Response by the African Trade Policy Centre at the United Nations Economic Commission for Africa to the Call for Written Evidence: Inquiry into Africa Free Trade Initiative (AFTi)

Postal Address:
African Trade Policy Centre
Fourth Floor
Niger Building
Economic Commission for Africa
Addis Ababa
PO Box 3001
Ethiopia

Highlights

- Boosting intra-African trade provides a key opportunity for expanding agriculture and manufacturing sectors. This African Union Action Plan for Boosting intra-African Trade (BIAT), including the Continental Free Trade Area (CFTA), target factors which enable these African exports to become more effective and offset preference erosion.

- Trade facilitation reforms must be considered a priority for Africa to increase its trade competitiveness. The United Nations Economic Commission for Africa has estimated significant benefits for Africa if it implements trade facilitation reforms in addition to agreeing a Continental Free Trade Area.
- Despite recent progress on general trade facilitation reforms, Africa has made limited progress on implementing paperless trade. The average African country ranks in the worst performing 25 percent of all emerging and developing countries on the cost of border processing and document requirements.
- LDCs will require assistance so that they can benefit from the 2013 Trade Facilitation Agreement. Development partners should focus their support on the most vulnerable countries, particularly landlocked countries, and the fast-tracking of trade facilitation measures in agriculture and agro-processing.
- New technologies and tools can help to support trade facilitation, but there is a need to provide knowledge on e-customs and digital trade to less-informed LDCs and assist Governments to upgrade their countries' infrastructure and enact legislation on electronic signatures and transactions.
- A pan-African approach should be developed to reconcile the differences in Electronic Single Window practices and their operation modes to ensure technological interoperability amongst platforms and recognition by the country of destination of online formalities performed in the country of origin.

- Interventions should be prioritised to ensure the economic participation of vulnerable persons, including women, in new externally oriented sectors.
- In order to ensure inclusive and gender sensitive growth, structural transformation policies should first focus on transforming the agricultural sector through promoting value addition and agro-processing and creating avenues for African countries to compete in agro-based global value chains.
- Most African governments make very little use of gender statistics in economic development policymaking. LDCs require support from development partners on the methodologies and data sources that can be used to carryout gender-trade impact assessments.
- It will be important to increase female participation in science, technology and mathematics disciplines at universities so that they can benefit from Africa's future industrialisation and development.
- There is a need to strengthen social safety nets and safeguards for those who lose their jobs or livelihoods as a result of trade liberalisation, particularly vulnerable rural communities.

- Trade facilitation would help intra-African trade and integration and is an important target for UK Aid-for-Trade. However African countries require assistance in formulating bankable Air-for-Trade projects.
- Aid-for-Trade to Africa is currently highly concentrated on certain countries.
- The UK should consider technical cooperation with African countries on regulatory reform drawing from the UK's expertise in designing regulations and institutions that balance improved business environment with the environmental and social imperatives behind regulation.

- The UK could consider assisting African countries with financial integration with the UK, particularly in using London's financial markets to raise finance for both the public and private sectors.

What are the key opportunities and challenges for boosting trade in Africa, and with the rest of the world, in specific sectors such as agriculture, manufacturing and services? What factors would allow African exports in these sectors to be more competitive and capture more value?

Intra-African exports contain a larger proportion of manufactured goods than the continent's exports to any other region. This includes the export of African manufactures such as cement, soap, paper and paperboard, fertilizers, chemical products and chemical preparations, pharmaceuticals and medication, as well as automobiles from South Africa. Intra-African trade is also characterised by a greater proportion of both primary and processed food items than is the case with exports to every other region. This includes items such as margarine, sugar, biscuits, fish, rice, palm oil, vegetables, maize and wheat. The continent's exports to most non-African partners, including the European Union and the United States, by contrast, have a larger proportion of fuels and raw materials, such as petroleum, minerals, precious stones, and metal ores.

The African Union Action Plan for Boosting intra-African Trade (BIAT), which was endorsed by the Assembly of the Heads of State and Government of the African Union in January 2012, therefore provides a vehicle for stimulating African agriculture and manufacturing growth. The factors identified in the BIAT Action Plan that would allow increased intra-African trade include implementation of the Continental Free Trade Area (CFTA), addressing supply-side constraints, infrastructural bottlenecks, trade facilitation, improved trade information networks, and trade finance. Secondary factors include addressing inconvertibility of currencies, promoting the free movement of people, and enhanced trade in services[1].

