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Tackling Africa's trade challenges

Most economic indicators are up for African countries, but big challenges remain to put the continent on a path of solid growth.

Sub-Saharan African economies’ GDP is estimated to have grown by about 5 percent in 2012, and forecast to increase to 5.7 percent for 2013. While foreign direct investment fell dramatically in the United States (by 35.3 percent) and in Europe (by 36.1 percent) in 2012, it grew by 5.5 percent in Africa.

The continent’s vast natural and mining resources have brought new players such as Brazil and China to the scene, while the volume of trade with Europe – Africa’s erstwhile trading partner for many decades – continues to decline. This may be the reason why least-developed African countries are reluctant to commit to the high level of market opening the European Union is seeking in the Economic Partnership Agreement negotiations currently underway.

Despite the encouraging trends, Africa remains the world’s poorest continent. As South African journalist Desné Masie wrote in The Guardian in November 2012 “if Africa were a country, its GDP (US$1.184 trillion) would be only around a 15th of the United States’ ($15.776 trillion). That’s a whole continent – the world’s second largest – and a continent where around 15 percent of the world’s population share 1.5 percent of the planet’s total gross domestic product of $78.95 trillion." She suggested that growth rates should exceed 10 percent for the next ten to twenty years to have a meaningful impact on human development.

A number of analysts are advocating integration into global value chains as a means of boosting African economies. In this issue, Peter Draper and Robert Lawrence argue that increasing exports of manufactures is a priority for all African economies. Instead of specialising in exporting commodities to world markets, a more promising strategy would be to “integrate into existing value chains by building capabilities in specific tasks, on a globally competitive basis, and as part of a broader diversification strategy out of resource exports.”

In a similar vein, WTO Director-General Pascal Lamy told an OECD meeting in February that “adding value does not necessarily mean capturing the next stage in the processing of raw materials. Comparative advantage may lie elsewhere in the value chain, for example in assembly of final products or in the oiling of the chains through the provision of a service.”

Widespread informal cross-border trade, which deprives governments of tariff revenues, is another serious issue for many African countries. The COMESA region has recently established simplified customs procedures to entice small traders to use official border posts rather than clandestine trade routes for their export and import operations.

We hope you will enjoy this issue’s insights on Africa’s trade dilemmas.

The Bridges Africa Team
Fishing and fish products in West Africa: the untapped potential for a regional market

Papa Gora Ndiaye

Fisheries are primary of importance to the development and fight against poverty in West Africa, whose exports of fisheries products to the global market totalled more than US$489 million in 2011.

With 6,069 km of coastline and a maritime Exclusive Economic Zone of 2,016,900 km², the region counts among the best-endowed fishing grounds in the world, largely due to an upwelling along the coast of Senegal and Mauritania and the Gulf of Guinea. In addition to providing revenue to governments through royalties and other fees collected under various fishing agreements, fisheries resources play an important role in meeting the nutritional needs of populations with low purchasing power, as well as providing full time employment to more than 3 million West Africans, i.e. more than 10 percent of the region’s workforce. Most of these jobs are related to artisanal fisheries.

Despite the importance of fisheries for West African economies, the sector still faces many challenges ranging from poor exploitation of resources to marketing problems, including lack of appropriate funding and infrastructure, inadequate technology resulting in high losses, tariffs and non-tariff barriers, as well as lack of roads and adequate vehicles to cover long distances.

From less than 300,000 tonnes in the early 1960s, fisheries production in countries belonging to the Economic Community of West African States (ECOWAS) is now estimated at over 2 million tonnes, or about 3.5 percent of total world production. It should, however, be noted that the statistics do not always include the considerable, and often illegal, catches by foreign vessels.

There are also significant disparities between the countries involved in fisheries trade. The big producers are Nigeria (533.5 tonnes), Senegal (444.7 tonnes), Ghana (344.9 tonnes) and Mauritania (195.3 tonnes). With a combined output of more than 1.3 million tonnes, the first three accounted for 63 percent of West Africa’s fisheries production in 2008. In Guinea Bissau, Sierra Leone and Liberia, the absence of political and economic stability contributes to illegal, unreported and unregulated (IUU) fishing. In the so-called “continental” group, which includes Mali, Niger and Burkina Faso, fishing has grown thanks to the Niger and Senegal rivers, although their levels of production are much less significant than those of coastal countries. The combined production of Mali, Burkina Faso and Niger amounts to less than 8 percent of the regional total.

Aware of the economic and social importance of this sector and the opportunities it offers, West African states have taken measures aimed at strengthening sanitary regulations in order to ensure that products destined for export meet international market standards. They have also developed quality assurance systems to protect the health of consumers and enhance the marketability of products traded with foreign countries. Several fisheries-related trade policies have been put in place, including price liberalisation, increasing the value of trade through prioritising “noble” fish species, the establishment of control infrastructure in order to comply food safety standard, and the promotion of regional marketing channels through cooperation agreements between ECOWAS countries.
These promotional measures can, however, have a negative impact on West African fisheries resources and local food security due to exporters seeking to maximise profits in lucrative European markets rather than responding to local needs.

**Regulatory and sanitary constraints**

International standards of food hygiene sometimes act as trade barriers. Many members of the African, Caribbean and Pacific (ACP) group of countries have in fact very little or no adequate technical infrastructure to meet the sanitary and safety standards laid down by the WTO or the EU. The latter has established categories of African countries that may export fish products to the EU. The first of these consists of Guinea, Ivory Coast, Senegal, Nigeria, Mauritania, Ghana, Gambia and Cape Verde, which may export all forms of fishery products to the community. Countries in the second category, namely Benin and Togo, are authorised to export their fish products only under certain conditions. The third category comprises countries unable to provide the necessary health and safety guarantees. In West Africa, only Guinea Bissau is in this situation.

These constraints have a big impact on the region's international trade in fisheries products. Indeed, despite the unilateral trade preferences the EU grants to ACP countries, as well as the huge efforts made by ECOWAS members to comply with European standards, many still face difficulties in accessing the European market. The two main ones are (i) competition from EU products and those from other countries of the world; and (ii) the stringent sanitary and phytosanitary (SPS) standards and measures imposed by the EU.

Furthermore, the new Economic Partnership Agreements (EPAs) between Europe and ACP countries could negatively affect fisheries trade as the unlimited duty-free access accorded to them by the EU is eroding. This is partly due to the general reduction of tariffs under the GATT, as well as the fact that the sector has been placed in position of unfair competition and greater dependence on the European market under the EPAs. The steadily increasing export volumes of countries such as Mauritania or Senegal have generated tensions with regard to food security and resources. Fishing agreements with the EU fisheries further accentuated these tensions. Measures should be taken to mitigate the negative impacts and seize the opportunities available in this sector.

**Outlook for fisheries trade in West Africa**

Fifty-one percent of West African fisheries imports come from Africa, followed by Europe (24 percent), Asia (16 percent) and North America (9 percent). The total value of imports of from ECOWAS countries stands at US$13.4 million. Just 13 percent of African fish products imported into the area come from West Africa.

The West African market clearly presents enormous potential for net exporting countries such as Senegal, Gambia and Mauritania. In 2011, Nigeria alone imported fisheries products worth US$6.7 million. The country can absorb the entire export volume and value of Senegal (about 100 thousand tonnes for a little more than US$300 million). Frozen fish accounts for 98 percent of the import volume.

The three largest West African importers of fisheries products are Nigeria, Ghana and the Ivory Coast. In 2011, they accounted for 92 percent of the region's total imports in volume and 94 percent in value. This meets that the big three have the capacity to absorb the totality exports from Senegal, Guinea and Guinea Bissau without that fully meeting their own needs.

