Part 2: Industrialization–Trade Nexus

CHAPTER 5

GETTING TRADE AGREEMENTS TO ADVANCE AFRICA'S INDUSTRIALIZATION

Despite the huge gains in world trade growth brought about by the multilateral trading system embodied in the World Trade Organization (WTO), slow progress (box 5.1), repeated blockages, unequal negotiation powers and mitigated expected benefits have forced countries—particularly in Africa—to explore alternative routes to expand their trade.

Since the early 1990s, preferential trade agreements and regional trade agreements have proliferated.[1] These are against the principle of most-favoured nation (MFN) non-discriminatory treatment[2] but have been tolerated by the WTO either through waivers,[3] the enabling clause (preferential trade agreements between developing countries) or exceptions (free trade areas, customs unions and economic integration agreements). Africa is engaged—or is about to engage—in multiple regional agreements at all levels (unilateral and bilateral), but may well have to reconsider its negotiating approach, based on four main findings from recent analysis.

First, preferential schemes have been helpful in supporting Africa's trade with preference-giving countries, but they have failed to broadly enhance Africa's industrialization. One of the key constraints limiting the use of preferences in manufacturing goods has been the imbalance between the productive capacity of African countries and stringent rules of origin. Although they remain important for Africa looking forward, unilateral trade preferences alone can hardly enable the conditions required for the development of regional value chains (RVCs).

Second, establishing the African Continental Free Trade Area (CFTA) could go a long way in supporting industrialization, a key for Africa's intra-regional integration. CFTA would help increase both intra-African trade and its industrial content, and the adoption of trade facilitation measures on top of CFTA reform would enhance positive outcomes. The level of ambition for Africa's regional integration should be elevated. Non-tariff barriers (NTBs) should be tackled along with tariffs on both goods and services. Greater attention should also be given to developing RVCs largely untapped within the continent.

Third, strategic Africa-wide trade policies are needed. Introducing reciprocity between Africa and traditional partners can provide significant trade

BOX 5.1: LATEST DEVELOPMENTS IN THE MULTILATERAL TRADING SYSTEM AND IMPLICATIONS FOR AFRICA

After 12 years of unsuccessful talks in the Doha Round—also known as the Doha Development Agenda—it was only at the WTO Ministerial Conference held in Bali, Indonesia, in December 2013 that the agenda was revitalized with agreement on the "Bali package". Trade facilitation, agricultural issues (especially those touching on cotton production), and developed and least-developed country issues are the agenda's three components.

The most important component for Africa was trade facilitation, but that raises some concerns. First, rapid gains for most African countries are unlikely. Having little export capacity, African countries may not benefit from these reforms as quickly as export-ready countries. Thus in the short run one can expect Africa's imports to increase more than its exports, deteriorating national trade balances. The difficulties for African countries in meeting sanitary and phytosanitary norms, standards and rules of origin could also undermine gains from trade facilitation reforms. But developing countries and LDCs are granted special and differential treatment with less pressing deadlines to adopt the agreement's provisions. Second, trade facilitation reforms are very costly, and although the Bali agreement offers financial and technical assistance to African nations, it is not subject to any binding commitment.

On 27 November 2014, the 160 WTO members reached an agreement that will formally incorporate the Bali agreement into the WTO's legal framework and will enter into force when at least two thirds of members have completed their national ratification process. This development offers some hope.

benefits for both parties. But initial asymmetric protection conditions lead to unbalanced gains, with Africa's benefits only expected for non-LDCs (least developed countries) in few agricultural sectors. Nonetheless, such reform should be used as an opportunity to strategically define external tariff structures (such as allowing cheaper imported intermediate inputs to be used in the production of industrial goods) to ensure that Africa's regional integration agenda and industrialization are not weakened. A brief review of policy space available in the different types of trade agreements suggests that South-South cooperation could be more promising than North-South engagements in supporting Africa's industrialization.

Fourth, the sequencing of trade policy reforms matters greatly. There is powerful evidence that CFTA should be put in place before other trade agreements are fully implemented by African countries or by the rest of the world (such as mega-regional trade agreements).[4] Doing so would not only preserve the anticipated benefits from these agreements but also offset most—if not all—their costs to Africa and to its industrialization. And deeper, broader and bolder regional integration should be followed by the gradual opening-up of African economies to the rest of the world, as African countries would then be in better position to compete internationally. Conducive socio-economic conditions, peace and security, and political will are all important to ensure that Africa's structural transformation is effective.

The subsequent sections explore the expected impacts of the key trade agreements on Africa's industrialization, the interventions required to make them effective and the importance of sequencing trade reforms in a strategic manner.

Africa is engaged (or is about to engage) in multiple regional agreements at all levels, but may well have to reconsider its negotiating approach

FAILURE OF PREFERENTIAL SCHEMES TO BROADLY ENHANCE INDUSTRIALIZATION

ECONOMIES OFFERING TRADE PREFERENCES HAVE ABSORBED A LARGE SHARE OF AFRICA'S EXPORTS, BUT SUCH SCHEMES HAVE DONE LITTLE TO HELP AFRICA INDUSTRIALIZE

The preferential treatment of many developed and some developing economies seems to support African export growth. Over 2000–2012, the top five destinations of Africa's exports were all entities offering improved market access through preferential treatment (in decreasing order: the European Union (EU), the United States (US), China, India, and Japan).[5,6] Not less than 72 per cent of cumulative total exports from strictly African LDCs were directed towards the top five partners outside the continent over 2000–2012.

The EU offers the most generous preferential scheme with nearly 100 per cent duty-free quota-free (DFQF) access granted to all LDCs since 2001, through the Everything But Arms (EBA) initiative.

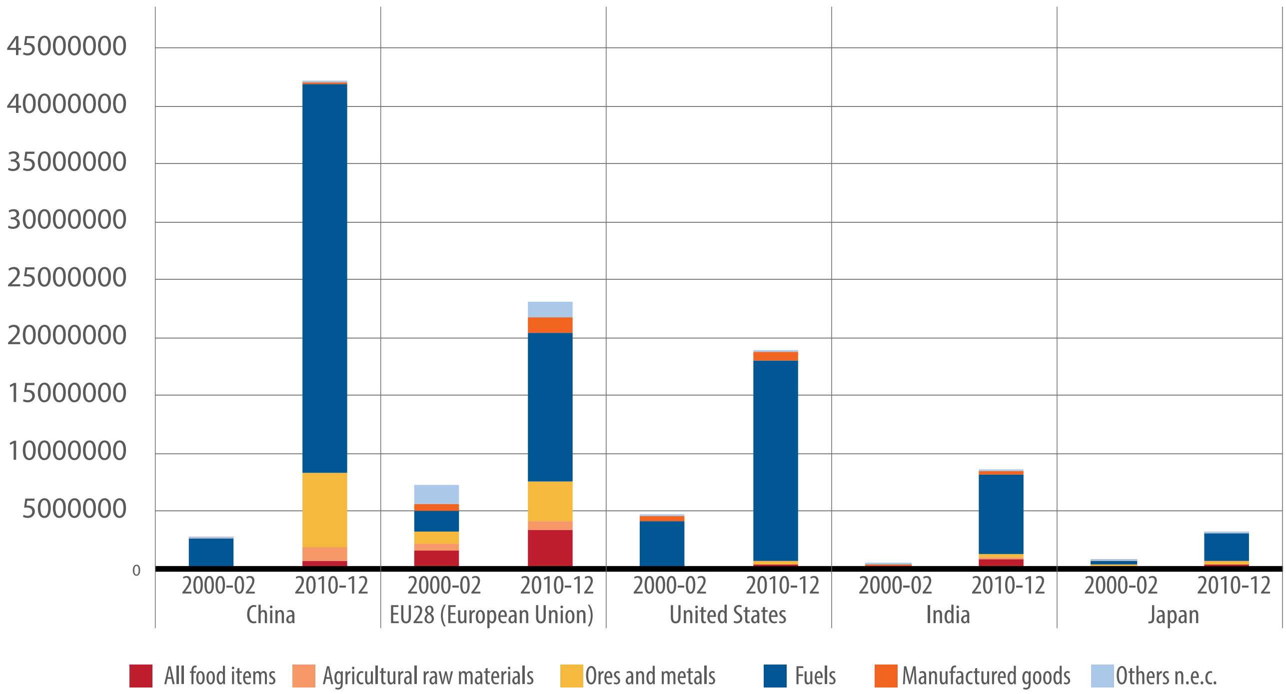
China launched its preferential scheme in 2010, giving DFQF access for 60 per cent of tariff lines to 40 LDCs. In the programme's first year, 98.7 per cent of Chinese imports from LDCs were products eligible for DFQF.[7] It is expected to expand to 97 per cent of tariff lines and is accessible to all LDCs with which China has diplomatic relations. China overtook the US and the EU for African LDCs as an export destination from 2006, and since 2010 African LDCs' export value to China has on average been greater than that to the EU and US combined (figure 5.1).

India's preferential scheme to LDCs started in 2008, progressively offering DFQF to 85 per cent of tariff lines by 2012. An additional 9 per cent of tariff lines are subject to preferential rates, leaving only 6 per cent of product lines on the exclusion list. Any LDC can benefit from the programme by simply sending the Indian government a letter of intent to use the preferences. African LDCs' exports to India increased greatly over 2000–2012, with the steepest growth in the second half of the period.

Japan provides generous trade preferences to all LDCs, with nearly 98 per cent of tariff lines eligible under DFQF. However, the US does not have a specific programme for LDCs but a range of initiatives that average about 83 per cent of tariff lines granting DFQF to an LDC (Odari, 2013).

The proportion of manufactured goods exported by African LDCs to their main partners is extremely marginal and did not improve over 2000–2012 (figure 5.1). Most exports from African LDCs to their top five foreign partners are still concentrated in fuels and to a lesser extent ores and metals, suggesting that trade preferences have failed to promote manufactured exports for LDCs, whether the destination is a traditional partner or an emerging market (although data from emerging economies must be interpreted cautiously as their schemes started recently).

FIGURE 5.1: EVOLUTION OF LDCS' EXPORTS TO TOP FIVE DESTINATIONS OUTSIDE AFRICA, 2000–2002 VERSUS 2010–2012 AVERAGES ($)



Source: Authors' calculations based on UNCTADstat (accessed 5 January 2015).

