Introduction and Overview

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Introduction

This volume, the work of more than twenty authors, grew out of the Fourth China Round Table and the WTO’s Tenth Ministerial Conference, two seminal events held back-to-back in Nairobi, Kenya, in December 2015. The work presented here provides comprehensive, substantive insights of the African trade policy and development context in which these two meetings took place.

The Fourth China Round Table is an annual event, coordinated by the WTO with the Government of China on the basis of a 2011 Memorandum of Understanding (MOU) and hosted by a WTO member. The policy round table process assists least-developed countries (LDCs) in improving the effectiveness of their participation in the multilateral trading system by facilitating a deeper understanding of trade rules and trends and an exchange of views on global best practices, accompanied by the provision of advice and support for those still in the process of acceding to the WTO. This was the first time the Round Table was held in Africa. The Fourth Round Table, hosted by the Government of Kenya, operated in synergy with the Tenth Ministerial Conference in Nairobi.

Holding the meeting in Africa was something of a homecoming, since more than 70 per cent, or thirty-four out of the forty-eight UN-designated LDCs originate from the continent. The two days over which the Round Table took place, immediately prior to the Ministerial Conference, provided a valuable opportunity for LDC government officials, representatives of international agencies and other invitees to exchange views and listen to policy presentations, some of which are reproduced in this volume.

The WTO’s Tenth Ministerial Conference was also infused with an extra sense of occasion, as it was the first WTO ministerial gathering to
take place in Africa. The venue was highly auspicious when it came to generating results, and these have been spelled out in some detail by WTO Director-General Roberto Azevêdo, Kenya’s Cabinet Secretary for Foreign Affairs and International Trade, Amina Mohamed, and China’s Minister of Commerce Gao Hucheng, in their joint foreword to this volume.

Another positive aspect of the chosen venue for the WTO’s Tenth Ministerial Conference was that it brought Africa and African developmental challenges and imperatives into sharp focus. Africa has the potential to become a global economic powerhouse, but it still faces formidable development challenges. It is generally acknowledged that engagement in the global economy, through trade and foreign investment, is an indispensable accompaniment of progress. The nature of that engagement and the domestic environment from which it is issued are crucial to prospects for progress through development, growth and quality job creation.

It is important that the WTO focus on Africa due to the economic, social and political realities facing the continent, particularly given Africa’s importance to the WTO. No less than one quarter of the WTO’s membership is African, and seven of the nineteen current candidates for WTO accession are from the continent. What happens in Africa will increasingly leave an imprint on multilateral trade relations.

The contributions to this volume fit into two broad categories. Part I contains short chapters, most of which are based on contributions made by African policy-makers and their partners in the discussion at the Fourth China Round Table. The eight chapters in that part raise a range of issues vital to Africa’s development, largely with a focus on international economic engagement. The chapter by Fatima Haram Acyl (Chapter 2) emphasizes the importance of the right kind of engagement with the multilateral trading system to support development and poverty eradication, and the challenges of fulfilling the UN Sustainable Development Goals spelled out in Agenda 2030. Okechukwu Enelamah (Chapter 3) explains the transformational policies that Nigeria is pursuing to raise incomes and promote development, including through economic diversification (particularly on the trade front), industrial and infrastructural investment, institutional reform and improved governance.

Rob Davies (Chapter 4) also highlights the imperative for structural transformation. He emphasizes industrialization, African economic integration, an appropriate degree of protection from competing imports and the need for a WTO that supports African industrial development. Joshua Setipa (Chapter 5) notes the dependence of Lesotho on the textiles
and clothing sector and on agriculture. Lesotho’s government has been pursuing a strategic approach to lower costs, facilitate trade and provide sectoral incentives aimed at diversifying the production base of the economy. Moulay Hafid Elalamy (Chapter 6) discusses how Morocco leveraged itself out of the economic doldrums that afflicted the country in the 1980s through a comprehensive economic reform programme that included joining the GATT in 1987 and tying in domestic reforms at the international level.

Like a number of the other contributions to the Fourth China Round Table discussions, that of Arancha González (Chapter 7) emphasizes the opportunities offered by participation in global value chains. A particular focus is on the importance of small and medium-sized enterprises and how the challenges they face can be met by openness, ‘smart’ reforms and connectivity. Joakim Reiter (Chapter 8) examines the importance of foreign direct investment (FDI) within a sound policy framework across a range of sectors including services, supported by fuller participation in the WTO, and notes that many African states will not attain the UN Sustainable Development Goals unless the FDI gap is addressed. Anabel González (Chapter 9) focuses on the potential contribution to development and poverty reduction of greater African economic integration in a less costly and more competitive operating environment.

