



FONDATION POUR LES ÉTUDES
ET RECHERCHES
SUR LE DÉVELOPPEMENT
INTERNATIONAL

Book Launch

Africa in the New Trade Environment: Market Access concerns in Troubled Times

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Remarks on the occasion of the book launch
Africa and the New Trade Environment: Market Access Concerns in Troubled Times
Accra February 10, 10:30-12:00

Overview (1)

- Book focusses on 2 challenges facing any African country devising its market access strategy
 - ❑ Rising protectionism in its export markets
 - ❑ Implications of 4th. Industrial revolution: Will technical progress rob Africa of job opportunities coming from rising wages in China?
- Book proposes a three-pronged policy
 1. Redirect market access focus from traditional partners (AGOA/EBA preferences) towards new focal markets: East, South Asia (...but what about Latin America?)
 2. Strategically diversify trade with Asia
 3. Create one African market (AFCFTA)

Overview (2)

- Full agreement with the framework nicely laid out complemented by rigorous analysis. Conclusions are evidence-based using an array of methods (synthetic controls, structural gravity, simulations)

Remarks on evidence

- a) Change the trade dynamics: Greater participation needed in supply chain trade (especially backward integration)
- b) Recognize the tariff reduction “trilemma” facing AFCFTA. Monitor difficulties at implementing a Customs Union. Substantial backtracking on CET in EAC CET....
- c) Take seriously the unnecessarily complexity of rules of origin(RoO). No extra market access under ACFTA unless RoO are simple and transparent. (Mentioned in book. Deserves more emphasis)

Overview (3)

Observations on emphasis

- I. New REC models of commitments on cooperation should emphasize more pervasive externalities across the African landscape. AFCFTA to move from a “negative” agenda (removing barriers to trade) to a “positive” agenda (resources to provide goods not supplied by the market).
→ Requires some delegation of authority to supra-national bodies (applying the principle of subsidiarity)
- II. Prepare for rising protectionism via greening of trade: decouple growth from CO2 emission and lower carbon content of exports

Remarks on evidence

a) SSA trade dynamics 1990-2015:

Low GVC participation, forward and non-regional

SSA has low participation in regional supply chains. Mostly with outside world (a)

Participation is mainly forward (exports undergo further processing in destination country) (b).

Success of trade diversification strategy with Asia will require a shift towards deeper regional value chain participation (horizontal move in a) and a shift towards backward GVC integration (a higher share of intermediates in export bundles)- This would show up as arrows moving horizontally in (see b)