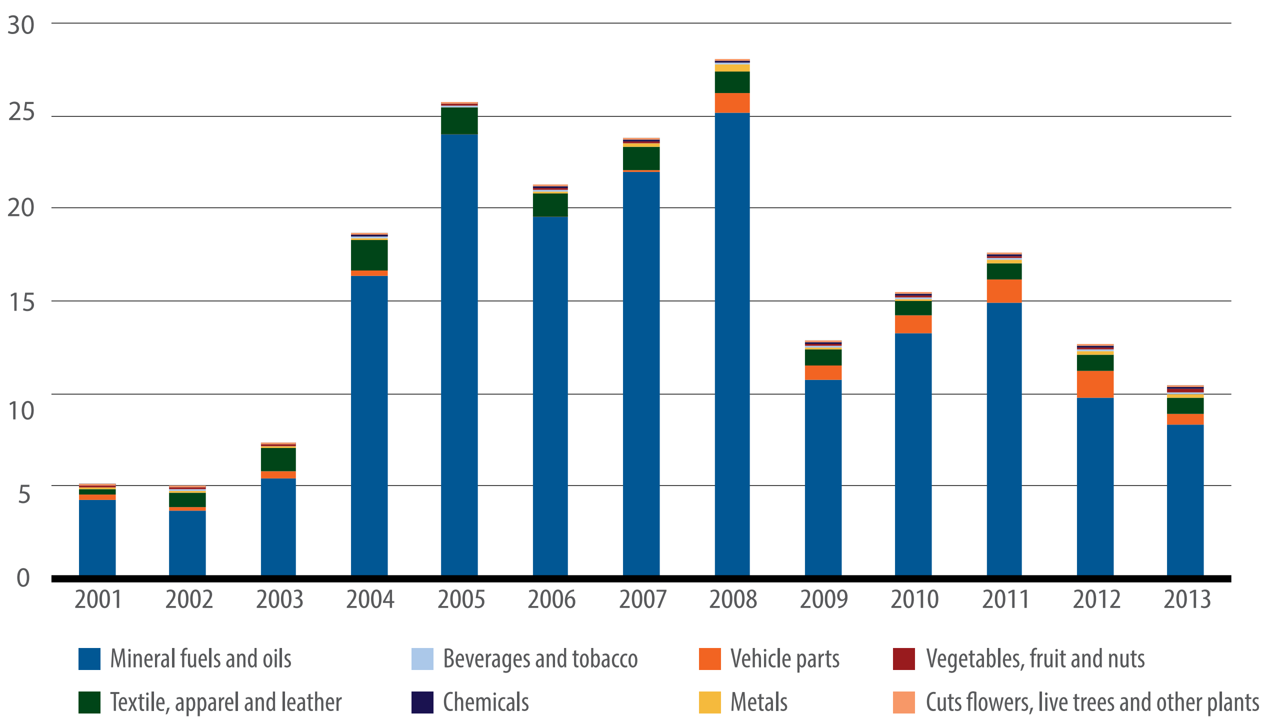
All African countries (not just LDCs) are granted some degree of preferential market access through at least one of the Generalized System of Preferences (GSP) programmes offered mainly by developed economies. For example, Japan offers GSP to all African countries without exception.

Rather than a preferential scheme for LDCs, the US has instituted the African Growth and Opportunity Act (AGOA) for most African countries.[8] It builds on the US-GSP by adding preferences for about 1,800 eligible tariff lines, bringing the total of African exports to the US to 6,400 lines exempt from tariff duties.[9]

AGOA also seems to have promoted US-Africa trade. Two-way trade between the US and AGOA-eligible countries increased nearly threefold over 2001–2013, reaching a peak of $100 billion in 2008, with a growing share explained by AGOA-eligible products alone (excluding US-GSP product lines) (ECA and AUC, 2014). Over 2001–2008, US imports of AGOA-eligible products rose sharply, from about $5 billion in 2001 to $28 billion in 2008 (figure 5.2). But after the global financial crisis, exports of AGOA-eligible products to the US slumped because of the combined effects of a drop in primary commodity prices in 2009 and lower US demand.

Thanks to AGOA, some African countries (including South Africa, Ethiopia, Ghana, Kenya, Lesotho (box 5.2), Madagascar, Mauritius and Swaziland) have grabbed export opportunities in a few industrial sectors—mainly textiles and apparel, but also vehicle parts in South Africa. But like other preferential schemes, AGOA has clearly not helped Africa to diversify its export products, with energy commodities still constituting the bulk of AGOA-eligible countries' exports to the US.

FIGURE 5.2: EVOLUTION OF US IMPORTS OF AGOA-ELIGIBLE PRODUCTS FROM AGOA-ELIGIBLE COUNTRIES BY MAIN SECTOR, 2001–2013 ($ BILLION)



Source: Based on US International Trade Commission DataWeb, http://dataweb.usitc.gov/ (accessed 21 November 2014).

BOX 5.2: LESOTHO'S APPAREL INDUSTRY DRIVEN BY AGOA AND ITS THIRD-COUNTRY FABRIC RULE OF ORIGIN PROVISION

Lesotho gained AGOA-eligibility in 2001. Since then, its industrial base has gone from non-existent to thriving. Lesotho is now Africa's top garment exporter and a leading textiles exporter among AGOA beneficiaries, and private employment has surpassed that of government. Lesotho has eliminated barriers to US trade and investment and offers the protection of internationally recognized workers' rights.

In response to the AGOA apparel incentives, the apparel sector has become Lesotho's largest employer. Apparel is the country's largest export to the US, with twenty firms exporting there. In 2013, 45,401 jobs were created— 25,882 direct jobs and 19,519 indirect jobs split into 12,903 in textiles and clothing, and 6,616 in other sectors—for a162 per cent increase since AGOA's inception in 2001. Lesotho's exports to the US grew 145 per cent from 2001 to 2013. In 2013 Lesotho's apparel exports to the US valued $300 million and comprised 7,000 tons of fabric, 26 million pairs of jeans and 70 million knitted garments.

Lesotho is the only African country with a Better Work Programme (BWP). BWP Lesotho is a partnership programme between the International Labour Organization and the International Finance Corporation. The BWP's goal is to reduce poverty by creating decent work opportunities in Lesotho's garment industry.

The key to the success of the AGOA apparel program has been the third-country fabric provision (details are in the main text [see next sub-section]), which allows apparel manufacturers in least-developed AGOA beneficiaries to use yarns and fabrics from any qualifying country of origin. This provision accounts for more than 95 per cent of the apparel imports under AGOA, and virtually all of Lesotho's apparel exports are under this provision.

One challenge is the short duration of AGOA's provisions, making it hard for Africa to develop a vertically integrated textile–apparel value chain, especially as apparel orders are placed up to nine months in advance. Hundreds of thousands of jobs and hundreds of millions of dollars of orders could be jeopardized, and the longer the delay, the greater the losses. Until sufficient upstream textile production capacity has been developed, it is critical that AGOA continue to allow African apparel producers to use the yarns and fabrics required by their US buyers. US buyers have not accepted Lesotho's proposal to source material from Southern African countries (such as South Africa, Mauritius, Madagascar) owing to quality, standards and types of materials.

Source: Lerato Ntlopo, Trade Programme Director, Policy Analysis and Research Institute of Lesotho (PARIL). 1 December 2014.

REDUCING EXCLUSION LISTS AND FINDING A BALANCE BETWEEN PRODUCTIVE CAPACITY AND RULES OF ORIGIN

The key for Africa's success is to use the preferences it has been granted rather than worry about the few products on exclusion lists that have a big impact (box 5.3). Lack of productive capacity, infrastructure challenges and difficulty in complying with export market requirements such as sanitary and phytosanitary norms, standards and rules of origin stand out as problems to be overcome in meeting this goal.

The critical issue for African countries lies in the imbalance between productive capacity and rules of origin. Many of the trade preference programmes have rules of origin imposing minimum levels of local production that most African economies cannot achieve. For example, the EU-GSP requires a two-stage transformation process for textile and clothing products to qualify for preferential rates under the rules of origin for non-LDCs. First, woven yarn must be transformed into fabric and then fabric made into clothing (Kommerskollegium, 2012).

Thus it is impossible for non-LDCs to benefit from preferences under the EU-GSP when the clothing they are exporting to the EU is made of imported fabric. Cumbersome rules of origin can also vary greatly from one preferential scheme to another, rendering it even harder for countries to meet export requirements. Intended to limit trade deflection, rules of origin are increasingly used by preference-giving countries for other ends—such as protecting import-competing industries in preference-giving countries or helping to establish industries in preference-receiving countries (Elliot, 2010). Such a situation can be perceived as "giving away with one hand (preferences) and taking away with another (restrictive rules of origin)" (Carrere and De Melo, 2011).

The solution to stringent rules of origin is not simply to upgrade the productive capacity of African economies, but to simplify the rules of origin imposed on them. AGOA's third-country fabric provision illustrates how well exports respond to relaxed rules of origin.

US imports of AGOA-eligible textile, apparel and leather products from AGOA-eligible countries more than tripled over 2001–2004, followed by a sharp decline until 2010 (figure 5.3). The decline occurred after the 2005 WTO Agreement on Textiles and Clothing (ATC) ended quotas for developing countries' textile and apparel exports to developed countries. This agreement resulted in fierce competition for African countries on the US market from Asian economies such as China, Bangladesh, Cambodia and Vietnam.

Many argue that Africa's exports of textile and apparel to the US did not disappear and even picked up again after 2011 because of AGOA's third-country fabric provision. This provision allows 24 of the 38 AGOA-eligible countries[10] to source fabric from third countries for making clothing that can then be exported duty-free to the US market.

BOX 5.3: LARGE IMPACTS FROM FEW PRODUCTS

A few key items on exclusion lists—and therefore ineligible to DFQF—narrow the benefits for African countries. Assuming that AGOA legislation is extended after 2015 and that preferences would cover a wider range of products than those currently eligible for DFQF, African exports would be stimulated with benefits that are more evenly distributed across countries (ECA and Brookings, 2013). Such gains would be realized if the most sensitive US imports from AGOA-eligible countries (sugar, peanuts, leaf tobacco, cotton and diamonds) were also granted DFQF (box figure). And if the US does grant 100 per cent DFQF, American producers would not be negatively affected by the increase in Africa's exports to their country.

