middle of their discussions. As a result, governments have become more reluctant to disclose the details of trade talks to outsiders, and thus for some people, negotiating texts are less accessible than in the past.

Trade negotiations in the global governance era

Beyond technological issues, trade negotiations have changed in another important way too. They have evolved from being mainly about constraints on protectionism to involving broad efforts at global governance. In their early years, trade negotiations were mostly about offers and demands for lower tariffs. There were few legal texts to consider. Over time, more law was added to the process. Today, the typical trade agreement is a full-

New Trade Mega-Regionals

The Transatlantic Trade and Investment Partnership (TTIP) is a trade agreement being negotiated between the European Union and the United States. Negotiations began in 2013.

The Trans-Pacific Partnership (TPP) is a proposed trade agreement between several Pacific Rim countries and the US.

fledged global governance instrument, with wide ranging policy implications, from intellectual property protection, to labour rights, to environmental protection.

The different nature of the rules today has important implications for transparency. It might be unreasonable to expect the government to disclose publicly which of its trading partners' tariff lines it was most interested in lowering, as this has a limited public policy impact and would hinder its negotiating objectives. By contrast, issues such as intellectual property, labour and the environment are core social policies. What governments advocate in this regard affects us all in significant ways.

But full disclosure may cause negotiating difficulties. In each area, there are lengthy legal texts to consider. Governments with an interest in a particular area put forward detailed proposals, which are commented on by others. In this way, law and policy are developed by governments working together. The end result is a compromise from the initial position of each government.

This evolution from initial government negotiating positions to international compromise is a crucial time. Arguably, having a public debate during this process would undermine the whole enterprise. Governments would not just be negotiating with each other, but also with the public at large. If negotiating positions are open to debate during the process, it would be difficult to make any progress.

Towards effective transparency

These various considerations can perhaps guide a better approach to transparency. In an era where there are real time hashtag-based Twitter debates about the nuances of trade negotiating documents leaked by WikiLeaks, and where trade agreements govern a growing number of domestic policy issues, what should we expect in terms of transparency in trade negotiations?

We should expect transparency to a greater extent than it currently exists, but it should be transparency of a different kind then trade critics are demanding.

In my view, we should expect transparency to a greater extent than it currently exists, but it should be transparency of a different kind then trade critics are demanding. In this regard, the trade negotiation process should be broken down into three stages: (1) development of a government negotiating position; (2) the negotiations themselves; and (3) domestic ratification of the completed negotiating text. Transparency should be emphasised at the beginning and end of the process; the middle needs to maintain some secrecy.

At the beginning stage, governments must get adequate input in developing a national negotiating position. It is crucial to cast a wide net in seeking out the views of interested parties. This process must be open to all.

However, governments need to have a bit of flexibility in finalising a negotiating position based on that input, and in conducting the negotiations. The input should be wide open, but the output should be less so. The negotiating position should not be subject to too much scrutiny at this stage. Once the position has been developed, trading partners should not be given too much information on areas of weakness and dissension.

Finally, the crucial point for transparency should be the end of the process. At the end, governments cannot expect to present a completed package to be rubber-stamped. There must be a convincing explanation of the merits of the compromise that was achieved.

As things stand now, there are flaws in the current process at both the beginning and the end, at least in the US (the system with which I am most familiar). With regard to the input at the beginning, it is not clear the process is working, in the sense that the government frequently takes positions in trade negotiations that are not particularly popular. A number of the major US government negotiating positions appear to generate support mainly from special-interest groups, such as corporations or labour unions, while the broader public has objections.

With regard to the corporate interests, intellectual property has been a particularly controversial issue. For example, ever longer copyright terms are pushed by business groups, while on the other side most ordinary people who are aware of this issue believe that many of the US negotiating positions on intellectual property are misguided.

Similarly, on labour issues, while unions might support the official US government position of strong and enforceable labour protections in trade agreements, popular opinion might be sceptical of tightening labour standards in this way. On the conservative side, many areas of the US are actually loosening these standards; and on the liberal side, forcing developing countries to adopt our current labour standards, when we ourselves had low standards during our development period, smacks of imperialism and imposing our values on others.

Part of the flaw in the input process may be as much about what topics should be included, rather than the substance of particular provisions.