In order to realise the enormous potential of intra-regional trade in fish products, the constraints hampering their development must be removed. Specifically, progress must be made in (i) respecting hygiene and quality standards for processed products in particular; (ii) improving infrastructure and equipment for the handling, transport, storage and preservation of fresh, frozen or processed fish products; (iii) providing more and better information on trade rules and potential markets; and (iv) creating a more secure business environment conducive to the development of sub-regional trade.
Assessing hunger: what do the FAO's revised undernourishment figures tell us?

Peter Svedberg

For the first time since 1996, the UN agency responsible for food and agriculture has significantly revised how it arrives at an estimate of the number of hungry people in the world. The FAO has been estimating this figure, the Prevalence of Undernourishment (PoU), for decades now. Notably, when compared with the recent past, the picture of hunger offered by the organisation now shows steady improvement since the 1990s, instead of secular deterioration.

The global “hunger problem” has evolved over time, as has our understanding of its complexities. The revised estimate of undernourishment for the most recent year, 2009, is 1.5 percent lower than it would have been if the FAO’s old methodology and data had been used. Significantly, however, when the new methodology is used to generate estimates for the 1990s, the figures are about 18 percent higher than those presented earlier. This implies that the global long-term trend in PoU has declined steadily since the early 1990s up to the 2008-10 period. This runs counter to previous estimates, which showed a continual increase in the number of undernourished people from the mid-1990s up to the late 2000s. In other words, the entire situation has been turned on its head (Figure 1). This is quite a drastic change with important implications.

The UN Food and Agriculture Organization’s picture of how the world “hunger problem” has evolved over time has been turned on its head; from a secular deterioration to steady improvement.

The PoU estimates are intended to help governments and other national and international agencies reduce the “hunger problem” and measure progress towards reaching the first millennium development goal (MDG), which calls for halving the proportion of people in the world without enough food between 1990 and 2015. With the new trend estimate, the prospects for reaching this goal seem to have improved, although a large number of countries in Sub-Saharan Africa, as well as populous India, are unlikely to attain it.
The revised estimates show that, as a proportion of the growing population, the number of undernourished people declined from 23.2 percent in 1990-92 to 14.9 percent in 2010-12 (FAO 2010b, Annex 1). Reaching the first MDG target of 11.6 percent by 2015 no longer seems impossible. The new FAO global trend estimates also square better with the trends indicated by other nutritional measures, most notably anthropometric indicators, such as the prevalence of childhood stunting, and the incidence of underweight children and women aged 15-49 years.

The FAO’s PoU estimates are based on the average amount of food available over three years, the calorie content of that food, and the distribution of the calories across households. The FAO further sets up norms for the minimum calorie intake for different gender and age groups. Those estimated to have a habitual calorie intake below the minimum norms are classified as undernourished. All these entities have been estimated on data that are incomplete and subject to errors (Svedberg 1999).

What is new?

What, then, lies behind the FAO’s revised PoU estimates? Two things: changes in the methodology used to arrive at the estimate and newer, more complete data used for the building blocks of the FAO model.

On the methodological front, the innovations are in (a) the assumed distribution of dietary energy consumption and (b) the way in which variations in habitual food consumption are estimated (FAO 2012a: 10-11). On data, the FAO has revised figures from the UN population division, updated the heights of adults from recent anthropometric surveys, and refined assessments of caloric availability for the new PoU numbers. The methodological changes account for a rather minor share of the overall changes. The data on population size and adult height also have marginal impacts, as do the “improved” gross calorie availability estimates, except for the latest years (the 2008-10 average), when upward-revised food supply data induced a reduction of PoU by some 60 million people, or by 8 percent from the previous estimate for the same years.

The most important data change is that estimates of food losses at the retail distribution level, not only at the production and storage levels, are taken into account. According to the FAO’s calculations, incorporating such losses in the PoU estimates raises the number of undernourished people in the world by 125 million in the 1990s, if everything else is held constant. Proportionally, this means an increase of about 15 percent for that period (FAO 2012a, table A2). These losses reduce the quantity of food actually consumed and, hence, increase the number of undernourished people.

The inclusion of food losses at the retail level is undoubtedly called for. The problem is that the size of these losses is extremely difficult to put numbers on. This is the very reason why they were not incorporated in earlier PoU estimates. The reliability of the FAO’s new data on losses will surely be closely scrutinised in due time. Indeed, the FAO itself acknowledges that the new loss estimates are “still tentative” (FAO 2012a: 10).

For all the inherent uncertainties and limitations of the FAO PoU estimates, there are two welcome improvements in the 2012 Technical Note. One “novelty” is that the problems with the basic estimation method and the data used, are more openly admitted and discussed than in most earlier FAO publications. In previous reports and documents most critiques of the organisation’s PoU estimation method were either ignored or dismissed off hand.

A second novelty is that the FAO is in the process of developing a range of additional food security indicators, intended to reflect changes in “determinants of (or inputs to) food security”, as opposed to outcome indicators (such as PoU or anthropometric measurements). Especially welcome is the proposed food-price-level index. This index aims to capture how food prices evolve in relation to consumer prices in general in developing countries. Such an index would be a more relevant, reliable and more quickly up-dated indicator of food scarcity than the food availability data now underlying the
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PoU estimates, data that are utterly unreliable and often become available only after three to four years. Some of the other proposed additional food security indicators are of doubtful value (e.g. rail-line and road density) and others are already available from other international organisations (e.g. household access to improved water and sanitation).

Conclusion

All in all, the 2012 revisions of the methodology and data used by the FAO for estimating PoU are to be welcomed. This should not distract from the fact that the basic approach used by the FAO to assess the nutrition situation in the world and in individual countries is fraught with limitations and ambiguities. First, the notion that nutritional status is chiefly determined by calorie intake is, to put it mildly, a gross simplification. Different calorie expenditure requirements in individuals are modelled very crudely, micro-nutrient deficiencies are omitted and so are curable illnesses that often go hand in hand with both the absence of food and poor nutrition. Moreover, the number of people overweight or obese – facets of malnutrition that are on the rise – are ignored.

Second, as the 2012 revisions testify, the required data remain of doubtful quality and small alterations in parameter values induce large differences in the ensuing PoU estimates (Svedberg 1999; 2011). It is also telling that in its 2009 Food Insecurity report, written after the world-market food prices had started to raise notably in late 2007, the FAO projected a drastic increase of undernourished people in the world, to above 1 billion. As Figure 1 reveals, this number was revised downwards in 2012, to about 850 million.

Third, but not least important, even if the basic data could be vastly improved, the FAO estimates of PoU cannot provide answers to questions that are imperative from a policy perspective. In order to directly inform policy interventions it must be known who the malnourished are (infants, young children, adults or the elderly), where they are located (urban/rural, by region, etc.) and when they are malnourished (seasonally?). The FAO method is, and will remain, silent on these policy-relevant questions. There is therefore little doubt that anthropometric measurements, which can help answer these kinds of questions, are and will continue to be the main indicators for assessing the nutritional status of populations, globally as well as in individual countries and sub-regions.

References


Tackling informal cross-border trade in Southern Africa

Daniel Njiwa

Informal cross-border trade is very important to Africa in general and the Common Market for Eastern and Southern Africa (COMESA) in particular. It contributes to economic growth, job creation and food security for the majority of the region’s population. Some 43 percent of Africans are involved in this form of commercial activity, with women representing the lion’s share – around 75 percent – of the sector.

What is ICBT?
COMESA defines informal cross-border trade (ICBT) as a form of trade that is unrecorded in official statistics, and is carried out by small businesses in the region. ICBT characteristically involves bypassing border posts, concealment of goods, under-reporting, false classification, under-invoicing and other similar tricks. In addition to seeking to evade taxes or fees imposed by governments, traders also try to avoid administrative formalities in areas such as health, agriculture, security and immigration, which are perceived as costly, complex and time consuming.