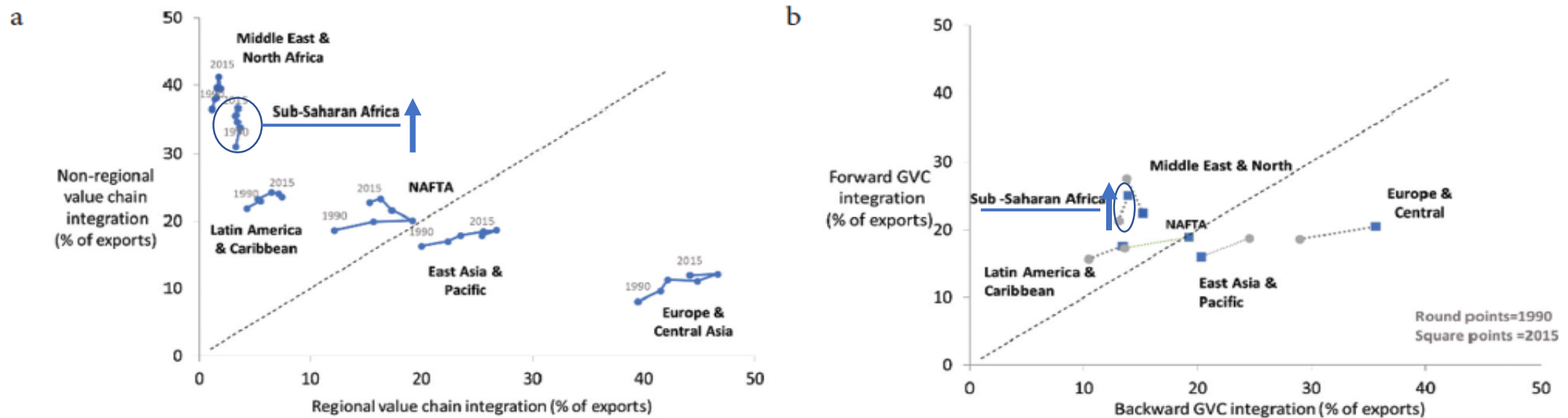
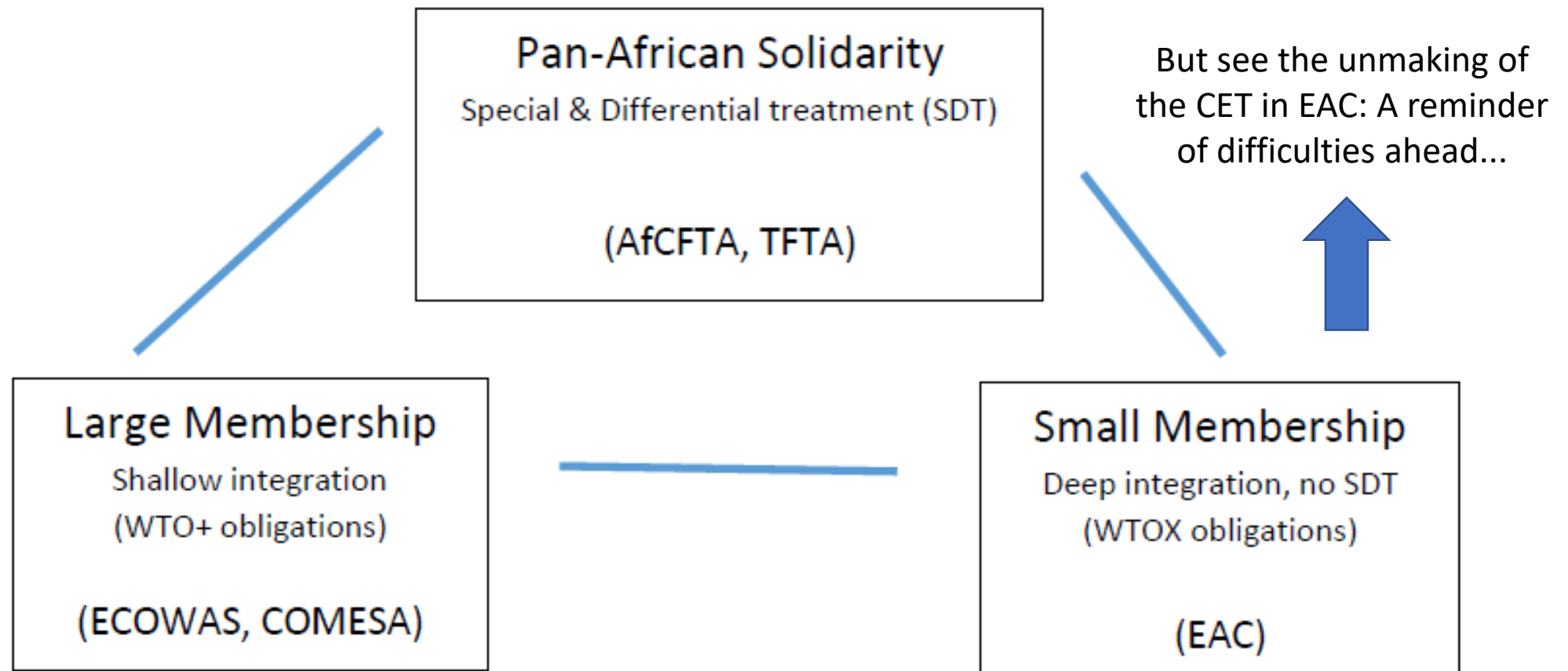


Figure 3 | Decomposition of Global Value Chain (GVC) participation by major geographic regions (a) and by type (b). *Source:* Authors calculations using GVC database from [Borin and Mancini \(2015, 2019\)](#). Breakdown of regional and non-regional value chain participation provided by [Borin and Mancini](#)