Part of the flaw in the input process may be as much about what topics should be included, rather than the substance of particular provisions. To some extent, the scope of trade negotiations seems to have been captured by special interests, who are adept at lobbying for inclusion of their issues.

Turning to the end of the process, the explanations offered by government officials are sometimes very superficial and seem designed to avoid acknowledging the complexities of the rules. In this regard, trade agreements are often portrayed as simple export initiatives. Almost every provision is touted as a way to increase exports, and as a result provide more domestic high-paying jobs.

That explanation is misleading. For example, it may be true that a longer copyright term would help a few US companies increase export sales. But presenting the issue in this way overlooks the broader policy implications, and does not constitute real engagement on the issue. Real engagement would involve, for example, an inquiry that compares different copyright term lengths and explains why one is better than the other.

Conclusion

Governments are in a difficult position balancing out all the competing domestic interests, and convincing their negotiating partners to move in their direction. They take risks in making choices for what national policy positions to take and how to push them with trading partners. If they choose incorrectly, the whole enterprise may unravel. Transparency is important, but it cannot be taken so far as to make the process entirely unworkable. There are particular stages were transparency can and should be improved, as described above. Now that trade agreements act as tools of regulation and policy-making, the debate needs to be more open at the beginning and more robust at the end than it has been. If done properly, more transparency could actually help to produce better trade agreements, and also to conclude negotiations and pass them in the domestic process.

Simon Lester
Trade policy analyst with Cato's Herbert A. Stiefel Center for Trade Policy Studies.

ECONOMIC PARTNERSHIP AGREEMENTS

Economic Partnership Agreements: What has Africa gained and what can it lose?

Isabelle Ramdoo

ACP countries were required for the first time to negotiate reciprocal, though asymmetric trade agreements, with a major – and developed – trading partner, the EU, giving birth to the Economic Partnership Agreements (EPAs). What have ACP countries gained more than what they already had and how fit are these EPAs in an evolving trading regime?

After twelve years of long and protracted negotiations, 1 October 2014 put an end to a fifty years long non-reciprocal trade regime between Europe and its African, Caribbean and Pacific (ACP) partners. The non-preferential trade regime, guided by successive Yaoundé, Lomé and Cotonou Agreements in fact terminated in 2007, when the second waiver granted by the World Trade Organization, which had allowed the EU to discriminate between its ACP partners and the rest of the developing world, expired.

In anticipation, ACP countries were required for the first time to negotiate reciprocal, though asymmetric trade agreements, with a major – and developed – trading partner despite the fact that their own regional integration agendas were still largely in the making. Thus Economic Partnership Agreements (EPAs) were born.

A long and winding road....

The objectives of EPAs were ambitious. First, EPAs were expected to be *development tools*: negotiated at a regional level, they were supposed to contribute to building strong regional markets, boosting trade and investment, facilitating the integration of ACP economies in the global economy and stimulating deeper economic reforms. Secondly, they were meant to ensure indefinite, immediate and fully liberalized market access to the EU market for ACP goods and open the services market. They also aimed at giving European goods and service providers' significant market access to African markets over time. Finally, all this was expected to create a new momentum in the ACP-EU relationship with a departure away from an aid paradigm towards one based on a business model. But the process proved to be much more difficult than expected and as time went by, the levels of ambition melted away.

Initially, most ACP partners, in particular least developed countries, turned their backs on the offer, because they did not see what they would gain more than what they already had: Europe had already provided them full access to its market since 2001. They resented the significant efforts that were required to open their markets to Europe, fearing the risk of losing fiscal revenues from import duties, unfair competition from subsidized European agriculture and crowding out of small businesses from an already weak manufacturing sector due to competition from European products. Despite this, however, ACP developing countries feared that no deal with the EU would make them worse off, as they would lose their Cotonou preferences and compete with all other developing countries. But the results were disappointing. By the end of 2007, of the 76 negotiating ACP countries only 36 had concluded EPAs with the EU. By end of 2014, the number of ACP EPA parties had risen to 49. A total of 27 countries opted out, 15 in Africa, 12 in the Pacific. The scope of the agreement was reduced to trade in goods (with the exception of the Caribbean EPA), although there were commitments to continue to negotiate services in the future. The development chapter largely fell short of expectations, with the exception of West Africa, that negotiated a development package to finance needs of implementation.