Informal cross-border trade deprives authorities of much needed statistics, as well as revenues. It has also been argued that the practice gives an unfair competitive advantage to informal sector traders over formal businesses as the former do not fulfill their regulatory obligations or pay taxes and other fees. This affects the state’s ability to provide public goods such as roads and investments in capacity-building for small businesses.

In order to come to grips with this wide-spread phenomenon, COMESA is currently implementing a “simplified trade regime” initiative, which aims to bring ICBT within the formal trading system, as well as extending the benefits of the free trade area to small traders.

The simplified trade regime
Despite the difficulties and risks, small businesses continue to engage in informal cross-border trade. This is dominated by agricultural and manufactured products, which are bulky in nature, translating into high handling and transportation costs. Aside from these costs, traders have complained of heavy taxation by border and market authorities due to lack of proper certification.

COMESA’s simplified trade regime (STR) is intended to reduce this phenomenon. According to 2012 study by the regional body, the initiative has proved useful to informal sector traders. More than 75 percent of those who had tried it cited quick clearance among the main benefits, more than 70 percent said it offered an attractive tax regime and 60 percent thought the system protected traders. The top ten frequently traded products covered by STR include maize and maize products, beans, peanuts, millet, fruit, vegetable, fish, cooking oil, new clothes and cosmetics. Traders have called for this list to be expanded to more manufactured products, as well as some Chinese goods.

The COMESA study highlights a number of issues that should be addressed in order to better understand the phenomenon and find appropriate solutions:
Food Security: Informal cross-border trade is an economic activity of great importance, and contributes to food security in the region. While more than 30 percent of the traders surveyed made a profit from food trade, many complained about the complex processes they must go through to obtain certification for sanitary and phytosanitary measures and other export/import-related permits. Administrative hurdles like these make small traders resort to informal cross-border trade, where they can avoid the red tape and costs of certification.

Women in informal cross-border trade: Women account for 70 percent of ICBT in the Southern Africa region. This reinforces the need for governments and regional economic communities to implement policies to support women traders. The 2012 COMESA study showed that the majority of informal women traders interviewed had already used official border crossings, including the simplified trade regime. Nevertheless, more than 60 percent complained of significant corruption by officials seeking to extort bribes and kickbacks. In addition, thirty-four percent said they had been physically or otherwise harassed by border officials.

High tax rates and other border procedures: Taxes remain the main factor that drives small businesses to informal trade. Although the free trade area has helped ease border taxes in the COMESA region, many member states continue to apply other forms of taxes and charges considered too high for small traders. A COMESA study involving 167 traders in various border areas found that nearly 38.5 percent were concerned about taxes, while 37 percent singled out the demand for bribes as another critical factor contributing to the high cost of doing business. A significant number of respondents also cited delays in processing documents, as well as harassment, among driving factors.

The common list of simplified trade regime is limited: Although the simplified trade regime has helped lower the criteria for duty-free market access for small businesses, its impact is limited due to the relatively small number of products it covers. Traders would like the list to be expanded to industrial products obtained mainly from outside the region.

Lack of policy framework: Despite the economic significance of ICBT, no COMESA member has a specific policy framework for addressing issues affecting small informal traders. The activities currently being undertaken by governments are not guided by a structured framework that can be easily monitored for progress. Infrastructure constraints, such as poor road networks, communications, storage and trading places, lead to smaller profit margins and thriving informal activity.

Finance: Access to financial resources for doing business is a chronic problem. Nearly 80 percent of traders get their capital from informal sources. About half of them use their own savings. Donations and support from family and friends are particularly important sources of finance for women (66.7 and 67.9 percent respectively). However, one-fifth of traders have access to bank loans; 61.8 percent of them are men, mostly in Ugandan border towns.

Recommendations for action
- Reduce border taxes and fees, possibly even removing some so as to promote formal trade and increase government revenue;
- Implement a policy and institutional framework for informal cross-border trade;
- Simplify trade and customs procedures, and reduce the costs of licenses and certificates;
- Strengthen communication and information on trade, customs or policies in order to improve understanding of ICBT-related issues;
- Promote policies that support women involved in informal cross-border trade with access to finance, training and information;
• Develop financial instruments specifically designed to enhance small businesses' access to capital;

• Improve infrastructure in the most critical areas (for example, strategic storage facilities; accommodation and sanitation) through public-private partnerships; and

• Remove the value threshold for small-scale trade facilitation for all products originating from the region.

1 Given the fact that China is not part of the COMESA free trade agreement it would still be a challenge to justify the inclusion of Chinese products in the STR list. However, options under the newly launched COMESA Customs Union offer traders an opportunity to access these products at competitive prices and avoid the double taxation normally experienced when the Chinese products are obtained from another member country rather than directly from source. Parallel efforts under COMESA in developing investment areas will encourage foreign companies, such as those in China, to invest in the region and use local inputs to produce goods.
GLOBAL VALUE CHAINS

How should Sub-Saharan African countries think about global value chains?

Peter Draper and Robert Lawrence

The global value chain 'narrative' is contested. There is concern that it is being proffered to support the case for developed countries to bypass the WTO’s Doha Round, and that it is simply the latest effort to impose an ill-advised liberalisation agenda on developing countries.

We outline a case for Sub-Saharan Africa to take the GVCs 'narrative' seriously. In doing so we address the criticisms highlighted above. We emphasise that GVCs are a critically important feature in today's world economy, not an ideologically-driven policy prescription. They have to be taken into account by any country seeking to develop exports and grow its economy. Acknowledging the existence and importance of GVCs need not prevent active government intervention to affect resource allocation. On the contrary, GVCs can help shape such measures, but ignoring their importance will doom African countries to failed strategies.

How 'global' are GVCs?
Strong forces are driving countries towards increased global integration. Reductions in transportation and communications costs have allowed firms to operate GVCs that take advantage of differences in national comparative advantage both through intra-firm trade and through networks that link teams of producers. Increasingly, countries specialise in tasks rather than products.

These chains have created what Richard Baldwin calls 'factory America'; 'factory Europe'; and 'factory Japan' with China, Mexico, and parts of Southeast Asia acting as sourcing hubs lower down the value chain. China is the fulcrum of these sourcing networks, and as it moves up the development ladder an emerging 'factory China' is taking shape. Mexico is overwhelmingly a sourcing hub for US corporations, so its insertion into value chains is best considered regional. Similarly, Southeast Asian countries such as Thailand are integrated predominantly into Japanese value chains, while South Korea and Taiwan have emerged as significant outward investors within the Southeast Asian region and China, based on their own selective incorporation into GVCs. India plays an important role in services GVCs.

Other significant regional players such as Brazil and Russia, notwithstanding their economic weight and potential, are largely peripheral to this picture, particularly in manufacturing, although Brazil is a significant player in global agricultural value chains. Nonetheless, both countries are increasingly important outward investors in their regions, operating regional value chains centred on their domestic markets.

The success of China in particular – it has become the world’s largest exporter – shows how countries can flourish by integrating into GVCs. It is also a clear demonstration that exploiting the potential of these chains does not necessarily imply following the "neo-liberal" model.

Should Sub-Saharan Africa aim to 'plug in' to GVCs?
Sub-Saharan Africa, including South Africa, has not participated extensively in GVCs. Instead, the region has specialised mainly in exporting commodities to world markets.
This need not necessarily inhibit development if resource endowments are well managed in the national interest. Nonetheless, increasing exports of manufactures is a priority for all African economies.

Unfortunately, this has proven problematic. To manufacture most products completely requires a diverse range of inputs, but in the first stages of development, these are unlikely to be produced locally. Indeed, it is common for African countries to be unable to meet rules of origin that require local content as low as 30 percent of value-added.