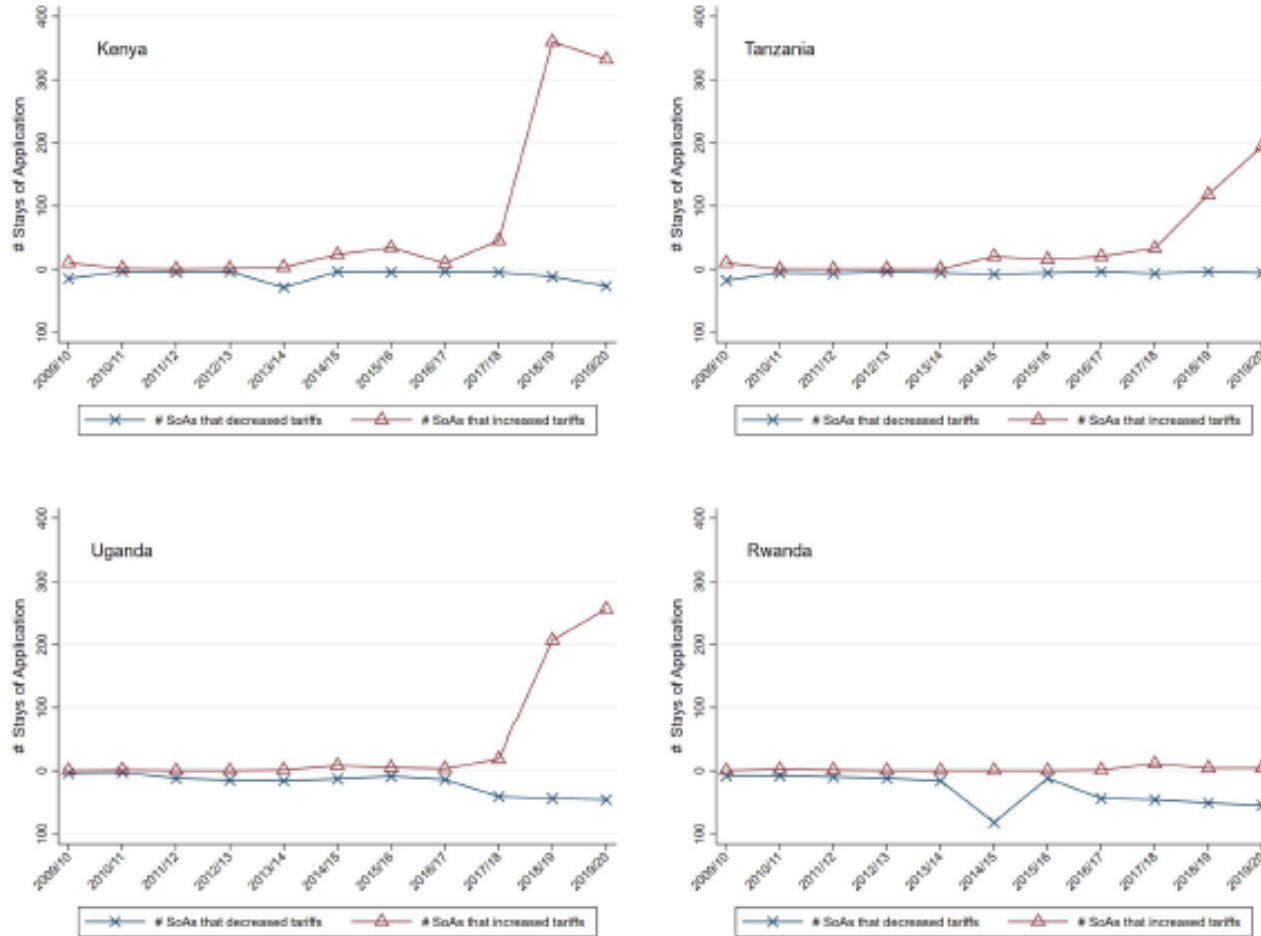
b1) Deepening regional integration: facing tariff-reduction “trilemma”...

Figure 1 The African Integration Trilemma



b2) Reminder: Monitor the difficulties at implementing a Customs union

Figure 3: Countries deviate from the Common External Tariff into different directions.



Notes: SoA = Stays of Application. Omitted are those SoAs that do not unambiguously result in a higher or lower tariff rate on a product. For a small number of cases, the formulation of a SoA in the EAC gazettes is as follows: *Sunflower Oil - Kenya to stay application of EAC CET of 25% and apply a duty rate of 25% or USD 500/MT whichever is higher for one year.* These cases are counted as increases as the country moves from a fixed ad valorem tariff to a choice between the same ad valorem tariff or an amount that is higher.

Tally of all Stay of Applications (SOAs) collected from the EAC gazette

- Large countries deviated from the CET in upward direction
- Rwanda deviated in the lower direction

→ In CUs high CETs are imposed by large members on small members (e.g. Liberia and Sierra Leone in ECOWAS)

□ Simulation-based estimates of gains from completing AFCFTA should be taken with caution

Source: Rauschendorfer and Twum (2021)

c1) Take seriously the unnecessary complexity of Rules of Origin

REMINDER: Below excerpt from the conclusion of an evaluation of EU and US PTAs in the World Trade Review (2006) where the authors mention their hope that a report they had just submitted to the EC commission would lead to such simplification.....

Second, this paper – together with several other recent ones – substantiates the hypothesis that the complexity and restrictiveness of RoOs has something to do with special-interest pressure. It follows that the argument in favor of simplification, possibly going as far as the uniform rule currently considered by the EU Commission, is desirable not just for the direct reduction of compliance costs, but also, and perhaps more importantly, to take RoOs out of the reach of special-interest pressures. The argument here is essentially the same as that in favor of uniform tariffs: departures from uniformity being very salient, the hurdle for special-interest groups to distort the instrument is bigger.