Also, if WTO reforms for market access led to substantial trade and income gains for African middle-income countries, the expected outcomes would be much less for LDCs, with some potentially losing from multilateral trade reform (Bouët et al., 2006). Comparing trade and real income implications following the implementation of 97 per cent DFQF granted to LDCs (with full DFQF to LDCs on OECD markets), the authors show that DFQF granted to the 3 per cent most sensitive products could make a huge difference and reverse outcomes for all LDCs, leading to real income gains and trade expansion in agriculture and industry.

Source: ECA and Brookings (2013).

BOX 5.3 FIGURE 1: AGOA-ELIGIBLE COUNTRIES' EXPORTS TO THE US, FOLLOWING EXTENSION OF AGOA UNDER SEVERAL SCENARIOS OF POSSIBLE EXPANSION BY PRODUCT ELIGIBILITY, 2025 ($ MILLION)

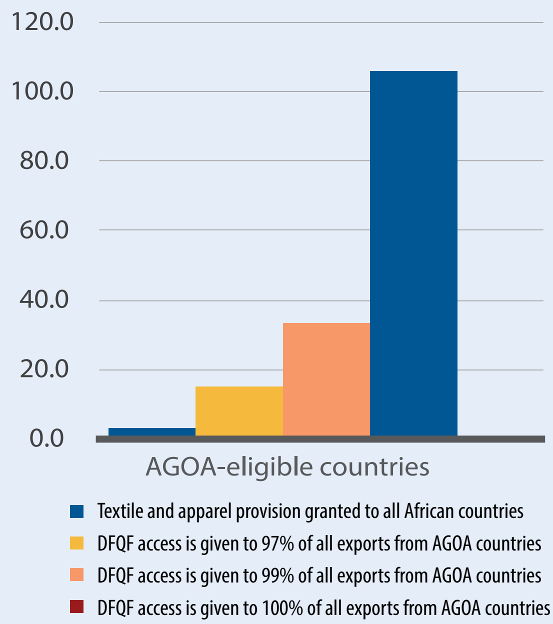
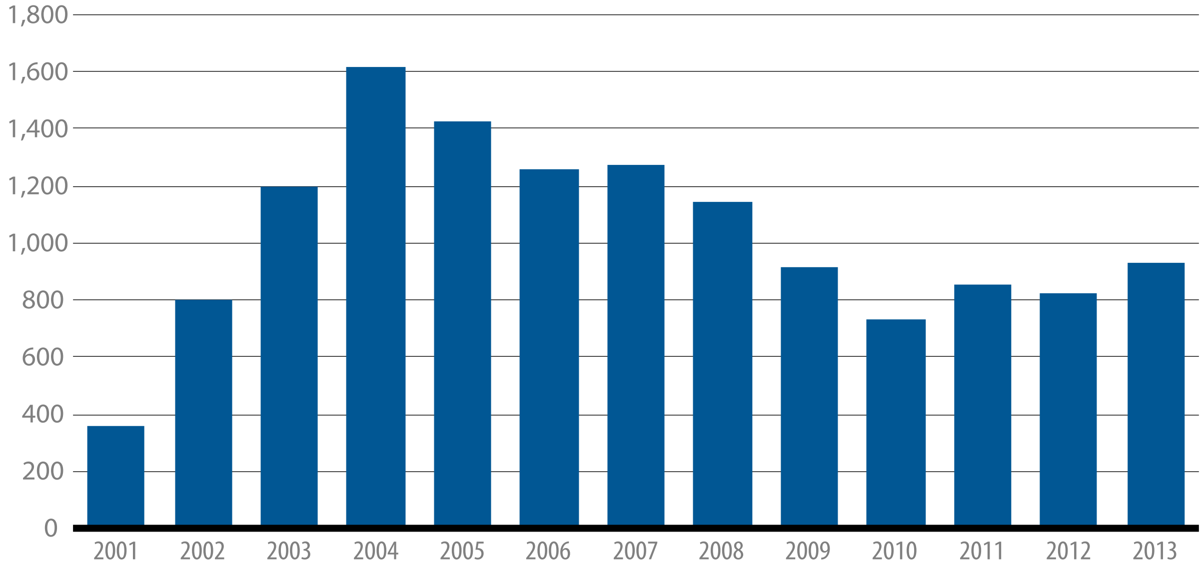


FIGURE 5.3: EVOLUTION OF US IMPORTS OF AGOA-ELIGIBLE TEXTILE, APPAREL AND LEATHER PRODUCTS FROM AGOA-ELIGIBLE COUNTRIES, 2001–2013 ($ MILLION)



Source: Based on US International Trade Commission DataWeb, http://dataweb.usitc.gov/(accessed 21 November 2014).

TRADE PREFERENCES ALONE CANNOT BUILD RVCS, THOUGH THEY CAN SUPPORT A FAVOURABLE ENVIRONMENT

The link between increased trade and launch of value chains is not clear (chapter 4). AGOA, for example, has not yet led to the development of RVCs in Africa. One reason for this is AGOA's lack of predictability, which deters investment—as its preferences can be amended or withdrawn at any time. The third-country fabric provision is not an integral part of AGOA, and its renewal just before its slated expiration in 2012 created much uncertainty. The removal of preferences can have very negative effects and wash away entire industries. Madagascar was suspended from AGOA in 2009 but brought back in 2014, and its loss of preferences (owing to turmoil in the country) had a larger negative impact on the country's exports than the turmoil itself (Fukunishi, 2013). The country's suspension increased by 57.8 per cent the probability of closure for plants trading exclusively with the US. Prior to Madagascar's deferral from AGOA in 2009, as much as half of the textile industry's $600 million annual income derived from its exports to the US.[11]

Another reason that trade preferences do not guarantee RVCs has to do with the trade preferences themselves. Edwards and Lawrence (2010) showed that AGOA-preferences in textile and apparel encourage production of low value-added products, promoting use of fabrics unlikely to be produced domestically. This production renders improbable the forging of backward linkages to local textile and apparel industries that are usually seen in the early stages of development.

This does not mean that preferences are unimportant and that they cannot provide a basis for RVCs and ultimately industrialization—but they do have to be backed up by national policies to increase worker productivity, upgrade labour skills and productive capacity (chapter 6), enhance competitiveness of African economies and attract investment.

To avoid disappointment, African countries engaging with emerging partners (especially China and India) must look carefully into the rules required to qualify for DFQF. As emerging countries give trade preferences to LDCs, it is critical that Africa be offered rules of origin allowing sufficient use of their preferences in industrial sectors and having RVC potential. For example, the EU recently simplified the rules for LDCs to qualify for preferential rates under the EU-GSP and economic partnership agreements (EPAs), by requiring a one-stage rather than two-stage transformation process for textile and clothing products. Such efforts go in the right direction, but simplifying and harmonizing the rules of origin in all the preferential schemes would be ideal.

African countries cannot rely on preferences alone if they wish to sustainably industrialize through trade. They need to engage more deeply with partners from Africa itself and from outside the continent.

REINFORCING TRADING RELATIONSHIPS WITHIN THE CONTINENT AS A STRONGER BASIS FOR INDUSTRIALIZING

In January 2012 African Heads of State and Government endorsed an African Union action plan, Boosting Intra-African Trade, and the establishment of a Continental Free Trade Area (CFTA),[12] entailing commitment to fast-track regional integration on the continent. If effective from its planned launch in 2015, a COMESA-EAC-SADC Tripartite Free Trade Area (TFTA)—encompassing nearly half of Africa—would give momentum to CFTA, tentatively scheduled for 2017.

THE TFTA WOULD NOT EXCLUSIVELY STIMULATE INDUSTRIAL PRODUCTION OF BIG PLAYERS

Negotiations for a TFTA between three existing regional economic communities (RECs)—the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern African Development Community (SADC)—have been ongoing since the first TFTA summit in Kampala in October 2008. On 25 October 2014 in Bujumbura, Burundi, the decision was made to launch the TFTA by ministers from its 26 member countries.[13] The draft agreement is to be signed by heads of state at a summit tentatively scheduled in May 2015, then ratified by the 26 member states and enter into force on a simple majority.

The TFTA will span the whole of East Africa from the Cape to the North African coast, creating Africa's largest free trade area.[14] With a combined population of 638 million people, and a total GDP of $1.2 trillion, the economic implications of the TFTA are enormous. As with most regional integration schemes, the underlying economic rationale is to allow economies of scale and scope, greater competition, a more attractive internal market for investment (foreign and domestic) and more intra-regional trade. The agreement also has great symbolic importance, preparing the way for CFTA and ultimately a continent-wide African Economic Community.

A key concern for smaller countries within TFTA is that their manufacturing would be overshadowed by Egypt and South Africa, the countries with the largest domestic markets and highest productivity,[15] which account for nearly two thirds of manufacturing value added in the TFTA. The top five countries in value-added terms produce more than 80 per cent of all manufacturing in the region. Would TFTA exaggerate this skewed pattern?

To answer this question, Mold and Mukwaya (2014) analyse the effects of the proposed TFTA, focusing specifically on the potential impacts on the industrial geography of the region. The authors concentrate essentially on intra-regional shifts in the textile industry, food-processing and light manufacturing, because these sectors are important in the early stages of industrialization and structural transformation. They find that eliminating the tariffs between TFTA members would result in only a 0.4 per cent increase in aggregate total volume of industrial output in the region.

The sectors could expect more pronounced changes, however. Processed foods show significant changes in production in two of 18 countries/ regions in the analysis (Zimbabwe and the rest of the Southern African Customs Union, or SACU) (table 5.1).Textiles and apparel have substantial increases in production in six countries (Botswana, Kenya, Malawi, Mozambique, Tanzania and Zimbabwe), while only two experience notable falls (Namibia and the rest of SACU). Light manufacturing shows four countries with significant increases in output (Kenya, Mauritius, Mozambique and Namibia), while four countries/regions see declines (Malawi, Zambia, and Zimbabwe and the rest of SACU). In all other cases, the expected shifts in production are relatively small.