Decrypting EPAs

EPAs broadened the trade coverage for ACP products compared to the previous unilateral trade preferences. Under the unilateral regime, 97 percent of ACP products entered the EU market on a *preferential* basis. Under EPAs, the European market was *completely liberalised* and accessible from 1st January 2008. While the rules of origin (RoOs) improved quite substantially from the previous regime, cummulation provisions – that is, provisions that allow countries to source products from neighbouring countries to transform locally and still qualify for exports to the EU - varied significantly across regions, with some regions having more possibilities than others. Administrative customs cooperation has still not been addressed, which means that over the past 12 years, ACP countries have not been able to source regional inputs or use EPAs to foster the development of regional value chains for exporting to the EU.

Further, liberalisation was not immediate, and tariffs will be phased down over at most 25 years for at last 75 percent of products, depending on the regions. In most cases, agricultural products remained sensitive, and were therefore not subject to liberalisation. The table below summarises liberalisation commitments in all EPA regions.

Table 1

	Central Africa	EAC	ECOWAS	ESA	SADC	CARIFORUM	Pacific
No. of EPA countries	1 out of 8	5	16	4 out of 11	6	15	2 out of 14
Degree of liberalisation	Cameroon: 80%	82.6%	75%	Madagascar: 81% Mauritius: 96% Seychelles: 98% Zimbabwe: 80%	SACU: 80% Mozambique: 81%	86.9%	Fiji: 87% PNG: 88%
Time frame	15 years	25 years	20 years	10 years	12 years	25 years	15 years

Source: ECDPM

The agreements contain some degree of flexibility that allows countries to pursue their economic transformation reforms, including the use of industrial policies to diversify their economic base. For example, while the agreements regulate export restrictions, countries can still use them under specific circumstances. EPAs do not have stricter rules on other trade-related issues than the WTO, which means that most LDCs have the same degree of flexibility than under the WTO. Besides, European products will be able to access EPA signatories' markets once those agreements enter into force.

On the development side, the only region that negotiated a comprehensive development package is ECOWAS, with at least €6.5 billion available for the programming period 2015-2019. The West African EPA Development Programme (PAPED) is expected to accompany and address potential challenges linked to the implementation of EPAs. Support will focus on trade, agriculture, infrastructure, energy and capacity building for civil society development.

How fit are EPAs for the evolving trading regime?

Despite the initial stated ambition, most EPAs, with the exception of the Cariforum EPA, remain partial agreements that focus narrowly on trade in goods. Trade in services is not covered and countries did not take any audacious steps to frame rules on other trade-related issue such as investment, competition or data protection.

To be sure, many developing countries, and in particular LDCs, may not be ready institutionally or capacity-wise to adopt far-reaching rules that go deeper than what the WTO covers or even to venture into areas that are not covered by the WTO. However, as international markets become more and more integrated and interconnected, and given that hopes for meaningful progress at the WTO are desperately low, large trading nations are going bilateral and plurilateral to improve their regulatory frameworks and adapt them to the needs of the evolving trading environment. This is the case for the EU, the US, Japan, India and China. Three large mega-regional trade agreements are currently being negotiated. These are the Trans-pacific partnership (TTP), involving 12 countries, namely the US, Japan, Canada, Australia, Singapore, Mexico, Chile, New Zealand, Brunei, Peru, Vietnam and Malaysia; the Transatlantic Trade and Investment Partnership (TTIP) between the European Union (EU) and the US; and the Regional Comprehensive Economic Partnership (RCEP) with 16 countries, among which the 10 member states of the Association of South East Asian Nations (ASEAN) – Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam – and the 6 states with which ASEAN has existing FTAs, namely Australia, China, India, Japan, South Korea and New Zealand. If these deals are successfully concluded, they are expected to have significant implications for the regulatory environment.

An agreement such as the TTIP, if concluded, will necessarily entail some erosion of preferences for ACP countries, but this is not the key challenge. Applied tariffs between ACP countries and these two large economies are already low and ACP economies are neither direct competitors of the US on the EU market, nor direct competitors of the EU on the US market. But on the rules side, TTIP is expected to adapt current international trade and investment rules to the exigencies of the new business environment. In a nutshell, we expect new and higher rules and standards to be developed. While rules may be multilateralised at a later stage, standards are sometimes adopted in domestic policies that apply to all countries once developed.