Part II and Part III of this volume consist of a collection of commissioned papers for the Fourth China Round Table. Those in Part II cover various aspects of African trade development and the role of policy in shaping the continent’s performance and prospects. Part III focuses on specific aspects of development policy and experiences that are not necessarily particular to Africa but are nevertheless of considerable relevance in that context.

The first chapter in Part II, by Michael Finger (Chapter 10), examines Africa’s trade performance over the last two decades, which in aggregate has been relatively dynamic in comparison to that of many other regions. It notes Africa’s commodity dependence, particularly on the trade front, but also detects indications of growing diversification. The chapter looks at the experience of six African economies that have done particularly well and considers the ingredients of their success.

In Chapter 11, Maika Oshikawa, Ukamaka Anaedu and Vicky Chemutai trace African policy developments through the medium of successive WTO Trade Policy Reviews. Against a process of trade policy reform in many African economies, they conclude that scope exists for making better use of trade policy to sustain and deepen the
transformation process. In this context, the authors contend that better use could be made of the WTO system to support reform and improve governance. Thus, the WTO accession template could be useful in driving progress.

Stephen Karingi, Ottavia Pesce and Simon Mevel (Chapter 12) examine Africa’s regional integration experiences. These efforts have been supported by the Common African Position on the Post-2015 Development Agenda and the African Union’s Agenda 2063. It is acknowledged by governments that trade is crucial in ensuring the full benefits of Africa’s transformation process. The drive for regional integration through trade is reflected in the Tripartite Free Trade Agreement and the drive towards a Continental Free Trade Area (CFTA). Sequencing and the scope of international trade agreements are important elements in developmental outcomes.

Bernard Hoekman (Chapter 13) considers how Africa’s agriculture and natural resource base can be leveraged to diversify and develop industry and services through increasingly higher value-added participation in international vertical production arrangements. In this context, intra-regional trade remains well below potential, although the indications are that growing attention to trade facilitation and the CFTA should help to lower trade costs, improve logistics and infrastructure and grow competitiveness through enhanced productivity.

Marcus Bartley Johns, Christina Busch and Gerard McLinden (Chapter 14) concentrate on the role of trade facilitation in the continent’s development, noting that trade-related costs are higher in Africa than any other region. This obstructs intra-African integration as well as participation in global markets. Progress in this domain is essential to Africa’s diversification efforts aimed at fostering higher value-added activities in agribusiness, manufacturing and services. Reducing trade-related costs is also an important component of poverty reduction.

In the first chapter of Part III of the volume (Chapter 15), Chiedu Osakwe takes a detailed look at industrial policy and its potential contribution to Africa’s development and structural transformation. He argues that industrial policy is resurgent and that, in developing economies, it is driven by a variety of factors, including the post-2008–09 crisis and reduced global growth, a perceptible process of de-industrialization, balance-of-payments pressures that will become more acute with tumbling commodity prices, and demographic trends across the continent. Industrial policies aimed at improving competitiveness and at diversifying and modernizing economies in the increasingly digitized global
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Economy must be smart, focusing on enhanced capacities and technological adaptation, thus avoiding the pitfalls of inward-looking and ultimately stultifying import substitution. Such policies can be accommodated within the WTO framework, notwithstanding concerns about the trading system squeezing out policy space.

Alexei Kireyev (Chapter 16) undertakes a statistical analysis of the impact of reforms associated with WTO accession on competitiveness. The findings are quite different among recently acceded economies in various parts of the world, and the overall impact attributable is relatively small. The author nevertheless argues that policy reform based on the WTO accession template would yield significant dividends in terms of credible reform packages that could be locked in internationally. Such efforts could be supported by an examination of the experiences of other economies that have managed complex reform agendas in the context of WTO accession.

The final chapter in Part III (Chapter 17), by Yuan Yuan, provides a detailed account of China’s reform process that led to a thirty-year growth miracle. She explains how this was brought about by adding capital and labour, relying on foreign investment and export markets, and emphasizing cost efficiency. This phase of China’s development is being balanced by greater emphasis on domestic consumption and developing the services economy. Economic growth will be slower but is likely to remain high in comparison to many other economies, and trade will remain important. Some of China’s development experiences could provide useful illustrations of the ingredients of success in building up Africa’s manufacturing base and diversifying the economy.

Salient Features of Africa’s Trade Performance, Opportunities and Challenges

The summary above of the contributions to this volume provides only a hint of their richness and their comprehensive treatment of the issues at hand. What follows is a more systematic account of the main themes emerging from the volume. A recapitulation of this nature is no substitute for the profuse detail and subtle argumentation of the chapters themselves, but we thought it would be useful to provide a reasonably complete summary of the issues that have captured the attention of the authors.