...but not much has changed since then . See presentation by Marti at a WTO webinar in April 2021 that shows on low utilization of preferences by LDCs in non-reciprocal PTAs

https://www.wto.org/english/tratop_e/roi_e/preference_utilization_190521_e.htm

C2) AFCFTA negotiations on harmonization of Rules of origin

Objective: harmonize both the Regime-wide rules (RWRs) and Product-specific Rules (PSRs) across 8 African Regional Economic Communities (RECs). Still ongoing (like those on TFTA)

RWRs: Agreement has been reached

Bottom line: For most RWRs (and on simple average across RWRs)

- Differences for flexibility are greater than for transparency, probably a reflection of the greater difficulty in reaching agreement on flexibility than on transparency.

Third, there is less uniformity on both types of provisions for certification than for process.

On positive side, following agreements have contributed towards reducing compliance costs:

- All PTAs have the same set of provisions on transparency for process, but not on transparency provisions for certification.
- For both types of provisions, there is greater uniformity on transparency than on flexibility.

On the negative side, following RWR provisions that would have reduced compliance costs but have not been included in AfCFTA

Provision for duty-drawback

Provision for self-certification

Third-party invoicing, arguably an important missed opportunity

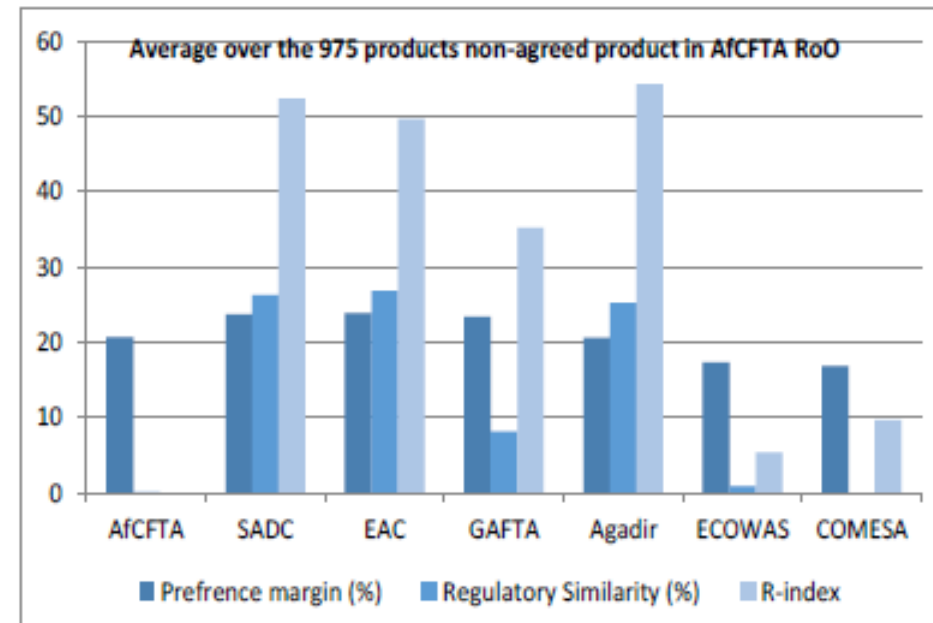
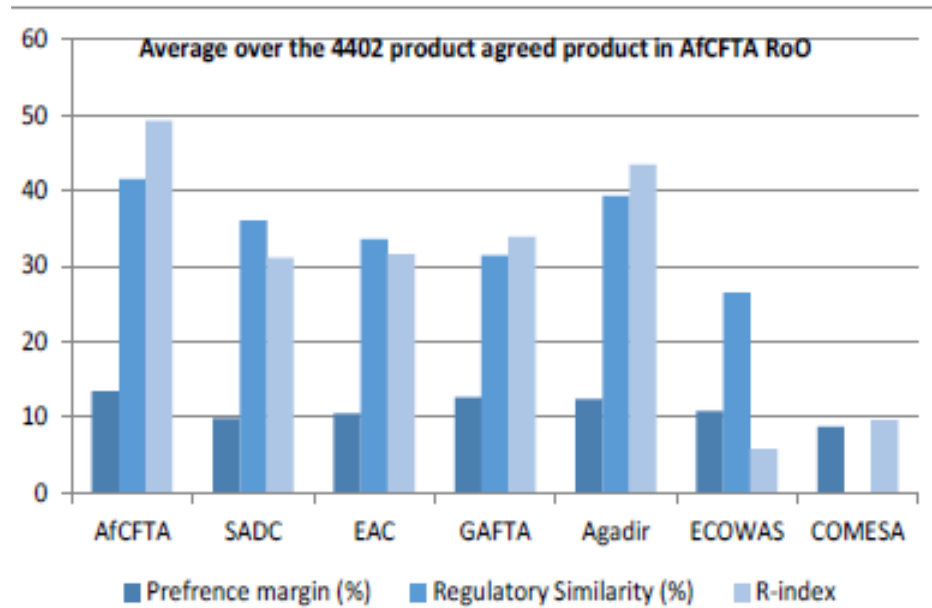
Allow for non-direct transport (allowed under TFTA and ECO)

Not imposing principle of territoriality (allowed under SADC, ECO and COM)