It would seem to be more promising, therefore, to import complementary components and specialise initially in a particular segment of the value-chain. Relying on imported inputs requires low trade transactions costs. However, despite numerous regional trade agreements, the sub-continent remains fragmented by factors that raise trade costs, such as bad infrastructure, weak regulatory environments and poor border administration. It also scores poorly in international measures of connectedness.

This “trade in tasks” perspective will not reassure those who advocate high trade barriers. Nevertheless, across-the-board import substitution is simply not an option for countries that have very limited production capacity; it is not realistic for African countries on their own to attempt to develop GVCs on the scale of those coordinated by major multinational corporations (MNCs). With the exception of South Africa, no southern African economy could drive a GVC that might come close to reaching global scale and efficiency.

The more promising strategy, therefore, is to integrate into existing MNC value chains by building capabilities in specific tasks, on a globally competitive basis, and as part of a broader diversification strategy out of resource exports. The good news is that in the medium term an opportunity is emerging to leverage GVC relocations out of China, in response to the escalating “China cost.” This process is already underway, with the primary developing country beneficiaries to date being Vietnam, Cambodia and Mexico. In time, and if Sub-Saharan countries in a position to do so make themselves attractive enough to targeted MNCs, such investments could come the way of the sub-continent.

The qualifications are important: Sub-Saharan countries are not equally endowed in terms of the resources, institutions and geographic locations to attract manufacturing GVC investments in particular. Export-oriented FDI – the kind central to China’s development success – will require abundant, cheap and productive labour supplies suited to assembly-based manufacturing; good and cost-competitive infrastructure and logistics; and, most likely, coastal locations. Much also depends on the kind of GVC being targeted – a subject beyond the scope of this essay. But clearly such GVC investments are likely to concentrate in a few locations – raising the stakes for inclusive regional integration arrangements designed to share the benefits beyond the host country.

Policy toolkits
So what policy approaches will contribute towards building these kinds of dynamic comparative advantages?
First and foremost, multinational corporations operating global value chains need to import intermediate inputs, as cheaply and effectively as possible, in order to export. A blanket import-protection agenda logically entails keeping out imports, and thus undermines the rationale behind GVC attraction. Second, MNCs need access to cost-effective and reliable network services infrastructure – telecommunications; transport; energy; and possibly finance.

Such services, and the manufacturing operations they support, require skilled professionals to operate them. In most Sub-Saharan countries the necessary infrastructure is in short supply, finance is constrained, and domestic professional and technical services human resource pools are small. Third, operating just-in-time manufacturing operations requires speedy delivery of both imports for domestic value-addition, and exports of the resultant components. Therefore regulatory barriers at the border – particularly those associated with customs and various standard-setting bodies – can be crucial. Finally, if an MNC is to expose itself to sub-continental countries through FDI it will need assurances that its investments will be protected from arbitrary expropriation, and that the business case for the investment is not undermined through arbitrary policy or regulatory changes.

Deriving from these MNC needs flow several policy implications; herewith a non-exhaustive list:

- Import liberalisation of goods, particularly those required for input into assembly processes. This is best done on an economy-wide basis, in other words not just to favour MNCs, but with a view to lowering costs in the economy as a whole. This could be supplemented by establishing special economic zones that promote manufactured exports and allow duty free imports.

- Services liberalisation focused on attracting network services FDI and temporary importation of skilled personnel. This should not entail giving up the right to regulate, or promote private monopolies – in other words the liberalisation design should be properly conceived and implemented. The ensuing investments would benefit the country as a whole, not just MNCs.

- Up-scaling investments in domestic education systems in order to train the skilled personnel required to work in the evolving modern parts of the economy that could service integration into GVCs.

- Reform of customs and standards implementation agencies in order to build real trade facilitation attitudes and practices.

- Cementing appropriate investment protection regimes.

- Revising and simplifying rules of origin in destination markets, recognising that low shares in the value-added in particular products are not incompatible with substantial and genuine domestic production.

Furthermore, policymakers should be in constant contact with current and prospective investors to identify what they believe are binding constraints. Private-public collaboration is vital, and industrial policies require effective feedback mechanisms to ensure policies are effective and relevant.

Some of these proposals will serve as red rags to a bull. We don’t expect agreement from those advocating import-substitution behind high barriers, or “strategic industrial policies” that pick “sectors” as winners. Certainly, attracting GVC investment requires strategic choices. Decisions about which MNCs to target for promotion efforts, and which types of public goods should be provided (e.g. infrastructure, regulations, schools, etc.) require a degree of selectivity. However, we draw the line at the point where it spills over into “picking (sectoral) winners” because we are deeply sceptical that Sub-Saharan...
countries have the ability to do so in weak institutional contexts that invite rent-seeking of the worst kind.

Similarly, building investment protection regimes does not mean selling the store to foreign companies. Investor responsibilities are an important part of the equation, and there are various international codes that should be drawn on to build checks and balances into investor protection regimes.

Deciding which multinational corporations to target for promotion efforts requires a degree of selectivity. However, we draw the line at “picking (sectoral) winners” because we are deeply sceptical that Sub-Saharan countries have the ability to do so in weak institutional contexts that invite rent-seeking of the worst kind.

And measures that will attract GVCs such as improving institutions, investing in infrastructure, skills development, and private-public partnerships are all well recognised features of good development policy, and do not necessarily constitute a “neo-liberal agenda” per se.

Is our agenda designed to pull the wool over African (and other developing country) eyes in the World Trade Organization (WTO) Doha Round? The “new trade narrative” associated with the GVCs discourse has been portrayed simply as a stalking horse for one-sided trade liberalisation by developing countries, to make the world “safer” for developed country exports of goods, services, and capital.

In fact, while the Doha Round does encompass trade facilitation, most of the controversial issues are unrelated to the deeper integration measures required for the effective operation of GVCs. Indeed, the failure to develop agreements that do meet these needs is a reason why the round is stalled and as a response, unfortunately, the firms and countries that are developing GVCs are negotiating deeper regional trade agreements to meet their needs, bypassing the WTO in the process.

What we advocate is not incompatible with a WTO in which developing countries adopt diverse approaches. The desire for deeper integration and the concerns for policy space for some developing countries should both be respected. Instead of a system in which all members, both developed and developing, are required to adhere to all rules, a more attractive approach entails a variable geometry with mandatory core commitments supplemented by plurilateral agreements to which only some members belong. In the aftermath of a successful round, the WTO should become a forum, which members can use to negotiate agreements that would allow the WTO to compete with regionalism more effectively.

In at least the area of trade facilitation, an additional plurilateral agreement could be very beneficial to developing countries since it would almost certainly be bundled with aid for trade investments.

Nonetheless, while agreements can promote the operation of GVCs, many of the measures we have advocated can be taken unilaterally. Ghana, for example, does not need to negotiate with anybody in order to reduce its import barriers on key inputs, protect investors, open markets to FDI, or improve customs procedures. Furthermore, such liberalisation would not necessarily diminish negotiating capital, since WTO market access negotiations take place on the basis of bindings – tariffs for goods and regulations for services.
Concluding remarks

It is unfortunate that GVCs have been portrayed as simply the latest version of a Washington Consensus agenda rather than being recognised as providing opportunities that could help African countries achieve the goals of diversification and development. African countries should be advised on which policies would be most effective in allowing them to exploit these opportunities, rather than being drawn into tired old debates about free trade versus protection. The old paradigm based on thinking about products and growth up clear vertical value chains, needs to be replaced by a new paradigm that thinks about “specialisation in tasks” and recognises that growth can take the form of horizontal participation in GVCs. It should also be noted that many of the measures that would enhance African participation in GVCs would also remove barriers to regional integration.


7 See, for example, the latest ‘Global Connectedness Index’ released by DHL, in which the sub-continent scores lowest of all regions.