The results of the analysis seem to allay fears of industrial concentration. Neither South Africa nor Egypt appears to be the principal beneficiary in any of these sectors.

TABLE 5.1: SHIFTS IN INDUSTRIAL PRODUCTION AFTER IMPLEMENTATION OF TFTA REFORM, PERCENT CHANGE COMPARED TO A SITUATION WITHOUT TFTA IN PLACE

	Egypt	Ethiopia	Kenya	Madagascar	Malawi	Mozambique	Tanzania	Uganda	Zambia
Processed Food	0.1	-0.76	-1.1	-0.13	0.5	-0.76	-0.6	-0.62	-0.32
Textile and Apparel	0.19	-1.57	3.78	0.44	14.43	10.24	34.43	-0.86	-1.55
Light Manufacturing	0.09	-1.94	3.21	-0.14	-3.55	47.86	-1.6	-0.65	-8.19

	Zimbabwe	Botswana	South Africa	Nambia	Mauritius	S Central Africa	SCU	Rest EA	Rwanda
Processed Food	3.34	0.31	1.9	2.9	-0.31	-3.15	11.2	-0.13	-1.03
Textile and Apparel	3.35	3.23	-0.02	-4.24	1.69	-0.01	-5.39	0.79	0.13
Light Manufacturing	-17.2	1.31	0.06	4.57	6.65	0.03	-4.91	0.3	-0.41

Source: Mold and Mukwaya (2014).
Note: "S Central Africa" stands for South Central Africa composite region made up of Angola and the Democratic Republic of the Congo; SCU stands for the rest of SACU, which includes Lesotho and Swaziland.

The analysis is likely to underestimate the net benefits, because the authors only eliminate tariffs for intra-regional trade for TFTA members and do not take into account any other impediments to regional trade, such as infrastructure deficits and NTBs. Nor were sector-or firm-level economies of scale considered.

BOOSTING INTRA-AFRICAN TRADE AND ITS INDUSTRIAL CONTENT THROUGH CFTA

Building on the acquis of TFTA, Africa's CFTA is expected to bring considerable benefits to the continent. An enlarged integrated market—of 54 countries and about 1 billion people—free of tariffs and NTBs would allow for large economies of scale and stimulate intra-African trade. Moving towards integration beyond the RECs is essential—although tariff barriers to trade are currently being reduced within the RECs, significant tariffs still remain between them. As a result, global protection within Africa averages about 8.7 per cent but only 2.5 per cent to the rest of the world. For strictly industrial products the difference is even starker—9.0 per cent and 2.3 per cent (Mevel and Karingi, 2013).
In other words—thanks mainly to trade preferences—it is on average cheaper for African countries to export to a foreign market than to an African counterpart. So, CFTA could cause African economies to become more competitive internationally, since regional markets are easier to penetrate and have less restrictive standards than foreign markets.

The removal of tariff barriers within Africa on goods only could raise the share of intra-African formal trade from 10.2 per cent to 15.5 per cent in 10 years (Mevel and Karingi, 2012). The gain could be larger still if informal traders were better integrated into the formal system, as statistics on intra-African trade do not include informal cross-border trade (thought to be high).

Most of the increase from this removal would be felt in industry (figure 5.4), which is unsurprising as intra-African trade already tends to be more diversified and has relatively higher industrial content than Africa's trade with the rest of the world. Africa's global exports are essentially composed of raw materials and primary commodities. Deepening regional integration could also make African nations less dependent on outside partners for their industrial needs, as most of Africa's imports from the rest of the world are manufactured goods.

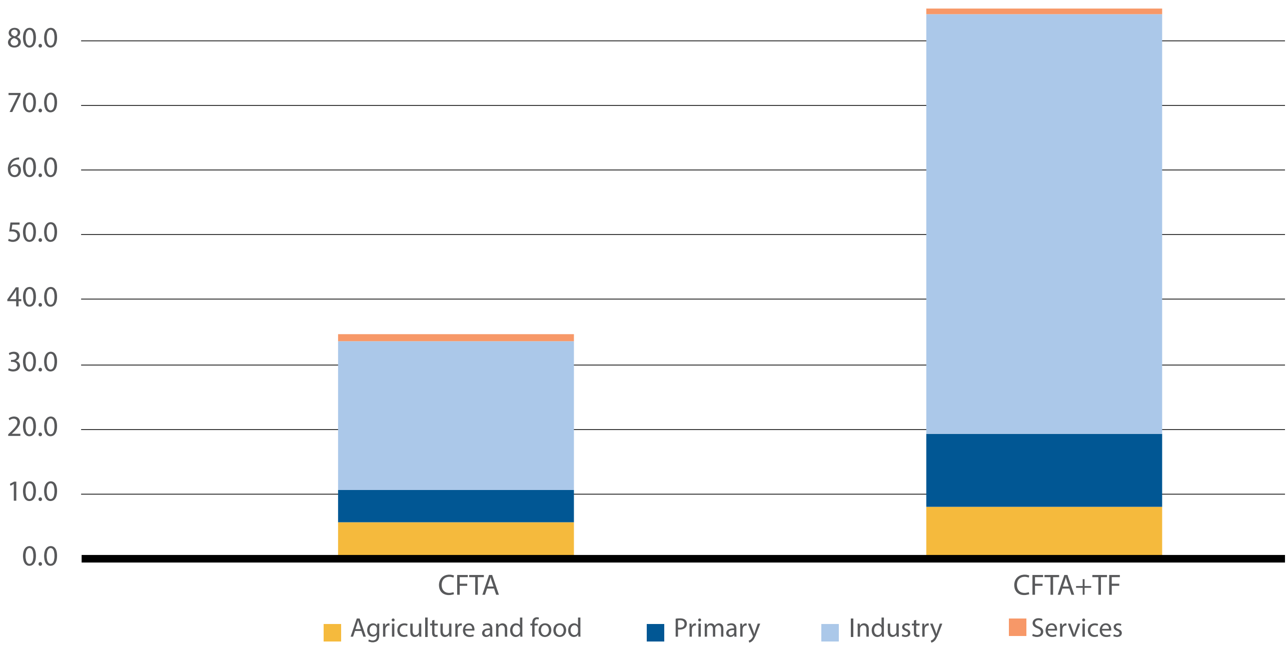
CFTA MUST BE ACCOMPANIED BY AMBITIOUS COMPLEMENTARY REFORMS, NOTABLY TRADE FACILITATION

Regional integration reforms should be ambitious, not dealing with services at the margin (chapter 4). Although these reforms are likely to be tackled after goods, in a second phase of TFTA negotiations, it would be cost- and time-effective to address them only once in a continent-wide perspective (CFTA) rather than regionally (TFTA). Once negotiations on goods have progressed in TFTA, negotiations on services could be undertaken directly at the continental level on a parallel track to CFTA's negotiations on goods.

The success of the regional integration process in transforming African economies will also depend mainly on reducing NTBs in goods and services. Harmonizing rules of origin across the RECs is an imperative for a fully functioning CFTA.

Trade facilitation deserves particular attention for stimulating intra-African trade. If progress is made by reducing costs to trade across borders[16]—in parallel to eliminating tariff barriers on goods within Africa—the share of formal intra-African trade could more than double by 2022, (Mevel and Karingi, 2012), with a boost to the proportion of industrial products (see figure 5.4). And at country level, all African economies would see positive outcomes in both exports and real income. In other words, the trade opportunities brought by trade facilitation measures on top of CFTA would more than offset the few costs from declines in tariff revenues entailed by liberalization.[17]

FIGURE 5.4: CHANGES IN INTRA-AFRICAN TRADE, FOLLOWING IMPLEMENTATION OF CFTA ALONE VERSUS CFTA ALONG TRADE FACILITATION MEASURES, BY MAIN SECTOR, 2022 ($ BILLION)



Source: Mevel and Karingi (2012).

Trade facilitation could even expand intra-African trade and Africa's industrialization more than the above estimates, as it will lead to faster and more cost-effective sourcing of intermediate inputs, producing higher-value commodities ('Ofa and Karingi, 2013). This facilitation is vital to allow Africa to reduce the cost of its trade of intermediates with countries outside the continent, but also within the largely untapped regional market (chapter 4). Costs of trade across borders are often higher within Africa than between Africa and the rest of the world (ECA, 2013).

The financial costs of regional integration reforms should not be underestimated, which is one reason for African countries to consider greater domestic resource mobilization and curb illicit financial outflows (chapter 1 and Mevel et al., 2014).

ENHANCING INTRA-INDUSTRY TRADE AND OPPORTUNITIES TO MOVE UP THE VALUE CHAIN THROUGH CFTA

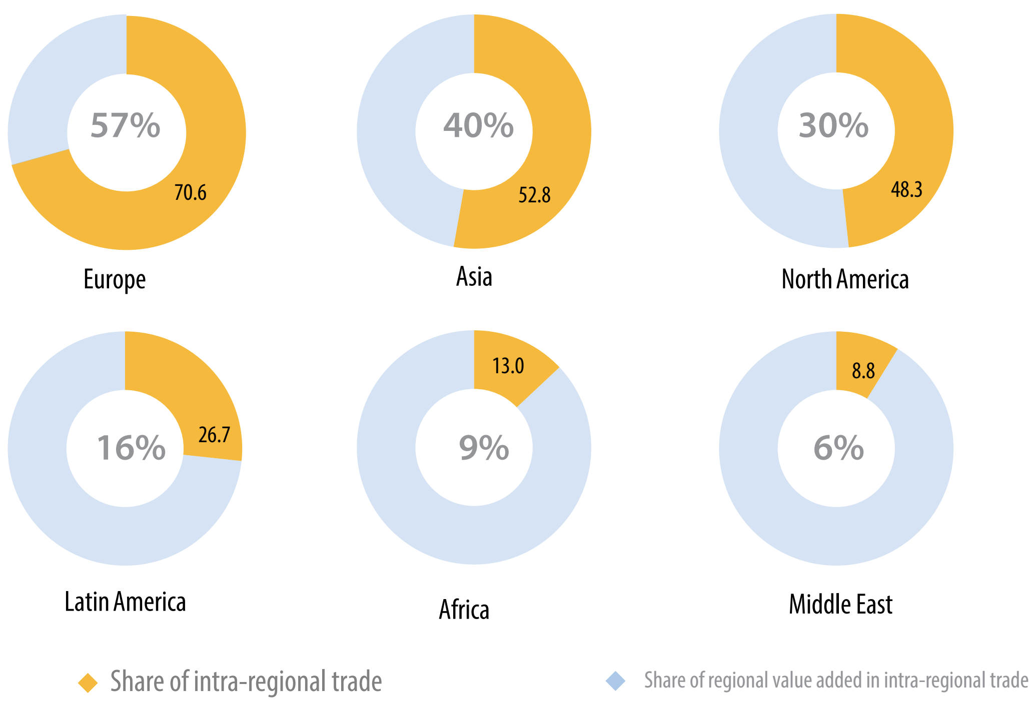
African economies are often small and fragmented, sometimes leading to fears that regional integration may not benefit all countries—but this is not accurate, as shown earlier in the first sub-section of this chapter. CFTA can also create conditions for necessary productive capacity to enter new markets and take advantage of RVCs. And an integrated market could allow for complementarity in terms of countries' involvement in the RVCs. Certain countries could focus on a specific stage of production for which they have the required productive capacity, while others could target different stages.