PSRs on next slide

c3) AFCFTA Negotiators still struggle to agree on Product-Specific Rules (PSRs)

PSRs in AfCFTA	Average Pref margin	Average Regulatory similarity	R-index
YES (87% of tariff lines)	11%	28	25
NO	21%	14	35



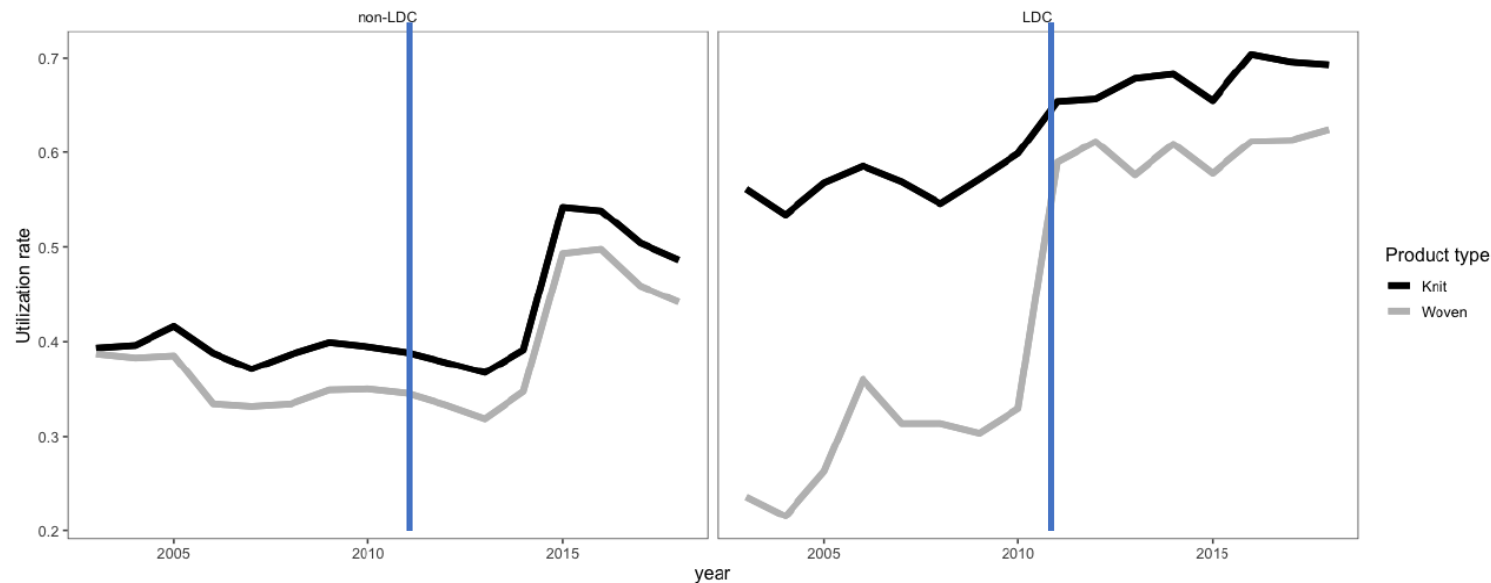
Conclusion: PTAs is giving with one hand (preferences) and taking away with the other (Restrictive RoO)

Source: Melo et al. (2021) Harmonizing Rules of Origin for the African Continental Free Trade Area

C4) Preference Utilization Rates (PURs) and PSRs

(for AFCFTA negotiators)

Figure 3: Utilization Rates



Notes: This figure displays the average utilization rate of the EU's Everything But Arms agreement for apparel products by year. The data are broken down by product type (woven versus knitted apparel) and exporter type (LDCs versus non-LDCs).

Passage to single transformation rule for EBA (i.e. for LDCs) in January 2011 (vertical bar)