8 World Economic Forum, op.cit.


10 Ismail, op.cit.

11 Robert Z Lawrence, “ Competing with Regionalism by Revitalizing the WTO” in The Future and the WTO: Confronting the Challenges” (Geneva: The International Centre on Trade and Sustainable Development) 2012.
TRADE NEGOTIATIONS

How to overcome the EPA stalemate?

Cheikh Tidiane Dieye

Apart from the Caribbean, no other ACP region has signed a full EPA. In Africa, only the East African Community (EAC) has initialed a region-wide pact. Eleven individual countries have either signed or initialed an interim EPA, but these are yet to be implemented. Some thirty countries have neither signed nor initialed an agreement.

What is behind this lack of enthusiasm? I see at least three parameters that should be considered: the configuration of the regions and the great difficulty of states to agree on common interests; the sometimes aggressive nature of European demands and, finally, the evolution of the Europe-Africa partnership in the context of global geopolitical changes.

The main stumbling blocks

All African regions negotiating EPAs with the European Union comprise both developing and least-developed countries (LDCs). The latter already enjoy a number of trade-related flexibilities and advantages, including comprehensive market access under the EU’s “Everything but Arms” (EBA) initiative. Thus they have no great interest in concluding regional agreements that commit them to substantial market opening in a relatively short timeframe, but do nothing to increase their market access. They generally equate opening their markets to Europe to a loss of significant tax revenues and a risk of breakdown of their productive sectors that would not be compensated by funds received from the EU under the EPAs. As Senegal’s President Wade stated in 2007, “the allocation of money does not compensate for lasting structural imbalances. Between measures to protect my economy against destructive competition and a sum of money, I prefer protective measures!”

The second element contributing to the EPA stalemate has to do with the issues addressed in the negotiations and the positions and demands expressed by both sides. While each African region has some specific requirements on which it expects a response of from the EU, it seems that the differences and contentious issues are almost identical across the continent. These concern, inter alia, the interpretation of GATT Article XXIV to determine the pace and scope of tariff elimination; whether to include a Most Favoured Nation (MFN) clause in the EPAs; the treatment of export taxes; and accompanying measures commonly known as the “development programme.”

On market access, the EU has already acquired certain concessions that it is likely to use as points of reference: the Caribbean EPA, as well as all the signed/initialed interim agreements, specify liberalisation levels of 80 percent or more over a period of 15 years. It is difficult to imagine that the EU would grant a lower level of market opening to any region as this would create a precedent that could be invoked by other regions not entirely convinced about the benefits of broad liberalisation. A region like West Africa, which has since 2009 defended a market access offer of 70 percent, could perhaps increase this level if the member countries of the Economic Community of Western African States agreed to validate the guidelines proposed by regional experts at a meeting held in Accra in February 2013. But whatever the scenario, it is unlikely that West African countries would consent to opening 80 percent of their markets to European competition within 15 years.

The inclusion of an MFN clause in the EPAs also remains divisive. The EU wants the EPA regions to require all parties to extend to each other whatever EPA-plus benefits they have granted to third countries under free trade agreements. Arguing that this could thwart their efforts to develop South-South trade, African regions have generally rejected this clause.
In a spirit of compromise, some EPA groupings have offered to include a more limited MFN requirement in their agreements. “Major trading partners” such as China, India and Brazil would be excluded from its scope, while any more favourable treatment they have granted to another developed country would be extended to the EU.

This brings us to the third element of the conundrum: Africa is no longer what it was twenty or more years ago. The continent’s economy is diversifying and countries are reindustrialising slowly, but surely. Despite the world-wide economic crisis, Africa has become a magnet for investment largely due to strong global demand for raw materials. This has had a positive impact on the continent’s economy, which is still standing and can even hope for a quick recovery with a growth rate in the order of 5 percent or more between 2011 and 2013, compared to 4.5 percent in 2010 and 2.5 percent in 2009.

Africa is becoming an important economic and commercial concern for the major trading powers. The latter are engaged in a low-level trade war aimed at implanting themselves in the continent or consolidating positions they have already acquired. Africa may have understood that such a development could be beneficial provided that it puts into place good policies and strategies, and develops appropriate partnerships. In addition, the emergence of Southern trading powers has widened Africa’s policy space. This could explain the continent’s cautious approach to trade liberalisation. Why enter into a free trade agreement with a partner whose market share continues to fall to the detriment of others whose participation is growing steadily?

This may be a question that many African leaders are quietly mulling over. They do not lack arguments: in West Africa, for instance, trade (both exports and imports) between the region and Europe fell from 75 to 32 percent over the last 35 years. Other African regions have experienced similar decreases. In contrast to the constant decline of commerce between Africa and Europe, trade between Africa and emerging markets and other developing countries continues to grow. The development of Sino-African trade is both revealing and emblematic: between 2006 and 2012, it soared from US$55 billion to US$136 billion.

Conclusion

- In the light of all these considerations, it is reasonable to assume that the solutions that could help remove the remaining difficulties are no longer technical. They must be political.

- At their December 2012 summit, ACP heads of state offered some guidance on how this could be achieved. Among their proposals were the following:

  - Where technical discussions on unresolved issues have been exhausted, issues that are not germane to WTO compatibility, should be removed from the negotiations;

  - It would be necessary to accord regions whose membership consists mostly of LDCs a status equivalent to that granted to LDC states;

  - Mitigation provisions should be injected in the EPA process in form of benchmarks, monitoring, and modulation or recalibration of schedules of commitment, as well as accompanying measures.

  - Setting up a high-level panel to handle the dossier. The panel would give political impetus to the negotiations, and find solutions to the contentious issues that have led to the stalemate.

The panel, which will be assisted by seven experts from the EPA regional configurations, is to comprise six heads of state and/or government, one each from Africa, the Caribbean and the Pacific, as well as the “troika” of the European Union.
Trade relations between Africa and Mercosur: Brazil as a case study

Ignacio Bartesaghi and Susana Mangana

South America’s most important regional economic bloc, Mercosur, is deepening its trade relationship with Africa. Brazil is at the forefront of these efforts, largely due to its strong ties to the continent’s Portuguese-speaking countries.

Trade relations between Mercosur and African countries were relatively insignificant until recently. The South American bloc’s goods exports to Africa accounted for only 3 percent of the continent’s total imports in 2010, and just 5 percent of Mercosur’s total exports.

Imports and exports
Mercosur imports from Africa are heavily concentrated on fossil fuels supplied by just a handful of countries. Nigeria alone accounts for more than half of the bloc’s total imports from the continent, followed by Algeria, South Africa, Morocco, Angola and Equatorial Guinea, which together represent 35 percent of the total amount purchased by Mercosur in 2010. Also relatively important (but in much smaller quantities) were imports of natural fertilisers, salt and melted iron and steel.

Graph 1 – Foreign Trade development between Mercosur and Africa

Source: DNII (International Business and Integration Studies Department) based on Trade Map

However, commercial exchanges between Mercosur and the African continent are intensifying rapidly, with both exports and imports expanding every year.

Although Egypt and South Africa remain the two largest importers from Mercosur, their share has declined since 2001, while the bloc’s exports to Ghana, Libya, Senegal, Angola and Algeria have registered gains.

Following the so-called Arab Spring, Brazil decided to prioritise its relationship with Sub-Saharan countries due to the continuing instability in much of North Africa.
As for goods exported from Mercosur to Africa, sugar and confectionery products represent the highest percentage, closely followed by meat, cereals, fats, and animal and vegetable oils. These goods accounted for 60 percent of Mercosur’s total exports to Africa in 2010.

Between 2001 and 2010, meat and offal exports made the most gains, followed by sugar. Other primary products and agricultural manufactures exported to Africa that performed well included minerals, slags and ashes, seeds and oily fruits, milk and dairy products, tobacco, fish and shell fish, meat and fish products and foods based on cereals, beverages, coffee, herbs and spices.