'Ofa et al. (2012) found a positive correlation between export diversification and intra-industry trade (exchanges of products within the same industry, those products being similar or differentiated by quality/variety[18] or at various stages of production) for African countries. They also established a positive relationship between intra-industry trade and the share of manufacturing in GDP, suggesting that a move towards greater industrialization can favour intra-industry trade and vice versa. This finding is paramount, as it suggests that not only can trade support industrialization, but that industrialization can enhance trade. So, if the conditions for industrialization through trade are established, then a multiplication effect should be expected with trade and industrialization reinforcing each other.

Higher shares of intra-regional trade also are associated with higher shares of regional (as opposed to foreign or imported from outside the region) value added in intra-regional trade (figure 5.5). This finding is verified throughout all main regions, with Europe having the largest share of intra-regional trade and the biggest share of regional value added in intra-regional trade, while Africa and the Middle East are lagging far behind. As already indicated (Chapter 4), in 2011 the share of intra-African trade was barely more than 10 per cent, while the local value added was only about 9.5 per cent of the total value added in intra-African trade. In other words, (see figure 4.3), the value-added in intra-African trade is mostly imported rather than local. But figure 5.5 suggests that a CFTA—expected to enhance intra-African trade and diversify Africa's internal trade—would enhance output of value-added products issued from the regional market, supporting RVCs.

As pointed out earlier (in this sub-section), a country could integrate value chains at a specific stage of the production process and not necessarily at several stages, however. In the context of deepened regional integration this is even more relevant because within a larger market, countries' production processes can complement each

FIGURE 5.5: SHARE OF INTRA-AFRICAN TRADE VERSUS SHARE OF REGIONAL VALUE ADDED IN INTRA-REGIONAL TRADE, BY MAIN REGION, 2011 (%)



Source: WTO, International Trade Statistics (2012) and ECA computations.

other and not necessarily be substitutes. Regional integration is not a zero-sum game. If one country gains at one stage of production, other countries' backward and forward linkages could still benefit.

But just as trade preferences to African nations alone are unlikely to sustain Africa's industrialization, regional integration cannot be the Africa's sole trade strategy. It needs to engage with other partners outside the continent, because the African market is still relatively small. This strategy would mitigate potential shocks to the continent or to its largest trading partners. The current crisis in Europe, in light of the extremely high share of intra-Europe trade (70 per cent; see figure 5.7), illustrates that extreme integration can lead to serious challenges. Nonetheless, Africa's opening to the rest of the world needs to be smartly realized by an injection of strategic trade policies.

Like trade preferences, regional integration efforts cannot be the Africa's sole trade strategy

NEED FOR AFRICA-WIDE STRATEGIC TRADE POLICIES WHEN OPENING TO THE REST OF THE WORLD

Africa is already in or negotiating bilateral and multilateral trade agreements that require reciprocity, but it has to preserve policy space (chapter 3 and the rest of this chapter). This space is crucial to guarantee that its priority industrialization efforts (such as regional integration) are not undermined. But this process requires strategic trade policies that do not discourage or limit North-South or South-South trade dynamics.

INITIAL ASYMMETRIC PROTECTION STRUCTURES IN THE ECONOMIC PARTNERSHIP AGREEMENTS LEAD TO UNEVEN GAINS

The economic partnership agreements (EPAs)—reciprocal but asymmetrical trade agreements between the EU and 79 African, Caribbean and Pacific (ACP) countries[19]—have been justified by the need to comply with WTO rules of reciprocity and non-discrimination. Although the EU is expected to immediately grant 100 per cent DFQF market access to its ACP counterparts, ACP countries are to progressively open their markets duty-free for 75–80 per cent of their imports from the EU. Similar asymmetry is seen in the market access they grant each other. Although most African countries are already given large preferences on their exports to the EU market through the Everything But Arms Initiative for LDCs and Generalized System of Preferences for most middle-income countries (leaving just a few agricultural sectors still protected), the EU faces relatively high tariff barriers on nearly all its exports to Africa. Thus EPAs will not greatly improve Africa's access to the EU, while the EU will see its access to Africa's market significantly increased.

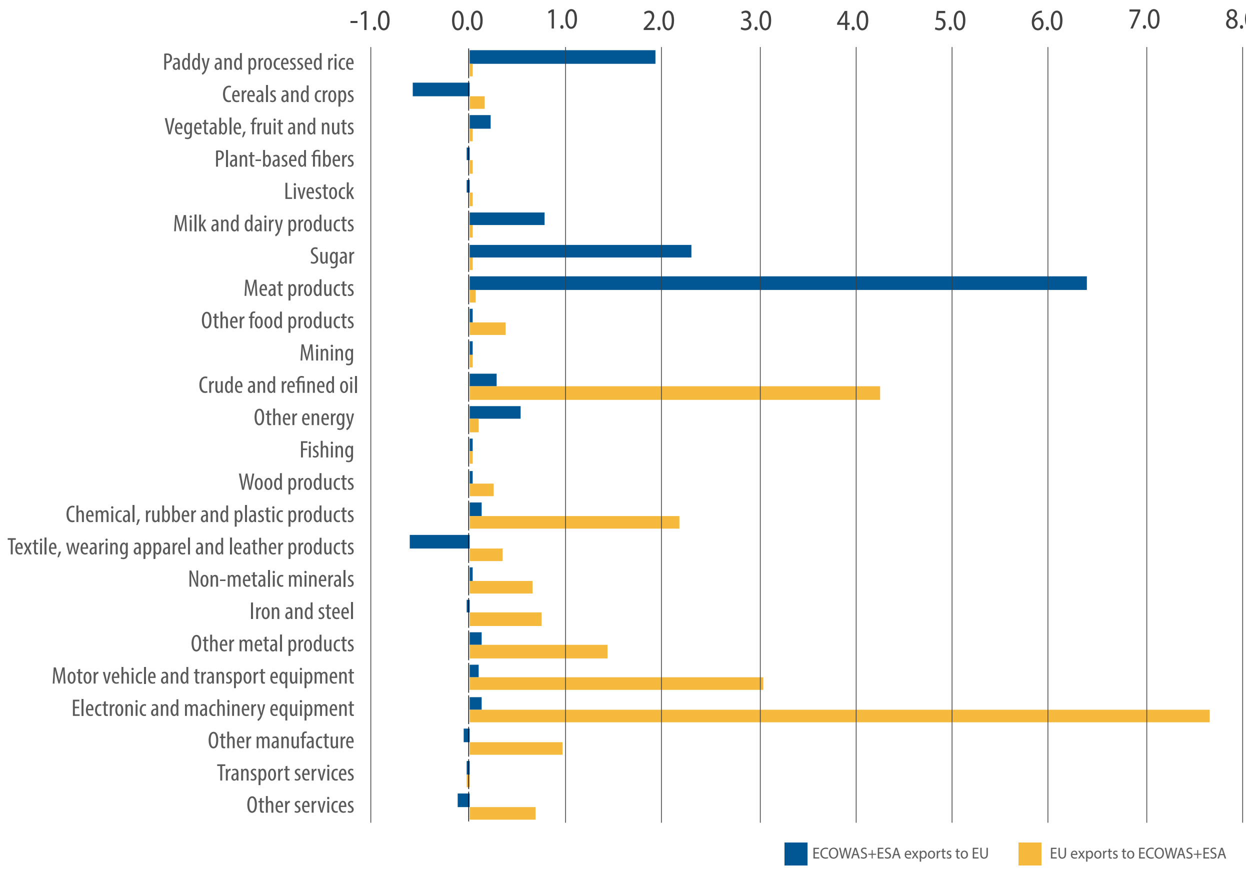
Although African countries have made great progress towards signing the agreements,[20] they still raise concerns. EPAs are expected to generate mixed outcomes for African economies with few benefits for Africa's industrialization, yet they are likely to reduce Africa's policy space.

A study by the Economic Commission for Africa (ECA) examined the implications of EPAs on Africa's structural transformation (Mevel et al., forthcoming). The exercise was undertaken for two of the five regional groupings in negotiation with the EU: the Economic Community of West African States (ECOWAS) and Eastern and Southern Africa (ESA).

Unsurprisingly, the ECA analysis points out that such initial asymmetric protection conditions will lead to uneven trade gains for Africa and the EU after EPAs are implemented. If EPAs generate exports for Africa, most will be in a few agricultural sectors (rice, sugar, milk, meat and vegetables, fruit and nuts), sectors for which gains could well be overestimated considering the difficulty for African nations in meeting the EU's sanitary and phytosanitary requirements. Also, EPAs would essentially benefit non-LDCs. Some LDCs (such as Ethiopia, Malawi and Zambia) will actually see their exports to the EU reduced after EPAs are implemented, because of eroding preferences following increased competition with African middle-income countries on the EU market. Such outcomes hardly support African industrialization. But the EPAs will bring larger and better distributed gains to the EU,[21] with exports increasing to Africa in nearly all sectors, especially industry (figure 5.6).