History has repeatedly demonstrated that no economy can prosper without trade. Trade is both a reflection and cause of the health of the
domestic economy. As Michael Finger points out in his chapter, growth has on average been vigorous in recent years. In the twenty-first century, supported by trade, Africa’s economy has grown at an average of 5 per cent per year, outpacing global GDP growth by a significant margin. Ten of the world’s sixteen fastest-growing economies are in Africa. In the last twenty years, Africa’s share of global production has risen by 30 per cent and its share of trade by more than one-third. The continent’s share of world foreign direct investment has doubled. These expansion rates are built from a very low base. But they are indicative of an Africa on the move.

In terms of the destination of exports, Africa’s trade is skewed against the continent. Only about 18 per cent of Africa’s trade is with itself. The lack of intra-African trade represents a significant loss of opportunity. Virtually all of the chapters in Parts I and II of the volume refer to the challenges of fostering deeper economic links across the continent. It would be very difficult to find a commentator who does not consider the sparseness of intra-African economic links a foregone development opportunity awaiting remedy. The continent’s core trade destinations are China, the European Union and the United States, which among themselves take a very large share of the total. Just as product diversification of exports is desirable, so too is greater geographical dispersion.

Africa’s trade performance has been driven to a large degree by oil and other commodity exports. The commodity price boom fed trade growth. Recent price developments will reverse some of those gains. Commodity dependency in trade points to a structural challenge facing many African economies. They need to diversify into manufacturing and services, thus building greater economic resilience at home, more and better jobs and trading opportunities abroad. Manufacturing and services provide vital conduits for adding more value domestically and regionally. Foreign direct investment is often an important ingredient in this context, as emphasized by Joakim Reiter in his contribution. The drive for transformational change goes to the very structure of economies. Effective change calls for clarity of purpose, consistency and a sound decision-making apparatus. Efforts must focus on deepening development, generating growth, creating employment and eradicating poverty.

Pro-poor policies are sometimes treated as an add-on, but many argue that addressing poverty must form a customized, integral part of any viable reform package. The importance of addressing poverty is considered in the contributions by Fatima Haram Acyl in relation to the UN’s...
Sustainable Development Goals, and more generally by Anabel González and by Gerard McLinden and Marcus Bartley Johns in their chapters. Practically every contribution to the volume has specific observations on the structural transformation imperative.

There is a credible basis for economic convergence for a number of African economies with diversification and modernization of their economies and consistent implementation of sound policies.

Some, but by no means all, African economies have already embarked on the path of diversification, building manufacturing capabilities and fostering services activities. It has been estimated that only one-third of Africa’s GDP growth record is attributable to economic activity in the natural resource sector.

Clearly, a diversified domestic platform is emerging in a number of economies. Okechukwu Enelemah, Joshua Setipa and Moulad Hafid Elalamy, for example, all identify specific policy frameworks at the national level that are geared to economic transformation in Nigeria, Lesotho and Morocco, respectively. Many of the other chapters also discuss the issue. The broad-based acknowledgement of the need for far-reaching economic transformation is encouraging and is a trend that will persist. If domestic industrial and service industry growth is competitive or has the potential to become so, the diversification will spread to exports. If such activities are uncompetitive, they will eventually be a drain on the entire economy.

Significant trade and diversification opportunities have emerged in recent years with the development of vertically integrated production structures that span multiple borders. Global value chains (GVCs) allow economies to specialize in specific production lines without having to produce entire products. Rob Davies, Arancha González, Joakim Reiter, Anabel González, Stephen Karingi and his co-authors, and Bernard Hoekman are some of the contributors who allude, in greater or lesser detail, to the pivotal developmental role that participation in GVCs can make in the right policy environment.

These opportunities for component trade through participation in GVCs in both goods and services offer new scope for adding value domestically and regionally. This is especially relevant in primary commodity production in Africa, where rather than exporting primary products largely in their raw form, further value can be added prior to exportation.

Another genre of GVCs does not determine where to locate on the basis of the presence of underground resource deposits or farming land,
but simply on the basis of a favourable operating environment. The challenge in the case of both resource-based and footloose GVCs is for local producers to become involved in a continuing process of upgrading and ultimately the establishment of home-grown, internationally oriented lead firms.

The Policy Challenges

Policy is obviously at the core of this volume and is discussed in one guise or another by all authors. Strictly speaking, no such thing as policy neutrality exists. Even where an economy decides not to intervene in the market, it is effectively taking a policy decision. If there is no escaping policy, it makes it doubly important to ensure that policies are sound and conducive to progress.

Too often, policy can become a millstone around the neck of growth and development. This can be for three main reasons. One is to do with policy design. Either through neglect or poorly formulated policies, costs in the economy are needlessly increased. A second problem may be poor implementation because of a lack of adequate resources, or adequately trained resources, which leads to inefficiencies and added costs.