An agreement such as the TTIP, if concluded, will necessarily entail some erosion of preferences for ACP countries, but this is not the key challenge.

We therefore expect competition over markets to play through the convergence of standards to reduce the cost of production. This is where the EPAs, in their current state, look disappointingly pale. While it is true that EU and US trade baskets are highly sophisticated, in that regard, EPAs fail to meet its stated objective of helping ACP economies to integrate into the global economy, by remaining a traditional FTA that is focused on tariff elimination, rather than market sophistication.

Conclusions

If successfully concluded, the TTIP (and other mega-regionals) will set new benchmarks for the global trading system. The timing and the outcomes are, for the moment unknown, but there is no time for complacency. It is clear that the 'do nothing' or 'wait and see' responses on the part of the ACP are not a strategy. Similarly, the 'reject' strategy is not helpful either, because mega-trade deals such a TTIP will happen anyway, and there will be very little third countries can do about it. Finally, retreating into protectionism may accentuate the marginalisation of the ACP countries because isolation weakens further the capacity of states to transform themselves.

It is therefore timely for ACP policymakers to forge strategic responses, by taking bold steps within their own intra-regional trade agenda, as a way to mitigate the 'tsunami effect' of mega trade deals. It may also be appropriate to build strategic alliances with other non-participating countries, in order to take the lead at the WTO to address some of the issues that might affect the global trading system once those mega-trade deals are agreed.

Isabelle Ramdoo
Deputy Head of the Economic Transformation and Trade Programme at the European Centre for Development Policy Management in Maastricht.

GREEN ECONOMY

Reorienting South Africa's economy towards a low-carbon growth trajectory

Thokozani Simelane, Godwell Nhamo and Shingirirai Mutanga

A move towards a green economy provides clean growth opportunities and benefits. The policy dilemma exists as a costly undertaking with trade-offs in terms of national efforts to realise national socio-economic priorities is needed.

The philosophy of green economies is the new policy direction sweeping across both developed and developing countries alike. Green economies are defined as economic systems organised in such a way that they take into account effects on the environment and the ecosystem. Central to the green economy is the desire to improve people's lives by combatting climate change, energy insecurity, and ecological instability. In line with this definition, the green economy in South Africa is viewed as a sustainable development path that is based on its potential to address the interdependence between inclusive economic growth, social protection, and a natural ecosystem. Like any other new policy initiative, the social and economic impacts of a transition to a green economy both in the short and long term is not yet fully understood in South Africa. As such, it is important to assess the implications of the transition to a green economy at country-level using selected indices.

South Africa's public policy agenda and green economy transition

South Africa, like other emerging economies, is contending with reorienting its economy towards a low-carbon growth trajectory. Efforts to reorient the economy can be traced back to the 2008 National Framework on Sustainable Development (NFSD), which transcended into a systems-approach to sustainability. This was done through the establishment of a first Sustainable Development Action Plan (NSSDI). The 2009 to 2014 Medium Term Strategic Framework (MTSF) highlights the need to implement the National Framework for Sustainable Development (NFSD) to ensure that the country follows a sustainable development trajectory into the future.

Several issues were identified as the driving force behind the "green" economy paradigm in South Africa: the growing concerns about environmental unsustainability of past and current economic growth patterns; an increased awareness of potential future climate crises. In this regard, emphasis is given to substantial growth in investment so as to achieve climate change mitigation; and the need for substantial transformation of behaviour, industry technologies, and structures.

Environmental policies and economic planning

South Africa's Cabinet commissioned a Long-Term Mitigation Strategy to examine the potential for the mitigation of South Africa's greenhouse gas (GHG) emissions. The central driver of the strategy has been the intractable global challenge of climate change. This defines South Africa's position at the United Nations Framework Convention on Climate Change. Despite the push to cut down GHG, the government opted to be informed by the scenario that would see the growth of carbon emissions peak (up to 2020), plateau (between 2020-2030) and decline (from 2035).

In support of recommendations made, the South African government has adopted the National Development Plan (NDP) as a roadmap to attain good service delivery particularly in water, electricity, sanitation, jobs, housing, public transport, adequate nutrition, education, social protection, quality healthcare, recreation, and a clean environment. The NDP outlines interventions that can put the economy on an environmentally friendly footing. The NDP dedicates Chapter Five to addressing South Africa's agenda towards full transition to a low-carbon and greener economy by 2030. While the target for job creation is set at 11 million by 2030, the economy needs to grow threefold to create the desired jobs more of which should fall within the green growth trajectory.