Africa represents a very interesting market for the Mercosur region. For instance, 63 percent of the sugar imported by the continent comes from Mercosur, which only represents 24 percent of all the bloc’s overall sugar exports. Africa also relies strongly on imported meat and offal (over 45 percent), and there is room for improving Mercosur sales, which currently stand at less than 10 percent. Market penetration for other food items is similar to that obtained by meat products. On a smaller scale, the bloc is a relatively important supplier of minerals, slags and ashes (25 percent), seeds and oily fruits.

Clearly, trade relations between Mercosur and Africa, at least with regard to the bloc’s most exported products, do not correspond to the typical parameters of a South-South relationship, where industrial manufactures tend to dominate. Africa needs to import increasing amounts of food due to its incipient development and high population growth. The continent’s inability to satisfy its own demand for food is directly related to low levels of agricultural productivity compared to those of other world regions.

Although Mercosur currently exports relatively high amounts of vehicles and their parts towards Africa (US$700 million in 2010), as well as machines, nuclear reactors, cauldrons and mechanical appliances (US$450 million) among other manufactures products, the continent does not yet represent a significant market for this type of Mercosur exports.

A closer look at the importance of trade relations between Africa and each country within Mercosur individually, reveals that Brazil is both the main exporter (accounting for 70 percent of the total) and the biggest importer within the bloc.
Total sales from Brazil to Africa reached US$12.2 billion in 2011, which roughly equals its returns from exports to countries such as Germany or Japan. Brazil still has a trade deficit with Africa, although exports increased at an annual rate of 20 percent between 2001 and 2011. During the same period, imports increased at the rate of 17 percent, reaching US$15.5 billion.

Argentina accounts for 30 percent of total exports to Africa and enjoys a trade surplus. In 2010, Argentina exported close to US$4 billion and imported US$300 million. Sales by Uruguay and Paraguay grew at higher rates than those registered by the other two Mercosur partners (at an annual rate of 23 and 48 percent respectively between 2001 and 2011). Uruguay exported US$330 million and imported US$800 million, while Paraguay exported just US$140 million, but had a trade surplus since its goods imports in 2011 totalled just US$25 million.

Why is Africa important to Brazil?
Brazil is rapidly turning into a strong global player. This is due to its determination to become a South American giant, as well as high expectations with regard to the country’s projected economic growth (O’Neill, 2003). Hence, it is understandable that Brazil seeks to increase its international profile.

Africa is a clear example of how Brazil has striven to reach out beyond its region, especially since the government of President Luiz Inacio Lula Da Silva (2003-2011) when trade relations with African countries were strongly promoted. Brazil is the Latin American country with the strongest and deepest historical and cultural ties with Africa, with some policies dating back to the 1960s.

Brazil’s attempt to secure a permanent seat at the UN Security Council has prompted it to design a specific diplomacy for the African continent, based on multiple interests. It was, for instance, the main driver behind the push to design a Mercosur negotiating agenda for African countries. So far, both regions have concluded two agreements, one with Egypt and the other with SACU (Southern Africa Customs Union).

Brazil has also increased its investments in Africa through large private and state-owned companies, as well as furthered cooperation and extended more credit lines through the Brazilian Bank of Development. The country has strengthened its presence in Africa through opening new diplomatic missions in the region. In 2006, it co-chaired the first Africa-South America Summit (held in Abuja, Nigeria), coordinating actions with India and South Africa.

Exploiting the cultural advantage
Brazil enjoys an important “cultural advantage” in comparison to China, Russia or India, especially in Portuguese-speaking Africa. The relevance of a common language is particularly clear in the case of Angola and Mozambique, but Portuguese is also the official language of Cape Verde, Guinea Bissau and Sao Tome and Principe. These nations belong to the Community of Portuguese Speaking Countries, where Brazil frequently organises workshops, seminars and other training actions.

In the past few years, Brazil has undertaken around 200 cooperation projects with African countries in areas ranging from agricultural research to medicine and technical cooperation, among others. These activities are mostly focused on Portuguese-speaking countries.

Brazil enjoys a particularly strong presence in Angola, where companies such as Odebrecht actively participate in housing projects designed by the Angolan government. Among
other examples, the Vale Company has invested more than US$2 billion in a coal mine in Mozambique.

A number of Brazilian dignitaries have visited Portuguese-speaking Africa in recent years. Minister of Foreign Relations Celso Amorim travelled to Luanda in 2003, accompanied by a large number of businessmen. President Lula also paid a visit to Angola that same year, and soon after that the Brazilian National Bank opened a branch there. Petrobras (Brazilian National Petroleum Co.) increased its operations in Angola and the Brazilian Development Bank subscribed additional credits. In 2007, President Lula revisited Angola and a delegation of Brazilian senators followed suit a year later.

**Competing with China**

Despite these initiatives, Chinese investments in Angola and Mozambique still outstrip Brazil’s commercial efforts. According to the Chinese Development Bank, the country’s investment in Angola (third petroleum producer in Africa) already stands at US$10 billion. A further US$15 billion is expected to be invested in infrastructure projects in Mozambique.

To counter China’s growing economic clout in the continent, Brazil is betting on the cultural bond with Africa, especially in countries where speaking Portuguese confers an advantage.

Brazil also aspires to be seen as respectful of the environment while trying at the same time to be transparent about international bids and licenses in Africa, where chronic high levels of corruption and lack of transparency constitute the most dangerous hazard for development.

In an attempt to differentiate themselves from the practices of Chinese enterprises – often criticised for flouting African countries’ environmental and labour laws – Brazilian companies have signed up to a code of conduct and ethics. They also make a point of employing African workers at a time when most Chinese companies operating on the continent are increasingly importing their labour force directly from China. Despite these efforts, some Brazilian projects have encountered criticism with regard to their labour and environmental record.

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1 Argentina, Brazil, Paraguay and Uruguay; excepting Venezuela, which joined the bloc only in July 2012.
TRADE AND ENVIRONMENT

CITES seeks to curtail illicit rhino trade

By the end of January 2014, Vietnam, Mozambique and South Africa must provide a comprehensive report to the CITES secretariat on progress they have made in cutting down illegal trade in rhino horn, including an update on arrests, seizures, prosecutions and penalties for rhino trade related offenses.

Delegates at the March meeting of the Convention on International Trade in Endangered Species (CITES), agreed on several measures designed to curb illegal trade in rhinoceros horn fuelled by surging demand in Asia. A record 668 South African rhinos were killed by poachers last year, and nearly 150 have died in 2013.

Member governments agreed to immediately bring every seizure of illegal rhinoceros horn made within their territories to the attention of authorities in countries of origin, transit and destination, as well as the CITES Secretariat. They also agreed to enact legislation or use existing legislation to facilitate the use of covert investigations of wildlife crime, as well as enact anti-money laundering and asset forfeiture legislation. In addition, delegates committed to prosecuting members of organised crime groups implicated in rhinoceros-related crimes and to applying penalties strong enough to act as effective deterrents.

If funding is available, member governments asked the CITES secretariat to convene a Rhinoceros Enforcement Task Force to develop strategies that improve international cooperation. The task force would be made up of countries affected by rhinoceros poaching and illegal trade in horn, the International Consortium on Combating Wildlife Crime partner organisations, EUROPOL and other CITES parties and experts.

Specific actions required from three countries

Vietnam, the number one destination for rhino horn, must implement a strategy to reduce demand and ensure that rhino horn traffickers are prosecuted and punished. Hanoi must make progress with the development and implementation of the South Africa – Vietnam 2012 to 2017 Joint Action Plan by strengthening management of imported rhino horn trophies, and improving investigations and prosecutions of nationals suspected of illegal trading. A Vietnamese delegate told the meeting that his country would “do its best,” but called on other CITES members to provide technical and financial support.