The increase in Africa's exports to the EU would also come at the expense of intra-African trade,

FIGURE 5.6: CHANGES IN BILATERAL EU-AFRICA (ECOWAS+ESA) TRADE, POST EPAS, BY SECTOR, 2040 ($ BILLION)



Source: Mevel et al. (forthcoming).

which would fall by $3 billion in 2040, following full implementation of ECOWAS-EU EPA and ESA-EU EPA. Also, tariff revenues for African governments would be significantly cut with the reform, limiting real income gains for African countries.

In March 2014 the EU Foreign Affairs Council, aware of some of the costs implied by EPAs (especially for LDCs), committed to provide financial compensation to African countries, to be disbursed between 2015 and 2020 under the Economic Partnership Agreement Development Programme. Nevertheless, this assistance will not be enough to compensate for the EPAs' impacts on intra-African trade.

AFRICA MUST BE STRATEGIC IN SETTING ITS COMMON EXTERNAL TARIFF (CET) STRUCTURES TO AVOID UNDERMINING ITS REGIONAL INTEGRATION PROCESS AND AFRICA'S INDUSTRIALIZATION

The Abuja treaty[22] of 1991 stipulates that African RECs must become customs unions, then consolidate into a pan-African customs union once CFTA is implemented. For this reason African countries should coordinate to ensure little variability from one CET structure to another (box 5.4), avoiding tariff distortions between regional groupings that will be hard to overcome as integration deepens.

To that end, the CFTA would harmonize protection within Africa and keep it lower than the protection that Africa will impose on the EU after EPA implementation. ECA (2012) shows that the adoption of a single CET structure for the whole continent could not only preserve intra-African trade gains from CFTA reforms but also expand Africa's global trade, especially if African tariffs on imported intermediates are reduced, thanks to cheaper imports of inputs for production. This would strengthen Africa's competitiveness, leading to export opportunities and gains outside the continent. In short, African trade blocks should align their CET structures with each other.

CET structures should also be constructed to favour imports of cheaper inputs critical in adding value in production and exports, with the ultimate objective of exploiting better trade opportunities and moving up the value chains. Protection of a few key industries from outside competitors (although these should only be temporary) could also help determine Africa's external trade policy (see box 3.2 and argument of the "infant" industry).

TO WHAT EXTENT IS TRADE POLICY SPACE LIMITED BY TRADE AGREEMENTS?

The issue of narrowing policy space was discussed in chapter 3. The main concern for Africa relates to regional trade agreements, which may further limit policy options for industrialization, because under WTO rules the loss of policy space for African economies has so far been relatively insignificant given the more favourable treatment offered to LDCs—or nearly two thirds of African countries. It is evident that becoming a WTO member automatically restrains policy space to some extent, because it requires making commitments on maximum bound tariffs and future tariff cuts. However, the proposals on the table for agricultural as well as non-agricultural market access do not imply any tariff cuts to be made by LDCs in the near future.

If an agreement on agricultural and non-agricultural market access was to be reached middle-income countries would be required to reduce their tariffs, but in less than developed countries. Yet, policy

BOX 5.4: CHALLENGES AHEAD FOR HARMONIZING CET STRUCTURES AT COUNTRY LEVEL (BOTSWANA) AND SUBREGIONAL LEVEL (ECOWAS)

As a member of the Southern African Customs Union (SACU), Botswana can trade nearly DFQF within the union, though it grants some flexibility to its members. For example, Botswana is allowed to protect its infant and key industries (flour, milk and seasonal vegetables), and temporary import restrictions can be used on agricultural products in situations of large surpluses. But the CET structure, imposed by all SACU members on their imports from partners outside of the Union, has been set mainly by South Africa and does not reflect well on Botswana's strategic export sectors such as beef or textiles.

Although it is difficult to come up with CET structures that fully satisfy all members, it is vital to set common rules beyond the RECs otherwise rules can become more complex as regional integration deepens. For example, the five SACU members along with Angola and Mozambique are negotiating an EPA with the EU under the "SADC" negotiating group, which does not match the Southern African Development Community (SADC) made up of 15 member states, themselves engaged in EPAs with the EU under four different negotiating groups—"SADC", Central Africa, ESA and even EAC. SADC is also part of the COMESA-EAC-SADC Tripartite with customs unions established or expected for each of the three RECs—a confused situation that must be stopped now.

As far as the West African region is concerned, ECOWAS has made substantial progress because its CET was launched in January 2015, consisting of five bands.[23] As a consequence, the ECOWAS CET structure is imposing an average of 9.0 per cent protection on imports from external partners (see Mevel et al., forthcoming).

space would tend to be more restricted for industrial goods than agricultural ones, since bound tariffs in industry tend to be lower (chapter 3).

Similarly, export subsidies and subsidies contingent on the *use of domestic over imported goods* are prohibited under WTO rules, yet are permitted to LDCs and low-income economies (below $1,000 per capita). But the impacts on policy space and Africa's industrialization following the introduction of the trade-related investment measures and trade-related aspects of intellectual property rights in the WTO are more uncertain.

The potential loss of policy space with regards to the EPAs falls under two areas. First, although WTO does not expressively prohibit export taxes, they are to be restricted and monitored under EPAs. They cannot be increased and their use is subject to frequent reviews. But conditions vary because of bilateral negotiations between the EU and each of the five negotiating groups for Africa. Export taxes can be tolerated under specific circumstances (such as protecting infant industries, protecting the environment, maintaining currency stability) but only for a limited time and on a restricted number of products. Particular interests in export taxes for African countries include generating government revenues and reducing the price of intermediate goods for domestic manufacturing sectors (Bouët and Laborde, 2010).

Second, an MFN clause is included in the EPAs. This implies that any tariff concession granted by African countries to developed or major developing partners (a country's trade representing at least 1 per cent of the world trade in the year before an EPA is signed)[24] must be extended to the EU. African countries' freedom in trade policy is therefore reduced compared to what is imposed by the MFN clause contained in WTO law. For example, African countries offering preferential treatment to China or India would be feasible under WTO law, thanks to the enabling clause that allows for preferential trade agreements within developing countries. Yet the MFN clause in the EPA would force African countries to extend to the EU the preferential treatment offered to China or India, potentially discouraging some developing partners from engaging with African countries.

But the MFN clause in EPAs is not automatic, and it has been agreed for countries that already signed or committed to signing an EPA that a joint EPA committee will assess the preferences in question before making any decision. Also, it appears very unlikely—although not impossible—that African countries would grant preferences to a third-party for a product on the EPA exclusion list.

Policy space in South-South cooperation and South-South triangulation (when a cooperation project between two or more developing countries is funded by a developed country) is often less restrictive than in North-South engagements. The United Nations Conference on Trade and Development pointed out that partnerships between developing economies are often based on the principle of "non-interference in the internal affairs of partner countries" (UNCTAD, 2010). In the case of aid, there is generally no conditionality attached to aid disbursement between two developing countries as opposed to aid provided by developed countries to developing ones.

China and India often provide aid to African countries in exchange for having access to natural resources, and the scope of African projects financed by Chinese investors is very different from those financed by traditional partners. China invests heavily on vast infrastructure projects and is willing to finance certain projects that do not appear economically viable and that traditional partners are not willing to invest in. An example is a pipeline project between Cameroon and Chad, planned for a small refinery and supported by the World Bank but never completed. Yet in 2009 China National Petroleum Corporation entered into a 60/40 joint venture with Chad's state-owned firm Société des Hydrocarbures du Tchad to finance what became Chad's first petroleum refinery (Poon, 2013). Such practices have increased considerably, and by the end of 2009 as much as 45.7 per cent of China's accumulated foreign aid went to Africa

alone. This practice is questionable to many, yet provides huge amounts of aid for financing projects critical to trade and industrialization, such as roads, railways, water supply, power generation, hospital and schools, while preserving Africa's policy space.
The fact that less restricted policy options are available through South-South cooperation than under North-South engagements makes developing partners (especially China and India) very attractive to Africa. But Africa's benefits from opening its market with both Southern and Northern partners are expected to be still greater if trade reforms are well sequenced and gradual.

China and India often provide aid to African countries in exchange for having access to natural resources

IMPORTANCE OF "SMART SEQUENCING" OF TRADE AGREEMENTS

AFRICA IS LIKELY TO BE HURT BY MEGA-REGIONAL TRADE AGREEMENTS...

Regional trade agreements—tolerated by the WTO until now—are becoming more and more complex[25] and raise concerns over whether they secure aggregate global gains in market access.[26] The current negotiations of new mega-regional trade agreements (MRTAs) could help break the trend in the proliferation of regional trade agreements, but Africa cannot afford to be left out, and CFTA could be crucial for it here.

A study from ECA (forthcoming) investigates the implications of key MRTAs for Africa, looking at the Trans-Atlantic Trade and Investment Partnership[27], the Trans-Pacific Partnership[28], and the Regional Comprehensive Economic Partnership[29] (RCEP).

The analysis demonstrates the boost in trade for MRTA members following the quasi-elimination of tariff duties on goods within these three agreements. Total exports of all countries signed up to them may increase by $1 trillion by 2020, after implementation of the MRTA reforms.

Africa's exports, however, would fall by $2.7 billion owing to fierce competition and some erosion of preferences on MRTA markets. Although the trade diversion effect seems very light, Africa's exports would fall in all main sectors, especially industry. By destination, the largest trade diversion effects for Africa would be with RCEP partners, notably China, as integration in that group would imply larger tariff cuts (given current high protection rates) and greater trade gains (figure 5.7). And as MRTAs are intended to go beyond goods trade and touch on services and investment, these expected negative impacts on Africa could be higher still.