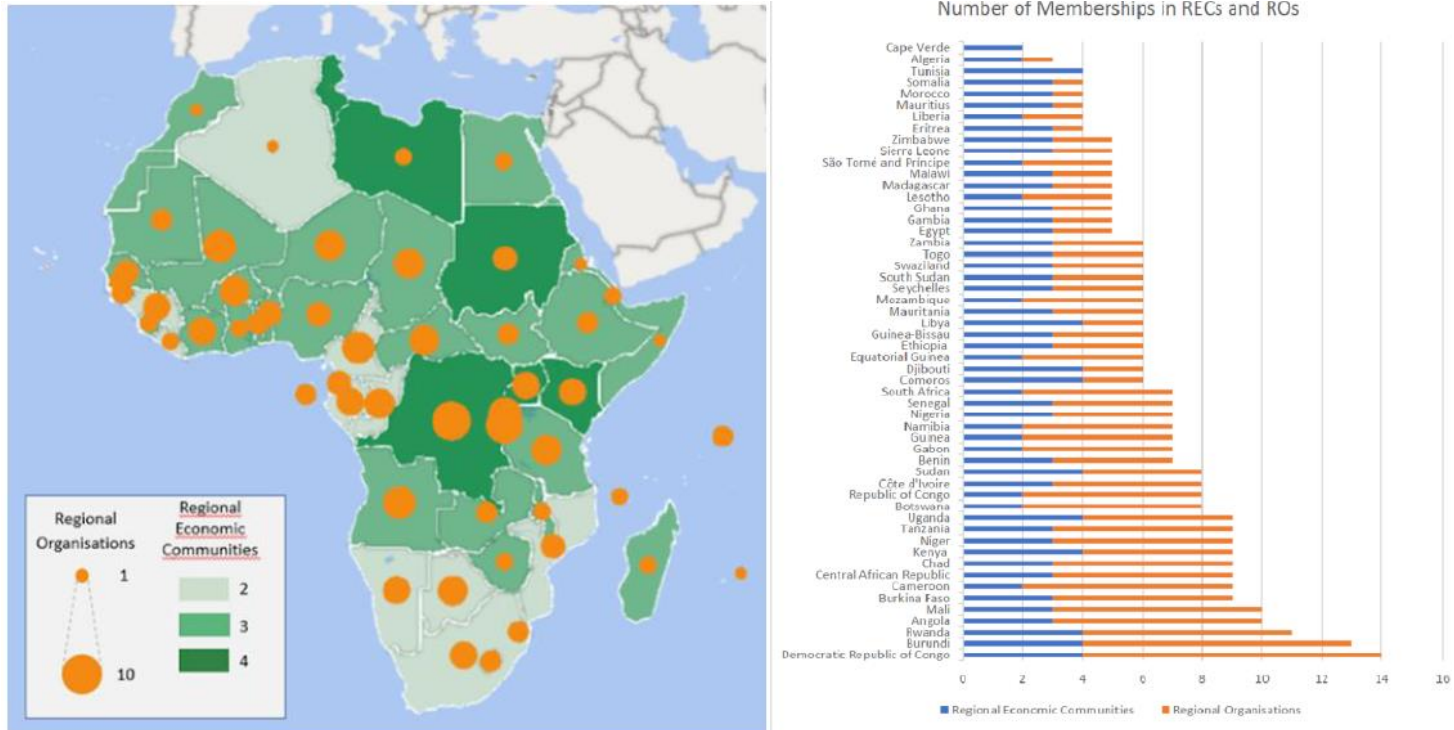
⇒ Controlling for other factors, EBA PUR up by 50% at pre-baseline level with PUR increase higher for products with higher non-preferential tariff rates. Will AFCFTA negotiators have the courage to agree on a single transformation rule for T&A?

Source: Sytsma, 2021

Observations on emphasis

Pervasive externalities across Africa

(call for provision of Regional Public Goods (RPGs))



Source: Byers and Melo (2021)