Some of the significant strides made between 2009 and 2013 include 860 billion South African rand on infrastructure, a 300 million rand natural green fund, and 400 million towards green economy projects. Approximately 315 000 solar geysers have been installed since 2009 with more than 200 000 households connected to national electricity grids.

Challenges linked to South Africa's transition to green economy

The advantages of transitioning to a green economy for any country may include among others: a reduction in GHG emission and a subsequent mitigation of global warming and its associated adverse effect on people's livelihoods; as well as a reduction in deforestation and support of sustainable agriculture (particularly for the rural poor). Transitioning to the green economy may also attach a price to nature, a public good that in turn makes its depletion more visible and felt by economic agents. Furthermore, this may enable the world to feed its rapidly increasing population.

However, the benefits of green economy transition need to be qualified by the adopting country. South Africa, for example, faces a number of challenges in comprehensively transforming its economy to a green economy. Since 1994, the country's job creation rate has lagged behind national economic growth. This demands that South Africa intensify its industrial development. Moreover, at an average economic growth rate of 3.5 percent, South Africa finds it difficult to fully move away from coal-based energy considered to be polluting. What this suggests is that South Africa will continue to rely on coal as its main source of energy, despite good policies and initiatives for a green economy.

Other challenges that South Africa seems to face in implementing the transition to a green economy include: acquisition of technologies in the medium-term needed to support the transition, development of a local skills and infrastructure base that can effectively implement and support adoption, diffusion and effective use of green technologies.

Additionally, regulations to support the country's transition to the green energy may increase the cost of living of the people, hence, may be resisted. For example, the introduction of an emission tax on vehicles as part of national environmental protection will undoubtedly create an additional tax burden on those possessing older vehicles in the country.

Effort for a green production will most likely increase the cost of production in the short term as new production techniques are introduced. This general increase in production costs may impact overall competitiveness of local products on the international market. In the end, the country could experience worse trade deficits than hitherto realised.

The country may be forced to provide incentives and subsidies to local producers in order to encourage them to embrace green production, as is being done in developed countries. Such a policy will add yet another drain to the national revenue pool, which is already constrained by the government's many socioeconomic expenditure commitments. Policies intended to support the move towards the green economy can act as non-tariff barriers against products from South Africa and Africa in general destined to international markets.

Conclusion

From South Africa's experience, it can be said that transition to a green economy is desirable despite that it poses a policy dilemma as it seems to have a high likelihood of being a costly undertaking that is coupled with trade-offs in terms of national efforts to balance national socioeconomic priorities.

Thokozani Simelane
Programme leader for Science and Technology at Human Sciences Research Council (HSRC), South Africa.

Shingi Mutanga
Research Specialist in the Science and Technology Programme at the Human Science Research Council.

Godwell Nhamo
Professor at the University of South Africa. He is a chief researcher and Chair for Exarro Chair in Business and Climate Change.

ACP COUNTRIES

ACP group submits contribution for dealing with remaining DDA issues at Nairobi

The ACP group submitted its priority areas for bridging the gap on the remaining Doha Development Agenda issues for the delivery of a development package in Nairobi.

The delegation of Barbados on behalf of the Africa, Caribbean and Pacific (ACP) Group, submitted at the end of July proposals to bridge the gap on the remaining Doha Development Agenda (DDA) issues for the delivery of a development package in Nairobi.

The Group urges Ministers at MC10 to agree on a development package which, at minimum, contains the following decisions: agriculture, non-agriculture market access (NAMA), services, as well as emphasis on the development component of the DDA, including an agreement on the LDC issues and a final solution for cotton.

The ACP group's communication also reiterates the importance of maintaining special flexibilities to Least Developed Countries (LDCs) and Small, Vulnerable Economies (SVEs), which is "critical to ensuring the greater participation and fuller integration of such economies into the multilateral trading system.