… UNLESS IT GETS CFTA GOING

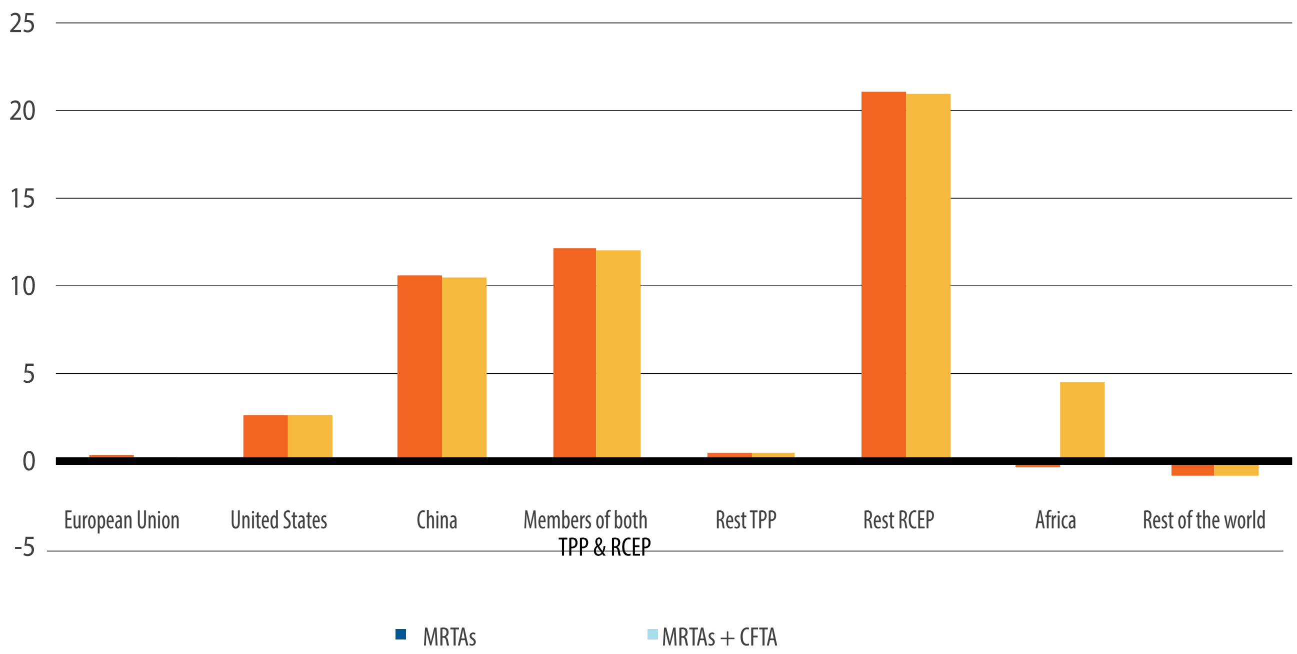
If Africa produces its own mega-regional trade agreement—CFTA—in parallel to the other MRTAs, outcomes for Africa would change drastically (figure 5.7). From a fall of $2.7 billion without CFTA, CFTA could increase Africa's exports by nearly $40 billion (4.6 per cent), reflecting a boost in intra-African trade with more than two-thirds in industrial products.

CFTA MUST BE ACCOMPANIED BY BOLD REFORMS

If CFTA is launched before full implementation of the EPAs, the effects from EPAs on bilateral trade between Africa and the EU would not change much from those seen in section 5.3, and Africa-EU two-way trade would be boosted (Mevel et al., forthcoming). CFTA would also more than offset—and even greatly expand—EPAs' likely negative impacts on intra-African trade, and more so when trade facilitation reforms are adopted (figure 5.8).[30] The main gainers in intra-African trade would be electronic and machinery equipment, metals, chemicals, motor vehicle and transport equipment, textile, apparel and leather. A stronger case for trade facilitation—dramatically aiding as it does Africa's industrialization—would be hard to make.

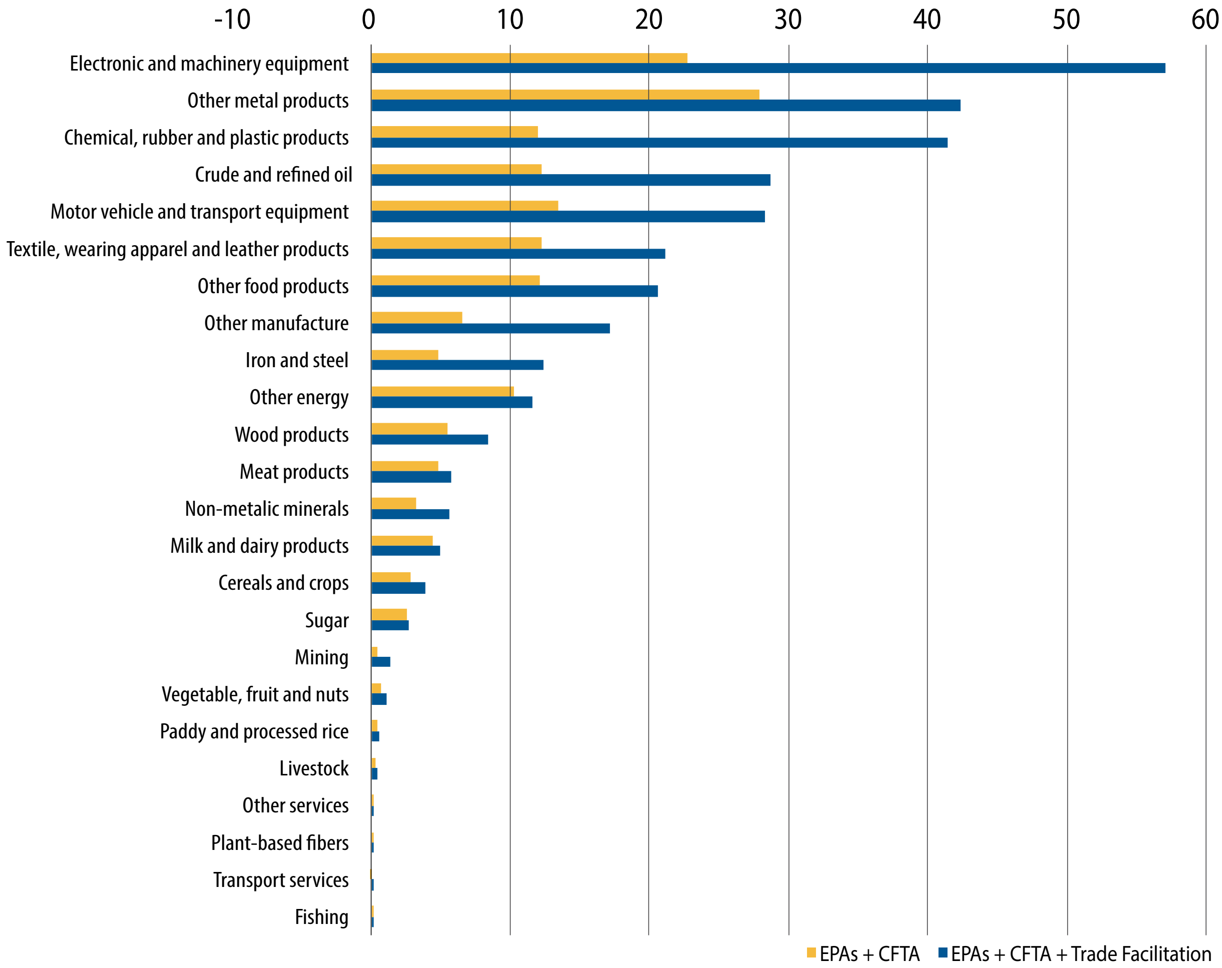
Thus, the central issue is to make regional integration with trade facilitation a top priority, using the transitional period provided under EPAs (box 5.5) to first deepen Africa's integration. In that context, African member states and RECs should redouble their efforts in effectively implementing the action plan, Boosting Intra-African Trade (AUC and ECA, 2012). The action plan identified seven priority clusters to boost intra-African trade: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration.

FIGURE 5.7: EXPORT CHANGES—MRTAS ALONE VERSUS MRTAS PLUS CFTA, BY MAIN REGION, 2020 (%)



Source: ECA (forthcoming).

FIGURE 5.8: GAIN IN INTRA-AFRICAN TRADE—EPAS WITH CFTA, WITH AND WITHOUT TRADE FACILITATION, BY SECTOR, 2040 ($ BILLION)



Source: Mevel et al. (forthcoming,).

As shown in section 5.3, trade facilitation clearly stimulates intra-African trade and supports the industrialization process. Building the necessary productive capacity, upgrading infrastructure to trade and mobilizing financial resources are equally critical steps before gradually opening-up the African market, and should be based on mutually beneficial international partnerships between Africa and the rest of the world. It will also be vital for Africa to create a social and political environment where peace and security triumph.

If Africa produces its own mega-regional trade agreement in parallel to the other MRTAs, outcomes for Africa would change drastically

BOX 5.5: AFRICA MUST TAKE ADVANTAGE OF THE TRANSITIONAL PERIOD OFFERED UNDER EPAS TO HASTEN REGIONAL INTEGRATION

While the EU is expected to grant 100 per cent DFQF access to African countries in its market after signing the EPAs, African nations are required over a 15–20 year period to phase down to zero 75–80 per cent of the tariffs they impose on their EU imports.

Liberalization schedules and depth can differ from one African region to another depending on negotiations with the EU taking place at the regional level. For example, ECOWAS countries and the EU have agreed to the following tariff liberalization schedule to phase down to zero no less than 75 per cent of tariff lines imposed by ECOWAS on their EU imports:

BOX 5.5 TABLE 1:
ECOWAS TARIFF LIBERALIZATION SCHEDULE UNDER ITS EPA WITH THE EU

Group	Product category	CET rate (%)	Applied rate (%) in			
			2015	2020	2025	2030
A	1	0	0	0	0	0
A	2	5	5	0	0	0
B	1	0	0	0	0	0
B	2	5	5	5	0	0
B	3	10	10	10	5	0
C	2	5	5	5	0	0
C	3	10	10	10	5	0
C	4	20	20	20	10	5
D	1	0	0	0	0	0
D	3	10	10	10	10	10
D	4	20	20	20	20	20
D	5	35	35	35	35	35

Source: Based on report from ECOWAS-EU-UEMOA Senior Officials' Meeting held in Dakar, Senegal, on 24 January 2014.

Note: Product categories are defined as follows. 1 is for "essential social goods, including essential medicines", 2 represents "goods of primary necessity, raw materials and specific inputs", 3 relates to "inputs and intermediate goods", 4 is for "final consumption goods" and 5 refers to "specific goods for economic development".