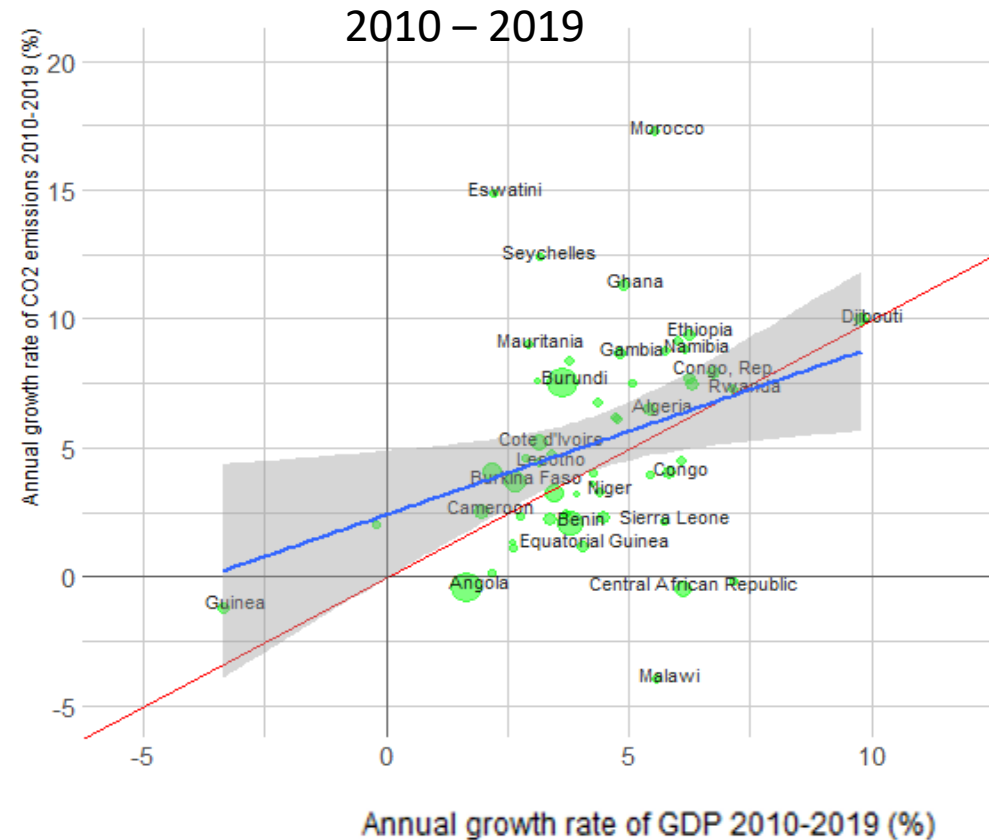
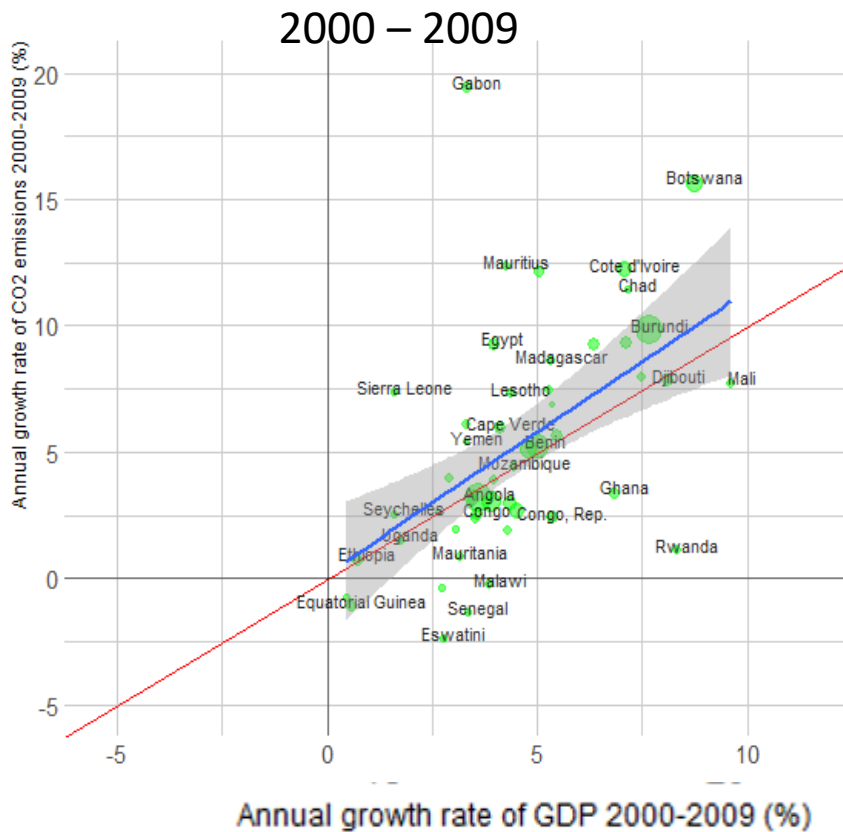
Note: Economic organizations: 16 (9 AU recognized RECS + 7 other economic organizations). Other regional organizations: 25 (5 energy-based + 15 river and lake + 4 peace and security + 1 environmental). Average memberships per country: RECs (3); other regional organizations (4).

30 years ago the 'new' regionalism was about North-South (e.g. NAFTA). Now 'new' is South-South called Regional Cooperation and Integration (RCI). See figure- Reality is one of increasing physical interactions across countries. Supra-national bodies requiring resources are needed.