Improved intra-African trade would enable African countries to harness the complementarities of their economies and take advantage of larger economies of scale for production and investment. Greater reduction in barriers to intra-African trade would also help offset the effects of the preference erosion that African countries face with the upcoming mega-regional trade agreements[2].

How can trade policies and trade facilitation systems in Africa be designed to further the goals of wealth creation, employment and poverty reduction, taking into account the growing importance of the digital economy in world trade?

The importance of trade facilitation for boosting trade across borders is reflected in the World Bank's new 2015/16 Doing Business methodology, which introduces regional trade facilitation agreements as a new benchmark reform for unleashing international trade. In December 2013 World Trade Organisation (WTO) Members also concluded negotiations on a new Trade Facilitation Agreement (TFA) aimed at expediting the movement, release and clearance of goods, including goods in transit, and at improving customs cooperation. Implementation of the TFA will impose large logistical and administrative costs, particularly for Least Developed Countries (LDCs) who currently face very high trade costs. LDCs will therefore require assistance so that they can benefit from the agreement, enhance their competitiveness and expand their trade.

The TFA contains special and differential treatment measures that link the requirement to implement with the capacity of developing countries and LDCs to do so, and recognises the need for donor Members to enhance assistance and support for capacity building. Various programmes and facilities have been set up to help LDCs benefit from the Trade Facilitation Agreement including the Trade Facilitation Agreement Facility (TFAF) under the WTO, and the Trade Facilitation Support Group under the World Bank Group. There are strong links between the observed level of trade facilitation reforms that a country undertakes and its implementation capacities.[3] Development partners should therefore focus their support on the most vulnerable countries, particularly landlocked countries. Technical assistance programmes should also support the fast-tracking of trade facilitation

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[1] Boosting Intra-African Trade, Issues Affecting Intra-African Trade, Proposed Action Plan for Boosting Intra-African Trade and Framework for the fast tracking of a Continental Free Trade Area, African Union Commission and the United Nations Economic Commission for Africa

[2] In particular, the Regional Comprehensive Economic Partnership (RCEP) between sixteen countries in Asia and Oceania; and the Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership.

[3] Reaping Benefits from Trade Facilitation, United Nations Conference of Trade and Development (UNCTAD), 2015.

measures in agriculture since the sector is characterised by significant trade costs and is central to ensuring wealth creation, employment and poverty reduction in LDCs.

The international trade landscape is rapidly changing in the face of the growing digital economy. The African Union's Agenda 2063 recognises the power of the information technology revolution to lift huge sections of populations out of poverty, improve incomes and catalyse economic and social transformations. New technologies and tools can help to support trade facilitation (e.g. electronic documents, electronic single windows and customs automation). Productivity enhancements from paperless trade are significant, including savings from reductions in data errors and accelerated payments. For example, when Chile implemented a national electronic customs system, costing $150 million, the resulting savings in the first year were enough to recoup this expenditure. There is however a need to provide knowledge on e-customs and digital trade to less-informed LDCs. Implementing electronic systems also takes time and involves changes in operational practices and regulatory frameworks. African Governments must upgrade their countries' infrastructure and enact legislation on electronic signatures and transactions. Trainings and capacity building targeted at easing the transition phase when digitising trade formalities may therefore be advisable.

Electronic Single Windows expedite information and trade flows through providing one electronic entrance for the submission and handling of all data and documents related to the release and clearance of an international transaction. Electronic Single Windows have been introduced in a number of African countries, however there is no formal institutional framework to structure and standardise Electronic Single Windows. A pan-African approach should be developed to reconcile the differences in Electronic Single Window practices and their operation modes to ensure technological interoperability amongst platforms and recognition by the country of destination of online formalities performed in the country of origin (e.g. digital signature and formats for the exchange of documents and data).[4]

The internet also offers great opportunities for trade facilitation and economic development. Internet access is increasingly on mobile devices in developing countries, which contributes to speedy knowledge sharing, improved market access and coordinated supply chain deliveries. The internet should also be leveraged to enhance transport management systems through connecting supply chains with logistics networks, and enable African LDCs to benefit from global value chains through trade in tasks like the successful East Asian countries.