In that sense, tariff lines defined at the harmonized system 6-digit product classification have been placed under certain categories and groups that dictate the pace of the tariff liberalization to be undertaken by ECOWAS countries relative to the EU. Goods under category 5 ("specific goods for economic development") are given a 35 per cent protection level under the ECOWAS CET and will not be cut following ratification of EPAs as they can be considered extra-sensitive by the region. Similarly, goods classified under category 3 ("inputs and intermediate goods") that have been placed under group C (having a medium-high sensitivity) are given a 10 per cent tariff in ECOWAS CET. These will not be cut before 2025, when they will be reduced by half and then reduced to zero five years later.

Therefore, the full effect of the EPA reforms—as far as Africa's preferential access to the EU is concerned—will not be felt until at least 15 to 20 years after ratification of the agreements (by 2035 in the case of ECOWAS). Nonetheless, the EU will start gaining progressive preferential access to African markets soon after EPAs are ratified. So it would not be appropriate for African countries to wait until near the end of the transitional period to intensify their regional integration efforts. The sooner Africa's integration deepens and the faster CFTA is launched, the greater the benefits from integration reforms.

CONCLUSIONS

Regional trade agreements "are important for the multilateral trading system but they cannot substitute it" as there are "global problems demanding global solutions".[31] Issues surrounding trade facilitation, regulation of financial or telecom services and farming and fishery subsidies may be easier to address in a multilateral setting with a functioning dispute settlement mechanism (such as WTO's). WTO is an invaluable framework for multilateral trade negotiations. Also, trade opportunities are greater outside of fragmented and relatively small regional markets.

However, the right sequencing of trade policy reform matters considerably, and regionalism can truly benefit African nations' trade policy reforms. But not all forms of regionalism have the same impact.

Preferential schemes (such as AGOA) can surely support Africa's trade, including in manufacturing sectors if stringent rules of origin are relaxed to fit the limited productive capacity of African economies. Yet given their unpredictability, trade preferences alone do not seem enough to develop the RVCs needed to sustain Africa's industrialization.

Similarly, opening up Africa's market through reciprocal agreements can deliver benefits to many African countries. But their impact on Africa's industrialization depends highly on initial protection conditions. Trade agreements made with traditional partners entailing strong asymmetry in protection structures—largely owning to pre-existing trade preferences—can lead to very uneven gains. For example, the EPAs between most African countries and the EU could translate into significant benefits for a few African countries—especially those who initially received fewer preferences—but few non-industrial sectors, sectors usually facing strong sanitary and phytosanitary measures that limit their export potential. Thus, the EPAs should include clearer explanations of sanitary and phytosanitary instruments so African countries are better assisted in meeting the EU requirements.

In such conditions, Africa should seize determining its external protection structures (such as facilitating imports of intermediates to be used in the production of industrial products) with both African and non-African partners. This step is critical in rendering more systematic industrialization benefits from bilateral agreements and guaranteeing that regional integration and industrialization efforts are not diluted.

Multilateral trade negotiations do not appear to pose a serious threat to the policy space of African economies. Nonetheless, the fact that more unrestricted policy options are available from South-South engagements than from North-South partnerships suggests that African countries would gain more by reinforcing trade ties with developing partners. However, Africa's market should be opened progressively, and ideally intensified only when regional integration has deepened considerably across the continent.

Boosting intra-African trade and its industrial content can be achieved rapidly through CFTA, Africa's own mega-regional trade agreement, by removing all tariff barriers on goods still remaining within Africa and tackling those related to services trade.

Yet, in order to amplify the benefits of trade and generate better distributed gains from trade across Africa, it is necessary to be bold and ambitious. For example, the reduction of NTBs—in particular the reduction of costs of trade across borders through aggressive trade facilitation reforms—are critical to ensure Africa's industrialization. A more integrated African market can stimulate the productive capacity required to develop solid RVCs and can assist diversification. The harmonization of rules of origin within the continent and possibly beyond will also be essential to reducing obstacles to trade and to those hindering movement up the value chains. So, African member states, individually and through the RECs, should make the necessary policy changes to realize the intra-African trade agenda and harness the domestic resources required.

CFTA should not be seen as an ultimate objective but rather a stepping stone to an African customs union aided by harmonized common external tariffs—a union which should open up trade with partners outside the continent. This demands that political commitments be made swiftly.

Opening up Africa's market through reciprocal agreements can deliver benefits to African countries, but their impact on Africa's industrialization depends highly on initial protection conditions

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ENDNOTES

1 Before 1990 there had only been about 50 regional trade agreements notified to GATT/WTO, 24 years later as many as 604 (counting goods, services and accessions separately), 398 of which are in force. Information as of 8 January 2015. Retrieved from http://www.wto.org/english/tratop_e/region_e/region_e.htm (accessed 3 February 2015).

2 Under MFN treatment, when a country grants preferential treatment to one country, it must grant such treatment to all other WTO member countries. This is "non-discrimination".

3 For instance, the US African Growth and Opportunity Act is a unilateral (non-reciprocal) agreement that is not strictly based on development criteria but rather geography (countries from Africa only are eligible), which needs a waiver from the WTO to operate.

4 Mega-regional trade agreements (MRTAs) are profound integration partnerships between countries often from different regions. Each MRTA usually accounts for a significant share of world trade and GDP.

5 Authors' computations from UNCTADstat (accessed 5 January 2015).

6 It should be noted, however, that if we were to include African destinations of African exports then South Africa would be in fifth position just before Japan.

7 See WTO documentation referenced G/C/W/656/Rev.1, WT/COMTD/N/39/Add.1/Rev.1 from 1 December 2011

8 AGOA was enacted by the US president on 2 October 2000 but is set to expire on 30 September 2015. North African countries are excluded. As of 22 January 2014, 38 countries were eligible (retrieved from http://agoa.info/about-agoa/country-eligibility.html; accessed 15 January 2015). In 2014, Mali (on 1 January), Madagascar (on 27 June) and Guinea-Bissau (on 23 December)were reinstated in AGOA; but Gambia and South Sudan(on 23 December) lost eligibility as well as Swaziland (from 1 January 2015) because of missed deadlines in fulfilling human and worker rights' requirements set by the Act.

9 Defined at the Harmonized Tariff Schedule8-digit product classification code (HTS8).

10 See http://agoa.info/about-agoa/country-eligibility.html (accessed 22January 2015).

11 See http://www.brookings.edu/blogs/africa-in-focus/posts/2014/05/23-agoa-swaziland-madagascar-sy (accessed 22 January 2015).

12 See AUC (2012).

13 According to the Bujumbura agreement, member states will join when they are ready, a principle known as variable geometry. At the time of writing (November 2014), 15 out of the 26 TFTA countries have submitted their tariff offers.

14 At market exchange rates of 2013.

15 For example, see C. Ligami, "EA Traders Fear Cheaper Goods from Egypt Will Swamp Regional Market". The East African, 11 October 2014, p. 4, retrieved from http://www.theeastafrican.co.ke/news/Cheap-Egyptian-goods-will-swamp-East-Africa-markets-/-/2558/2483156/-/yudp9jz/-/index.html (accessed 3 February 2015).

16 Specifically assuming that customs procedures are made twice more efficient and the time goods are spending at African ports is halved.

17 If all African countries would see their trade stimulated following the CFTA reform, effects on real income would be more mitigated with nearly half of Africa negatively impacted—although only slightly—following large tariff revenue reductions implied by the liberalization reform (see Mevel and Karingi, 2012).

18 For example, sedans as compared to mini-vans.

19 North African countries (Algeria, Egypt, Libya, Morocco and Tunisia) are excluded from EPAs but have their own negotiations with the EU taking place under the Euro-Mediterranean (EuroMed) Partnership (but negotiations between the EU and Libya are currently suspended). An ECA study to assess the implications of EuroMed on industrialization of North African countries is ongoing and should be released later in 2015.

20 Negotiations between Africa and the EU are taking place under five regional groupings: East and Southern Africa (ESA), West Africa, Central Africa, the East African Community (EAC) and the South African Development Community (SADC). Although negotiations formally started in 2002 and were initially expected to be concluded in 2008, only four African countries from ESA (Madagascar, Mauritius, Seychelles and Zimbabwe) have EPAs in place. In July 2014, ECOWAS heads of state and Mauritania endorsed its EPA for signature.In Central Africa, only Cameroon ratified the interim EPA in July 2014 and on 4 August 2014 started provisionally applying the agreement. Burundi, Kenya, Rwanda, Tanzania and Uganda are negotiating a comprehensive regional EPA for EAC. In July 2014, EPA negotiations concluded in the SADC region with an agreement to replace the interim EPA signed—but never ratified—by Botswana, Lesotho, Mozambique and Swaziland.

21 While ECOWAS plus ESA exports to Africa would increase by $12 billion, EU's exports to ECOWAS plus ESA would increase by nearly$18 billion in 2040, after ECOWAS-EU and ESA-EU EPAs are implemented.

22 See OAU (1991).

23 A tariff rate of 0 per cent is to be applied for ECOWAS imports from outside partners for "essential social goods, including medicaments", 5 per cent for "goods of primary necessity, raw materials and specific inputs", 10 per cent for "inputs and intermediate goods", 20 per cent for "final consumption goods", and 35 per cent for "specific goods for economic development".

24 See http://www.ictsd.org/bridges-news/trade-negotiations-insights/news/why-the-mfn-clause-should-not-be-included-in-epas-el (accessed 9 January 2015).

25 Not just concluded between neighbour countries and based on rules that sometimes differ strongly from one agreement to another.

26 Because regional trade agreements often offer a greater level of market access achieved within each of them than what is expected through WTO, but with protection between them that usually remains very high—similar to Africa's RECs.

27 Between the EU and the US.

28 12 nations are negotiating the TPP: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam.

29 16 countries are expected to establish the RCEP: Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, Philippines, Singapore, the Republic of Korea, Thailand and Vietnam.

30 The effects obtained by ECA (forthcoming) are greater than those from Mevel and Karingi (2012) for at least three reasons: a more recent database was used for the simulations, the results are analysed over a longer horizon, and not only are cross-border trading costs for customs procedures and port handling used, but also information on inland transport (this information was unavailable for the 2012 study).

31 Speech made by WTO Director General, retrieved from http://www.wto.org/english/news_e/spra_e/spra33_e.htm (accessed 6 November 2014).