Mozambique, a major transit country for rhino horn, must strengthen legislation and enforcement to reduce horns leaving the African continent. The country shares a border with South Africa’s Kruger National Park, where most of the world’s rhinos live.

Vietnam, Mozambique and South Africa are all required to provide a comprehensive report on progress made to the CITES Secretariat by January 31, 2014, including an update on arrests, seizures, prosecutions, and penalties for offenses related to illegal rhinoceros horn trade.

South Africa is the main source of rhino horns in illegal trade. More than 4,000 rhino horns have been illegally exported from Africa since 2009, with an estimated 92 percent of these coming from animals specifically killed to obtain their horn. Poachers are largely motivated by the flourishing Vietnamese black market, where a kilogram of horn fetches up to US$65,000 – more than gold or cocaine. In December 2012, the two countries signed a Memorandum of Understanding aimed at tackling both supply and demand.

For more on the CITES outcome, see http://bit.ly/Z1ImRF
Special meeting report

Kyerematen and Mohamed among nine contenders for WTO’s top job

Nine candidates have declared their interest in becoming the next WTO Director-General when Pascal Lamy steps down in late August. Among the nominees are Ghana’s Alan Kyerematen and Kenya’s Amina Mohamed. The other seven are Anabel González of Costa Rica; Mari Pangestu of Indonesia; Tim Groser of New Zealand; Ahmad Thougan Hindawi of Jordan; Herminio Blanco of Mexico; Taeho Bark of Korea; and Roberto Carvalho de Azevêdo of Brazil.

WTO members are currently gearing up for their Ninth Ministerial Conference in Bali, Indonesia in December. They hope to sign off on a series of items from the ongoing Doha Round of trade talks – a so-called “early harvest,” or “mini-package.” While issues such as trade facilitation, two agriculture-related proposals, as well as addressing some of the needs of developing and least-developed country members are under consideration, there is no agreement yet on what a Bali a package should contain.

With the ministerial taking place so early in the new Director-General’s four-year term, trade observers have largely focused their attention on what comes after Bali. Among issues of concern is how a new WTO chief would handle the remaining items in the Doha Round, should a small deal emerge from the ministerial. In addition, WTO members want to know how he or she would respond to other challenges, including the proliferation of preferential trade deals and the so-called “21st century issues,” such as climate change and exchange rates.

In January, the nine DG hopefuls presented their visions for the organisation’s future to the WTO membership. Below are the main points made by the two African candidates in their initial hearings.

Kyerematen: Time for a “new trade consensus”

Alan Kyerematen served as Ghana’s Minister of Trade, Industry and President’s Special Initiative from 2003 to 2007. He is now the Coordinator of the African Trade Policy Centre of the United Nations Economic Commission for Africa.

“The WTO needs new energy,” Kyerematen told members, stressing the risks that the Doha negotiating stalemate poses to the broader WTO system. In order to revitalise the WTO, there must be a “new trade consensus,” he explained – “a grand bargain built on a comprehensive, coherent and dynamic approach to the full range of issues and the interests of all members.”

WTO members should work towards achieving “solid political consensus based on the core values of our institution,” he said, adding that they should focus on their commonalities, not their differences, and take into account the interests of all members in the decision-making process.

He noted that the WTO needs a “robust and dynamic approach” to development challenges. The development dimension of the new trade consensus should include special and differential treatment and preferences, he said, complemented by a “holistic approach” in order to fully integrate developing countries in the multilateral trading system.
He also stressed that trade consensus must involve the WTO’s management of “the relationship between multilateralism and regionalism in ways that allow trade to benefit from both.”

While noting the importance of achieving results in Bali – an effort that would be his “immediate priority” from his first day on the job, should he win the post – he added that members must maintain their commitment to all aspects of the Round not resolved by the time of the December conference. Kyerematen also suggested taking a “broader and more flexible view of possible negotiating approaches and outcomes,” noting that “One Big Round” and hard law solutions are not necessarily the only ways to move forward.

“I bring you hands-on experience of trade at every level,” Kyerematen said at the end of his statement, noting his range of experience as a former negotiator, business executive, ambassador, international official, and cabinet minister. “I come from an African developing country that has made great advances in growth and governance with the support of the multilateral trading system. Ghana has been a leader in advancing co-operation regionally as well as between North and South. I have been part of that leadership.”

Mohamed: Global trade agenda should be modernised

Former Kenyan WTO ambassador Amina Mohamed – a trade lawyer who has chaired the General Council, the Dispute Settlement Body Chair and Trade Policy Review Body, and who is currently UN Assistant Secretary-General and Deputy Executive Director of the UN Environment Programme in Nairobi. She asked members to judge her on “merit, fairness, and competence” in leading the WTO. Mohamed also explained that one of her main causes as Director-General would be to serve as a champion for the cause of rules-based trade liberalisation.

Speaking to reporters following her General Council hearing, Mohamed said that – twelve years after the launch of the Doha Round – it was time “to think of modernising the global trade agenda, upgrading it so that it can respond more effectively to the challenges of the 21st century.”

“The issues that the WTO should actually be taking into consideration right now are issues that relate to overarching concerns, global concerns – food security, climate change, and others,” she said. She also told reporters that, given the new members that have joined the WTO since 2001, including some that are “very important” – ostensibly China and Russia – “it’s fair to say that they should be brought much on board in driving the negotiations.” She noted that there is a need for a “coalition of negotiators to drive the process,” which she added is more doable with the growing membership of the organisation.

Mohamed, like the other candidates, also stressed the importance of both achieving results in Bali, and developing an agenda “for the post-Bali period.” She also advocated for the completion of the plurilateral services negotiations, which are expected to start in March, and the planned expansion of the Information Technology Agreement – explaining that, as long as these deals remain open, non-discriminatory, and allow the possibility for future multilateralisation, they could provide a viable way forward during the short-term.

“The best years of this organisation are not in the past, they are in the future,” she told reporters in Geneva.

Noting her previous history at the organisation, she said at the opening of her press conference that “I believe that I’m uniquely qualified by training, by experience, and a track record of delivery, especially here, at the WTO.” She also noted the positive signal that having an African at the head of the global trade body would send.
“Africa is a continent that is on the move. Six of the ten fastest moving economies are in Africa. And it would be a sign of recognition that Africa is doing well, and that Africa has the merits to lead an organisation such as this one,” she said.

**Next steps**
Candidates have until April to make themselves known to the membership and to engage in additional discussions. After that, members will embark on a series of consultations, designed to narrow the field of hopefuls. Candidates with the lowest levels of support are expected to withdraw from the race, until consensus can be built around one candidate. Absent agreement, the selection will go to a vote. A new Director-General must be chosen by 31 May in order to take office on 1 September.

*Source: ICTSD reporting*
Does Aid for Trade Help the Poor?

Since the World Trade Organization launched its Aid for Trade initiative in 2005, an estimated US$200 billion dollars of development funding has been mobilised for the programme. But some NGOs are asking whether Aid for Trade really helps reduce poverty.

A recent study of British and European Aid for Trade (AfT) assistance – carried out by Saana Consulting at the request of Traidcraft and the Catholic Agency for Overseas Development – found that the majority of AfT funding goes to middle-income countries rather than low-income countries. It also found little evidence to demonstrate what impact the programmes have had on poverty.

Aid for Trade supports all kinds of projects: road building and port upgrading, providing technical support for trade negotiations and regulatory frameworks, designing better border posts, and teaching Ugandan farmers how to produce dried fruit for the lucrative European breakfast cereal market. The assumption underlying the concept is that “a rising tide floats all boats,” that more trade brings greater national wealth, and that everyone – including the poor – will benefit.