The United Nations Economic Commission for Africa has projected that if Africa implements trade facilitation reforms in addition to agreeing an African Continental Free Trade Area, this would have substantial benefits for the continent. Benefits to Africa of the Continental Free Trade Area plus trade facilitation reforms were projected to be substantially greater than those of the Continental Free Trade Area alone (without trade facilitation). Crucially, with the Continental Free Trade Area without trade facilitation, some African countries are projected see their income decline due to a loss of tariff revenues, whereas implementing trade facilitation reforms as well would ensure that all African countries experience increases in their income.[5] Therefore, implementing trade facilitation in parallel to the Continental Free Trade Area may be a crucial factor for getting political buy-in from all African countries and therefore for reaching a Continental Free Trade Area Agreement.

Despite encouraging progress in recent years on general trade facilitation reforms, Africa is only making limited progress in terms of implementing paperless trade.[6] Costs of trading within Africa remain high – based on the latest estimates, Africa's costs of trading with the world are estimated to have been 283 per cent in ad-valorem equivalent in 2013. These are higher than those of all other world regions except Central Asia, which has a higher

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[4] The African Trade Policy Centre (ATPC) at the United Nations Economic Commission for Africa (UNECA) supports the African Alliance for Electronic Commerce (AACE), which seeks to promote the single window concept, in compliance with recommendations of international institutions. One of the Alliance's key projects is the establishment of a Regional Single Window that will interconnect all national platforms (NSW) with the view to smoothening trade and enabling African countries to be more competitive on the global market.

[5] Economic Commission for Africa (2015). *Economic Report on Africa 2015: industrializing through trade*. Addis Ababa: United Nations. Available at http://www.uneca.org/publications/economic-report-africa-2015 .

[6] Economic Commission for Africa and Economic and Social Commission for Asia and the Pacific (2015). Joint United Nations Regional Commissions Trade Facilitation and Paperless Trade Implementation Survey 2015: Africa Report. Available at http://unnext.unescap.org/survey/ECAReport.pdf .

share of landlocked countries.[7] Furthermore, it is clear that much of these trade costs are due to Africa's customs requirements, and could be lessened through trade facilitation reforms. For example, in terms of the cost of border processing and document requirements alone, the average African country ranks in the worst-performing 25 percent of all emerging and developing countries, based on the latest available data.[8] Trade facilitation reforms must therefore be considered a priority for Africa to increase its trade competitiveness.

How can we ensure that trade development in Africa is pro-poor and equitable for women and men? Are special measures and types of investments needed for the informal sector, for SMEs, and for promoting women's participation in trade in African countries?

The opening up to trade can affect different sections of society in different ways. Interventions should be prioritised to ensure the economic participation of vulnerable persons in new externally oriented sectors. For example, trade policy could be designed to ensure the expansion of sectors that are more female intensive than contracting import competing sectors. This should not be confined to traditional female industries such as smallholder agriculture and textiles but should be extended to promoting training that boosts the upward mobility income independence of African women.

Agriculture is the most important source of income for the majority of African households and females represent a large share of all persons engaged in agriculture, exceeding 50 per cent in several countries.[9] Although Africa's exports are largely concentrated on primary products including agriculture, most value addition is still derived from manufacturing. Structural transformation policies should first focus on transforming the agricultural sector through promoting value addition and agro-processing and creating avenues for African countries to compete in agro-based global value chains. A shift from subsistence to market oriented agriculture and food production for export will help to increase earnings for those employed in the sector. Secure land tenure for women and the promotion of women's associations and cooperatives would help to ensure greater female participation in the agro-transformation agenda. Private actors should also be encouraged to promote the integration of smallholder farmers into larger value chains.[10] This would help to ensure economic growth and trade development in Africa is pro-poor and gender sensitive.[11]