Decoupling of growth and carbon emissions has to be pursued

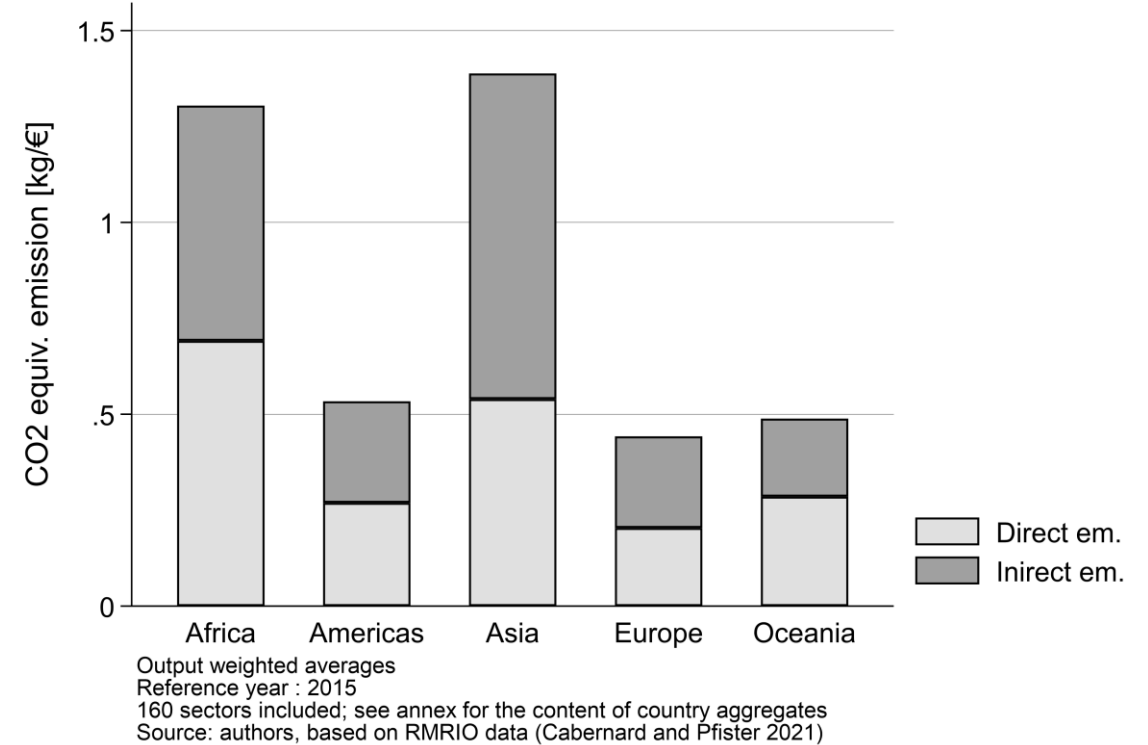
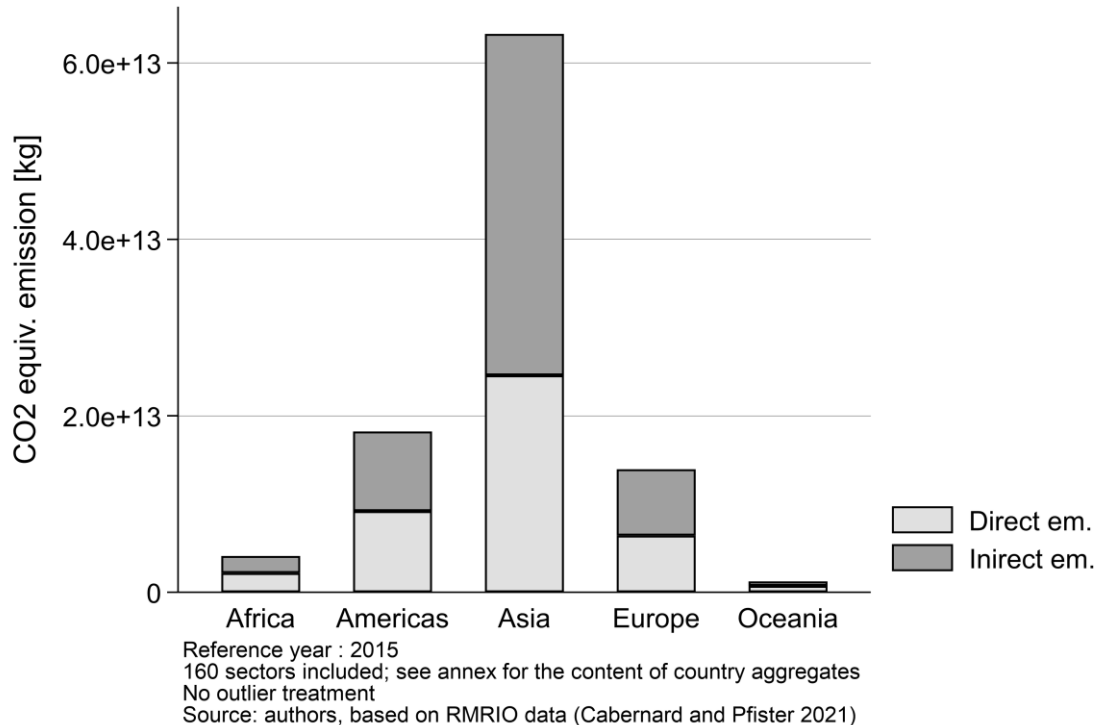
For many African countries, the CO2 emission growth rate is higher than GDP growth rate (above the 45 degree red line).

Between 2000-2009 and 2010-2019, GDP growth rate on average outpaced CO2 growth rate, though less so over 2010-19.



Greening Africa's export basket

Africa's world share of CO2 emissions in production is low (left) but the CO2 content of its production (right) is high



In preparation for the risk of tariffs on the **carbon-content** of exports, Africa's export basket needs to shift towards a greener mix

Source: Melo, Solleder, Xu (in progress) "The Environmental Impact of Africa's exports"

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