Donors admit that poverty impacts are very hard to track, especially for broader attempts to support trade. OECD’s William Hynes says that “most smaller donors don’t even attempt to evaluate these impacts. They only monitor that the money was spent on what it was intended for. [...] But getting at the poverty impacts of a project would probably involve a household survey. A baseline and final survey for 500 households would cost around US$300,000, so for most activities that is simply off the table straight away.”

Adaeze Igboemeka, who heads the Aid for Trade unit at the UK Department for International Development, concedes that, in most cases, the effects of AfT on the poor are difficult to nail down. “The assumption is – and there is a lot of evidence to support it – that if a country is able to trade more, it will grow, and that will create jobs and increase incomes and lead to poverty reduction. That’s a very long results chain, so we don’t try to make a direct attribution of the direct poverty reduction impact. We don’t have enough information to do that robustly.”

For more details, see http://bit.ly/10PEOzu

Lamy: Aid for Trade is not charity

According to WTO Director-General Pascal Lamy, significant progress has been made in securing additional financial resources for the Aid for Trade initiative. Since its launch in 2005, more than US$200 billion has been mobilised in funding, about US$60 billion of which has been directed to least-developed countries. Funding to all regions is up, with Africa posting a 180 percent increase in real terms and other regions not far behind.

Nevertheless, sustaining financing flows in the continued tight fiscal environment is going to be tough. Fiscal pressures are mounting among key donors and the outlook for development assistance is muted. As part of their Multiyear Action Plan on Development, G-20 leaders have committed to maintain Aid for Trade expenditure at 2006-2008 levels.

Speaking at an OECD policy dialogue in January, Lamy stressed that Aid for Trade was “not charity”. In today’s economy, he said, “you need to import in order to export”. Improving the trade capacity of developing countries is in everyone’s interest. It is also a collective vocation as the growing number of South-South partners attests.

Over the period 2005-2011, the volume of world merchandise trade grew by some 3.7 percent annually. For many developing countries, growth rates were much higher. For example, least-developed countries’ merchandise exports increased by 4.6 percent annually. By contributing to mobilising the potential of developing countries to participate in world trade, Aid for Trade can reasonably claim to have played a part in this expansion, and in particular for LDCs.

This suggests that developing countries are getting a foothold in the complex production sharing networks that underpin the global economy. A policy dilemma for many trade ministers in developing countries is that this foothold is often on what they perceive as the bottom rung of the value ladder. One policy message which I expect to emerge is that adding value does not necessarily mean capturing the next stage in the processing of raw materials. Comparative advantage may lie elsewhere in the value chain, for example in assembly of final products or in the oiling of the chains through the provision of a service.

EU, US Launch Free Trade Talks

On 13 February, Washington and Brussels announced the start of negotiations for a trans-Atlantic trade and investment agreement after months of speculation on whether the EU and the US would indeed commit to the initiative. The parties had already evoked the possibility of such a pact more than a decade ago when the launch of the Doha Round seemed uncertain.

With those talks at a prolonged impasse, the EU and the US have committed to reaching a wide-ranging bilateral agreement expected to focus on ambitious, reciprocal market opening in goods, services, and investment; modernising trade rules; and improving the compatibility of regulatory regimes.

The US and the EU already have the world’s largest economic relationship, with trade in goods and services alone amounting to €2 billion a day, according to European Commission estimates.

In the area of market access, the aim is to “substantially” eliminate remaining import duties upon the agreement’s entry into force, with the exception of the most sensitive ones, which would be removed shortly thereafter.

With regard to services, a high-level working group recommended that both sides bind liberalisation at the highest levels achieved in their existing agreements with other trading partners, while looking for other opportunities to increase market access. The services component of the negotiations would also address sub-federal levels of government.

The major gains, however, are likely to come from the removal of non-tariff barriers and the harmonisation of their different regulatory regimes. This part of the discussions is expected to be the most contentious as it will involve a number of sensitive issues, such as treatment of genetically modified organisms and the use of growth hormones in beef production.

According to the European Commission, negotiators will also address areas that go “beyond bilateral trade and contribute to the strengthening of the multilateral trading system.” In addition, both sides are “keen to tackle trade-related aspects of customs and trade facilitation, competition and state-owned enterprises, raw materials and energy, small- and medium-sized enterprises and transparency.”

The aim is to conclude the deal within two years, but most observers believe that timeframe to be overly optimistic.

For more details, see: http://bit.ly/XB574V.

Agriculture Negotiations

Informal consultations have intensified on a developing country proposal to ease WTO farm subsidy rules for food stockholding, trade sources say.

The talks have been led by the G-33 – a group of developing countries with large populations of smallholder farmers, which first tabled the proposal in November following an initiative from India. The stockholding proposal would allow countries more latitude to purchase food at administered prices from low-income, resource-poor producers, has run into opposition from both developed and developing countries who fear it could lead to subsidised food being exported to world markets.

Although the measure has been put forward as a proposal to enhance food security, some countries are reportedly concerned that their own poor farmers could be adversely affected by the move. Several members of the G-33 now say that they recognise that more work may be needed on the proposal. “It seems there’s a general understanding that the proposal should be revised,” one negotiator acknowledged. However, there was “a strong sentiment” in the G-33 coalition that other countries should now table counter-proposals in order to advance progress on the issue.

Some developing countries have reportedly suggested that the G-33 proposal could be modified to guarantee that food stockpiling schemes would not adversely affect their own domestic producers. However, other negotiators have questioned whether further changes should be made to language from the draft Doha agriculture text that had previously been seen as “stabilised” - or essentially agreed, subject to an accord on the overall package.

A number of members are also debating whether and how to put forward a new proposal on export subsidies and similar measures, although the scope and content of any such submission is still being discussed by negotiators. As these instruments are seen as causing particularly severe trade distortion, ministers agreed to phase them out by the end of 2013 when they met in Hong Kong seven years ago. However, no significant progress has been made in eliminating export subsidies due to the broader stalemate in the Doha talks.

Source: http://bit.ly/13H05fp
Publications and resources

Letting the Sunshine in at the WTO: How Transparency Brings the Trading System to Life – WTO – March 2013
This working paper, written by Robert Wolfe of the School of Policy Studies at Queen’s University, addresses the logic of transparency in general, and the motivation for its use in the multilateral trading system. The author also analyses information on the existing transparency mechanisms within the WTO, and provides suggestions for improving transparency within the Geneva based trade body. The working paper is available at http://bit.ly/12WpVgo

Practical Considerations on Managing Trade Disputes – ICTSD – December 2012
Insufficient legal capacity impedes the ability of developing and least-developed countries to make full use of the options provided by the multilateral trading system, in particular the WTO dispute settlement system. This Information Note focuses on how these countries could build legal capacity, engage with the WTO, and better manage their trade disputes. The paper is available at http://bit.ly/Wp9XHM

Geographical Distribution of Financial Flows to Developing Countries 2013 – OECD – February 2013
This publication provides comprehensive data on the volume, origin and types of aid, and other resource flows to around 150 developing countries. The data show each country’s intake of official development assistance as well as other official and private funds from members of the OECD Development Assistance Committee (DAC), multilateral agencies and other key donors. Key development indicators are given for reference. The report can be accessed at http://bit.ly/Wv6feo

The Potential Impact of Trade Facilitation on Developing Countries’ Trade – OECD – March 2013
In this report, Evdokia Moïsé and Silvia Sorescu present the findings of the OECD indicators for assessing the impact of specific trade facilitation measures on developing countries' trade. Sixteen trade facilitation indicators (TFIs) have been constructed, corresponding to the main policy areas under negotiation at the WTO, with the aim to estimate the impact of addressing specific hurdles in the trade and border procedures of a given country. The report goes on to discuss how the availability of trade-related information, the simplification of documents, the streamlining of procedures and the use of automation are the greatest factors in impacting trade volumes. To read more, click http://bit.ly/13Bw4hl
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Price: €10.00
ISSN 1996-919