Equitable outcomes should also be promoted through mainstreaming gender in trade policy. Gender assessment studies should be undertaken prior to negotiating trade agreements, including a sex-disaggregated analysis of likely distributional effects of proposed trade measures. This can identify gender sensitive activities and sectors where trade expansion should be accelerated. LDCs require support from development partners on the methodologies and data sources that can be used to carryout gender-trade impact assessments. Most African governments make very little use of gender statistics in economic development policymaking.[12] There is therefore a need to build awareness among senior government officials in Africa of the need to incorporate gender into trade policy development as a critical pre-requisite for inclusive and sustainable development. Donor supported trade programmes, including the Africa Free Trade initiative (AFTi), could also be used to support equity-enhancing and gender-sensitive trade interventions.[13]

For example, the African Centre for Statistics (ACS) at the United Nations Economic Commission for Africa (UNECA) is promoting improved knowledge of producing and using gender statistics through the development of an online training toolkit on gender statistics. The toolkit will combine knowledge and guidance from existing handbooks with special references to the African context, providing examples of how gender statistics can inform national policy and legislation. In addition, the African Trade Policy Centre (ATPC) at UNECA is developing

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[7] Authors' calculations based on World Bank – ESCAP trade costs database.

[8] Authors' calculations based on World Bank Doing Business indicators 2016.

[9] Authors' calculations based on ILOStat data.

[10] Such arrangements would provide smallholder farmers with strong and stable demand for their products and could be administered along with training, credit and other inputs provided by agribusinesses.

[11] The following interventions would help to support this sectoral approach: expanding access to rural finance, agro-inputs such as improved seed varieties, rural roads and physical infrastructures, agricultural extension services, basic marketing skills and storage facilities.

[12] This was identified as a key issue at the Meeting of the Africa Group on Gender Statistics, Nairobi, 2-6 November 2015.

[13] For example, the Gambia's Diagnostic Trade Integration Study update, completed in 2013 within the Enhanced Integrated Framework (EIF), promotes the allocation of funds towards gender-sensitive projects in the fisheries sector.

a training course on Trade and Gender which is expected to enable participants to understand the relationship between gender equality and trade policy, assess the main mechanisms to integrate gender into trade agreements, and apply this understanding to analyse contemporary case studies.

According to the International Trade Centre (ITC), women-owned businesses represent between one-quarter and one-third of all enterprises in the world, but are concentrated in less productive sectors with minimal visibility in global value chains. Efforts are therefore needed to ensure that existing women-owned businesses can effectively add value to their output and participate in international trade. The Women in Trade project at the ITC provides a good example of an initiative which helps to connect women entrepreneurs to markets and bring together policymakers, the business community and representatives of women-owned businesses to discuss actions to increase the participation of women in trade. More initiatives are needed in this area, along with international forums to raise the profile of gender in trade policy development.

In terms of higher education opportunities, women are under-represented in the science, technology, engineering and mathematics disciplines in universities. Graduates in these subjects will have an essential role in Africa's development and, in particular, its industrialization and can expect to reap significant rewards. In the interests of gender equality (as well as in the interests of tapping into the greatest pool of available talent overall to further the continent's development), it will be important to increase female participation in these disciplines at African universities.[14]

In terms of ensuring pro-poor trade development, there should also be a focus on a greater social safety net and safeguards for those who lose their jobs or livelihoods due to being out-competed as trade is liberalized. For example, in the context of the Continental Free Trade Area negotiations, the United Nations Economic Commission for Africa is calling for the Continental Free Trade Area Agreement to include a special safeguard mechanism for agricultural trade to avoid situations where vulnerable rural communities that rely on agricultural sales for their livelihoods could become destitute. Social safety nets such as Ethiopia's guaranteed job programme may also be an important complementary policy.

One way in which to mitigate the impact on those who lose their jobs or livelihoods due to trade liberalization is to facilitate labour mobility. This will allow labour to flow to areas where there is the most demand for it, potentially increasing the number of jobs (by avoiding cases of unmet labour demand for certain skill types), and also increasing overall productivity.

What is the role for development partners like the UK in boosting trade and investment in Africa, through aid-for-trade initiatives and through promoting two-way trade and investment with African countries? What approaches have worked well in this area so far and what more could be done? Building on AFTi, could the UK take a more ambitious and longer term approach in the future?