Minimum starting point for a development package

In providing their recommendations for a development package at Nairobi, the ACP Group outlines a minimum number of decisions that Ministers should agree upon. These would include: an agreement to maintain the flexibilities in both the 2008 text on agriculture and NAMA keeping in mind the specific circumstances of developing countries, LDCs and SVEs; the reaffirmation of the flexibilities for developing countries, LDCs and SVEs contained in GATS; an agreement on the Special and Differential treatment (SDT) proposals, on the developmental and food security aspects of fisheries subsidies including those minimum disciplines that can more easily gain consensus, on the LDC issues at Nairobi - including rules of origin, Duty Free Quota Free (DFQF), the operationalization of the services waiver, on a final solution for cotton as well as on the establishment of a working group to examine and address all NTBs that affect export trade of developing countries, in particular, LDCs and SVEs.

Bridging the remaining gaps

Agriculture

Within the context of agriculture, the ACP Group makes proposals under domestic support, market access, export competition, cotton, and public stockholding for food security purposes.

Concerning domestic support, it proposes a revision to commitments for a maximum financial limit to the overall trade distorting support (OTDS) provided by Members, taking into account appropriate SDT provisions. The document elaborates that Members should also commit to the maintenance of the current level of *de minimis,* further extending it to accommodate specific legitimate concerns of Members not presently provided for in the Agreement on Agriculture. It further calls for a cap on blue box expenditure, i.e. direct payments under production limiting programmes, and disciplines to prevent box shifting.

Regarding market access, the Group calls for a reduction in bound tariffs through a cut in the overall average tariff with application of the principles of special and differential treatment and less than full reciprocity for developed and developing countries and SVEs alike. It stresses that Least Developed Countries (LDCs) shall be exempt from tariff reductions and that DFQF provisions for cotton should be maintained. Most importantly, they call for an agreement on the core principles of Special Products by the 10th Ministerial Conference; in addition to an effective Special Safeguard Mechanism, a tool allowing developing countries to raise tariffs temporarily to deal with import surges or price falls.

Under export competition, the ACP Group calls for the progressive and parallel elimination of all forms of export subsidies and export measures. They further stress that an agreement on export competition, cotton and a permanent solution on public stockholding for security purposes as part of the broader agricultural negotiations should be concluded at the Conference.

Cotton
They also refer to Cotton, calling for an outcome in Nairobi that will address what is a development component of the DDA. Cotton subsidies have been a longstanding issue at the WTO with calls being made since the Hong Kong Ministerial in 2005 that cotton should be treated "ambitiously, expeditiously and specifically". So far the trade aspects of cotton have seen only little progress, reflecting the slow progress in the overall agriculture negotiations, say observers.

Non-Agriculture Market Access (NAMA)
"There is clearly a much more compelling case why the NAMA modalities must be modified to lower ambition and there is increasing consensus on the need for change in this area," reads the submission.

The ACP Group therefore calls once again for tariff reductions based on the overall bound tariff average, taking into account the principle of Special and Differential Treatment.

Regarding non-tariff barriers (NTBs), the Group proposes the establishment of a working group responsible for examining all NTBs impacting, in particular, developing country and LDC exports in importing markets, with a view to identify challenges and possible solutions.

Services
Under the services pillar, the ACP Group put forward proposals covering market access, domestic regulation, and GATS Rules. On market access, developing countries, SVEs and LDC should not be required to increase their offers in sectors and modes of supply of interest to developing countries. In addition, it stresses that in an effort to fulfil the development component of the services negotiations, countries in a position to do so should finalise their market access and national treatment commitments. Under domestic regulation and GATS rules, it stresses once again the import of SDT which would allow for the self-designation of transition periods and the implementation of disciplines insofar as capacity is acquired.

LDC issues
The ACP Group affirmed that the LDCs will submit shortly their priorities for Nairobi across all areas in the DDA negotiations, including rules of origin, duty free quota free access and the services waiver.
They wish to prioritize the further operationalization of the decisions taken in Bali, many of which were non-binding in nature leading observers to disappointingly note that they have not since led to much meaningful outcomes. (See Bridges Africa, 28 November 2013)
Special and Differential Treatment (SDT)

The ACP Group urged Members to reach a consensus on proposed SDT provisions tabled in the Doha Development Round. In February 2015, following their review of the original 88 SDT proposals tabled at the DDR, the African Group and the ACP Group selected 14 articles in WTO Agreements with which to constructively engage, so that they better reflect the meaningful expectations of developing countries, including LDCs.