A third problem is corruption, which not only adds costs to production in a variety of ways, but diverts significant resources from development and, more seriously, fractures the moral integrity and the legitimacy of elected leaders to govern. It is within the powers of governments to address all these shortcomings and make their own policy-based contributions to productivity and growth.

In broad terms, policy reform may assume a number of different forms. Some policies are enabling or facilitating, in the sense that they remove what might be considered inadvertent costs of doing business. Trade facilitation, customs reform, streamlined regulation and investment in human and physical infrastructure are among the instruments of enablement.

A second kind of policy reform involves removing or adjusting policies deliberately put in place in pursuit of specific economic, political or social objectives. These policies may have become outdated in terms of their original purpose or they may reflect errors of judgement, such as an excessive reliance on import-substituting industrialization, which was a feature of early industrialization efforts in some economies.

A third reform genre involves the introduction of new policies. New policies may respond to changed circumstances or may reflect past
neglect. Like anywhere else, policy change in Africa is bound to involve a combination of these three kinds of change.

The idea that prosperity born of growth and economic progress is assured with as little policy intervention as possible is more ideological than scientific. But it is also clear there can be too much intervention, whether as a result of ideology or wrong-headedness leading to flawed policies. The precise policy mix that will do the best job is not always easy to identify, as is amply demonstrated by Maika Oshikawa and her co-authors in their chapter, which reviews more than one hundred WTO Trade Policy Reviews on African economies. Interesting pointers on policy options for economic transformation are offered by Yuan Yuan in her analysis of China’s experiences over the last three decades or so.

The reasons for intervention may stem from the external consequences of transactions that are unpriced or incorrectly priced in the market. These so-called externalities and other kinds of market failure may have good or bad consequences, but they both warrant intervention.

This discussion is related to so-called industrial policy, which has sparked fierce debates, often with a certain ideological overlay. There is nothing wrong in principle with governments deploying policy levers to change resource allocation decisions in an economy. As Chiedu Osakwe’s chapter discusses, virtually all governments have deployed industrial policy under various guises, sometimes (but not always) to good effect.

The challenge is, indeed, to do it well. This means that the objectives must be clear and the policies must be well designed for efficiency and monitored. Adequate government capabilities are a prerequisite for the successful conduct of industrial policies, as is adequate information and analysis for understanding cause and effect.

In Africa’s case, as elsewhere, plenty of scope exists for improving and streamlining the regulatory framework for doing business. In other cases too, there will be justification for lessening the impact of certain interventions. It is argued in some quarters, for example, that import tariffs tend to be too high in some sectors.

Awareness has grown rapidly in recent years that trade and investment relationships among African economies are poorly developed, and big opportunities lurk behind the interaction. Moves are afoot to eradicate some of the barriers to exchange across the continent, be they of a fiscal or regulatory nature. These are the ideas driving regional integration initiatives, as discussed at some length by Stephen Karingi and his colleagues. These initiatives will need to be supported by enhanced
continent-wide infrastructure in order to facilitate and lower the costs of transport and communications in particular. Bernard Hoekman mentions the importance of addressing these challenges, and Marcus Bartley Johns and his co-authors focus particularly on the trade facilitation aspects.

The Role of the WTO

Just as many African economies have tended to maintain relatively high tariffs on many products, they have been reluctant to commit to maximum tariff levels through WTO ‘bindings’. Where there are bindings, these are often set at levels considerably higher than the relevant applied tariffs. Several reasons can be adduced as to why this may be so, but it does deny the economies concerned an opportunity to use internationally negotiated commitments as a means of locking in policy. Maika Oshikawa and her co-authors have something to say about the advantages of international policy lock-in in their contribution, as does Alexei Kireyev.

Apart from any gains economies might enjoy as a result of tying down their policy commitments through international obligations, they can also rely on the WTO system of rules for protection against discrimination and other non-conforming policy behaviour. These possibilities help to level the playing field and ensure a greater degree of certainty regarding the external policy environment.

Many African economies did not accede to the GATT – the WTO’s predecessor – through negotiations. Rather they were ‘successor’ members of the organization following their political independence from colonial powers.

Those economies in Africa and elsewhere that accede to the WTO through negotiations are frequently required to undertake far-reaching reforms. They benefit from such reforms in various ways, including the enhancement of the capacity to compete. Alexei Kireyev analyses the relationship between WTO accession and enhanced competitiveness in some detail. He also argues that African economies that have not been through this process might consider adopting long-term reform programmes similar to a WTO accession package. The chapters by Fatima Haram Acyl and Rob Davis emphasize that WTO support for economic transformation in Africa must be sufficiently accommodative of different policy approaches. In his contribution on industrial policy, Chiedu