Indicators related to international trade in the World Bank Doing Business Database demonstrate that red tape and transaction costs are disproportionately large in Africa. As mentioned above, further progress on trade facilitation would deliver substantial benefits for Africa.

Development partners, such as the UK, may play a valuable role in reducing such trade costs through aid-for-Trade. Massimiliano et al (2011) find, using panel data of 100 developing countries over 2002-2007, a 100% increase in aid-for-trade to trade facilitation cuts costs of imports by 5% and costs of exports by 4.7%[15].

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[14] Economic Commission for Africa, African Union Commission and African Development Bank (2016). *Assessing Regional Integration in Africa VII: Innovation, Competitiveness and Regional Integration*. Available at http://www.uneca.org/publications/assessing-regional-integration-africa-vii.

[15] Massimiliano Ca et al., 2011.Does Aid for Trade Really Improve Trade Performance?. World Development, Volume 39, Issue 5, May , Pages 725-740

Inadequate implementation of harmonised policies to address technical barriers to trade, sensitive product lists, and other non-tariff barriers also impinge on regional integration in Africa.[16] African countries perceive aid-for-trade towards trade facilitation as essential for boosting intra-African trade[17] which is supported by UNECA research which strongly expects trade facilitation to stimulate intra-African trade[18]. Aid-for-trade should also have an important complementary role in boosting intra-African trade in the context of the CFTA.

However, there is a need to strengthen capacities of project developers as well as improve the coordination between them and donors to make sure that aid-for-trade becomes more effective. African member States and regional economic communities encounter difficulties in formulating bankable aid-for-trade projects, as highlighted in the United Nations Economic Commission for Africa report analyzing the questionnaires directed to African member States, regional economic communities and donors[19]. Additionally, two thirds of African member States have the perception that aid-for-trade projects are too often poorly aligned with African needs. They identify the lack of monitoring and evaluation of aid-for-trade projects as a factor that can potentially discourage donors from investing in African projects. In this vein, the United Nations Economic Commission for Africa has produced guidelines on the Formulation of Bankable Aid for Trade Projects in Africa, as well as a development accounts project, with the objective of strengthening the capacity of selected developing countries to formulate bankable projects to benefit from aid-for-trade interventions.

In addition, Morocco, Ethiopia, Egypt, Tanzania and Ghana receive 30 percent of all aid-for-trade to Africa[20]; as such, a broader distribution of aid-for-trade would help more equitably share its benefits.

Partners such as the UK may be well-placed to consider technical cooperation with African Governments on regulatory reform. The UK has, in the past, worked with the Chinese authorities on regulatory reform in the financial services sector. A similar approach may help Africa to benefit from the UK's expertise in designing regulations and institutions that balance an improved business environment with the environmental and social imperatives behind regulation. Furthermore, the UK could usefully pursue collaboration with African Governments to foster greater financial integration with the UK in order for African countries to use London's financial markets to raise finance, both for the public and private sectors. Indeed, a similar collaborative approach with China has provided benefits to both countries.

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[16] See, e.g., Economic Commission for Africa, African Union Commission and African Development Bank (2013). *Assessing Regional Integration in Africa VI: Harmonising Policies to Transform the Trading Environment*. Addis Ababa: United Nations. Available at http://www.uneca.org/publications/assessing-regional-integration-africa-vi

[17] Economic Commission for Africa (2013). Building Trade Capacities for Africa's Transformation: A critical review of aid for trade. Available from http://repository.uneca.org/bitstream/handle/10855/22153/b10717808.pdf?seq uence=1

[18] Economic Commission for Africa (2012). Assessing Regional Integration in Africa V: towards a continental free trade area. Available from http://repository.uneca.org/bitstream/handle/10855/22110/Bib- 32452.pdf?sequence=1

[19] Economic Commission for Africa (2013). Building Trade Capacities for Africa's Transformation: A critical review of aid for trade. Available from http://repository.uneca.org/bitstream/handle/10855/22153/b10717808.pdf?seq uence=1

[20] Economic Commission for Africa (2012). Report on Africa's International Trade. Available from http://www.uneca.org/sites/default/files/uploaded-documents/RITD/2015/CRCI-Oct2015/report-on-africa-international-trade.pdf