ICTSD reporting

The newsroom

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Members notify preferences under Services Waiver

Eleven WTO members notified the Council for Trade in Services (CTS) the preferential measures that they would offer to services and service providers of least developed countries (LDCs) as part of efforts geared towards the operationalisation of the WTO LDCs "Services Waiver" adopted in 2011.

Notifying members include Canada, Australia, Norway, Korea, China, Hong Kong, Chinese Taipei, Singapore, New Zealand, Switzerland, and Japan. The European Union and Chile reported that their notifications would be submitted as soon as domestic procedures are completed.

This follows the outcome of a high level meeting in February where 25 WTO members indicated concrete sectors and modes of supply under which they intend to provide preferential treatment.

Other members are being urged to notify their preferences ahead of the 10th Ministerial Conference where it hoped that implementation of the outcomes of the wider 'Bali Package' will be achieved.

Niger, first LDC to sign the TFA

Niger became the first LDC country, and the twelfth WTO member, to sign the Trade Facilitation Agreement (TFA) on 6 August. The instrument of acceptance of the TFA was presented by Niger's ambassador, Ado Elhadji Abou, to WTO Director-General, Roberto Azevêdo.

The other eleven members that have thus far ratified the Agreement, include: Nicaragua, Trinidad and Tobago, the Republic of Korea, Hong Kong China, Singapore, the United States, Mauritius, Malaysia, Japan, Australia and Botswana.

The Agreement was adopted at the 2013 Bali Ministerial and will enter into force once two-thirds of the WTO membership have formally accepted the Agreement.

WTO members discuss potential cotton outcome

Ahead of the Tenth Ministerial Conference to be held in December later this year in Nairobi, Kenya, WTO members met on July 9 2015 to discuss a potential outcome on cotton. An update on the market situation and latest policy measures in cotton trade were also presented.

At present, cotton negotiations revolve around three pillars of agricultural reform – export competition, market access and domestic support – described chairperson of the agriculture negotiations, Ambassador John Adank of New Zealand.

The WTO Secretariat also took the opportunity of the July 9 meeting to release a recent document outlining information on measures benefitting cotton including export subsidies and domestic support as well as other policies such as market access. The document was based on members' notifications to a questionnaire circulated on 4 February 2015, and relevant information on cotton markets and policies from the WTO's Trade Policy Review reports.

Cotton is a key commodity for many sub-Saharan African countries accounting for up to 60 percent of agricultural export revenues in 2013 for the C4.

Countries adopt post-2015 FfD framework

Countries meeting in Addis Ababa, Ethiopia agreed to a revised global framework for development finance, aligning flows with a range of economic, social, and environmental priorities. The "Addis Ababa Action Agenda" was secured on Wednesday evening after months of tough preparatory negotiations.

The 39-page framework outlines a series of principles that countries agree should underpin development financing efforts in the context of an emerging sustainable development architecture. These included building resilience to economic shocks in an interconnected world, recognising the risks posed by climate change and environmental degradation, and reaffirming the importance of freedom, the rule of law, and good governance.

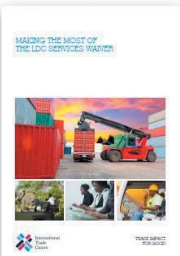
Publications and resources

Subsidies and Spillovers in a Value Chain World: New Rules Required? – E15 Initiative – July 2015
This paper briefly discusses the emergence of international production networks and VCs, and the associated increase in the share of trade in intermediate products and services. It also provides a snapshot of available data on the use of various kinds of subsidies by governments.
http://bit.ly/1VKpf6d

An International Support Programme for Sustainable Investment Facilitation – E15 Initiative – July 2015
This note advances the case for an international support programme for sustainable investment facilitation. As it explains, potentially all investments are sustainable, but the appropriate policy frameworks need definition, often in novel ways and increasingly in partnership with multiple stakeholders, domestic and foreign.
http://bit.ly/1JPfTgn

Services Trade and Regulatory Cooperation – E15 Initiative – July 2015
Decades of services trade negotiations have produced a plethora of rules and commitments but very little real liberalisation. According to this paper, one reason is a form of "negotiating tunnel vision," which has led to a focus on reciprocal market opening rather than on creating the regulatory preconditions for liberalisation. The paper illustrates this by drawing upon recent developments in privacy and data flows, financial services, labour mobility, and competition policy.
http://bit.ly/1OlA7Sp

Industrial Policies in a Changing World: What Prospects for Low Income Countries? – E15 Initiative – May 2015
This paper focuses on some industrial policies and strategies adopted by Low Income Countries (LICs) and the conditions under which their objectives were achieved (or not). They include Bangladesh's successes in building up a pharmaceutical industry focusing on affordable generic drugs, and a readymade garments industry that has a large share of the world market, in addition to Ethiopia's success as an exporter of cut flowers. Looking forward, as the nature of industrialization and trade policies change, it looks at what policies LICs may adopt to catch up with the developed world.
http://bit.ly/1EIEJQz



Making the Most of the LDC Services Waiver – ITC – July 2015
This paper is aimed at assisting LDC negotiators, government officials and services SMEs on how to benefit from the LDC services waiver - provides an overview of the LDC services waiver and of the LDC collective request; reviews signals of market access offers and capacity building by WTO members; sets out guidance on 10 key actions that LDCs can take with assistance from ITC to enhance their services trade under the waiver
http://bit.ly/1CLQ0kq

The Invisible Barriers to Trade – How Businesses Experience Non-Tariff Measures – ITC – July 2015

This study examines the impact of NTMs on companies and countries. Small firms are most affected (over 50%). NTMs for agricultural exports to developed countries are perceived as a major hurdle; so are regional markets for manufacturing exports in developing countries. These invisible barriers to trade are mostly a combination of conformity and pre-shipment requirements requested abroad, and weak inspection or certification procedures at home.
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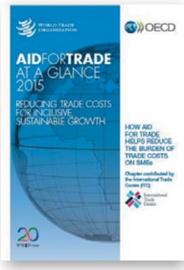

Aid for Trade at a Glance 2015 - Reducing Trade Costs for Inclusive, Sustainable Growth – WTO and OECD – July 2015

This paper, based on a number of ITC surveys, shows that access to market information and trade finance, as well as fewer regulatory burdens, are important to reduce costs and improve for SME competitiveness. Public-private collaboration is essential to design effective solutions.
http://bit.ly/1L8k6z5

Climate Change and the Agri-Food Trade – ITC – June 2015

Climate change is reducing the competitiveness of agricultural exports from developing countries according to an ITC survey of agri-food exporters in these countries. Among the study's recommendations: an international climate platform to share best practices and reliable climate information; targeted training in climate-smart agriculture and sustainable certification; financing for sustainable practices and infrastructure; better public-private networks and partnerships to attract support to manage climate risks.
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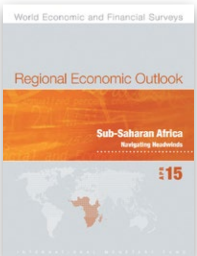

Regional Economic Outlook: Sub-Saharan Africa "Navigating Headwinds" – IMF – April 2015

This publication takes a closer look at the economy of sub-Saharan Africa, noting that although it is set to register another year of solid growth, the expansion will be at the lower end of the range registered in recent years. Sustaining strong, diversified, and durable growth remains the key policy priority with emphasis on integration into global value chains, the infrastructure gap and diversification.
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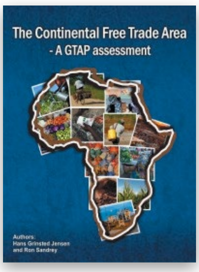

The Continental Free Trade Area – A GTAP assessment – Trade Law Centre (TRALAC) – April 2015

The Trade Law Centre (tralac) undertakes a series of simulations examining regional integration and intra-African trade barrier reductions. The results for tariff elimination on intra-African trade are promising. But the real news is in confirming that these barriers are not as significant as the various trade-related barriers except for tariffs.
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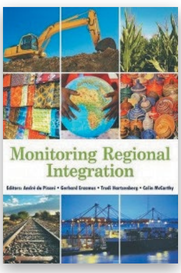

Monitoring Regional Integration in Southern Africa Yearbook 2013/2014– Trade Law Centre (TRALAC) – April 2015

This annual publication serves as a platform to discuss and present findings on the subject of regional integration and the topics it comprises. Regional and especially economic integration holds potential and strong benefits for Africa. But this is true only if Africa could succeed in identifying a successful formula to counter challenges confronting the project of regional integration.
http://bit.ly/1EiYF8d

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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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