

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND INDUSTRIAL POLICY



Lily Sommer, African Trade Policy Centre

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BACKGROUND TO THE REPORT

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND
INDUSTRIAL POLICY

Motivation and scope

- ECA's 2015 Economic Report for Africa (ERA) established a clear case for the increased and improved use of trade and trade policy as **tools** to drive the continent's industrialization.
- The report builds upon the recommendations of ERA 2015 through providing a thorough assessment of what is required of African economies to industrialize “**smartly**” through trade.
- The assessment is informed by an analysis of whether current trade policies and tariff structures positively contribute to Africa's broader **industrialization** policy.
- The report is a **joint** publication of the ECA and ODI.

What is “smart” industrialization through trade?

- *“A way to utilize trade policy as a means to drive **industrial development** and **value addition**, in the context of successive bilateral, regional and multilateral trade negotiations having constrained the use of traditional trade policy instruments once used by developed countries to promote industrialization.”*
- NOT to be confused with smart **protectionism**, which advocates for increased protectionism in order to develop competitive industries!

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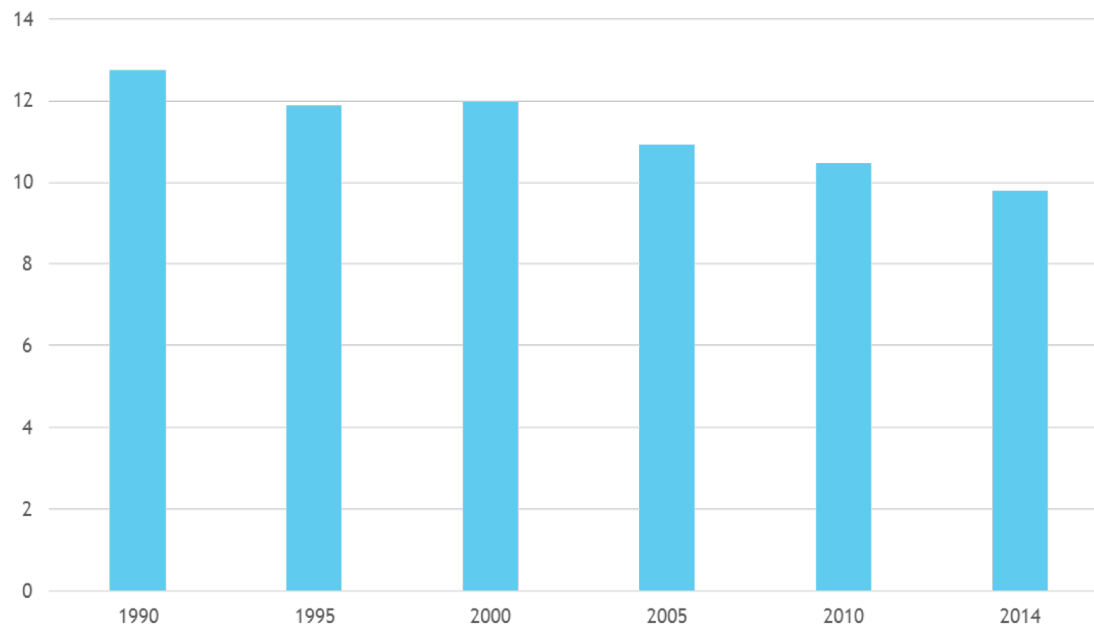
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KEY MESSAGES

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND
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1. Africa's industrialization experience has been disappointing

- In 2014, Africa's average share of manufacturing value added in gross domestic product (GDP) was 9.8 per cent, 3 percentage points less than the 12.8 per cent of 1990.
- The share of manufacturing exports in Africa's total exports similarly **declined** from 25.6 per cent in 1995 to only 18.9 per cent in 2014.



Manufacturing value added
in Africa
(% of GDP)

2. Industrialization is central to African development policy

- Action Plan for the Accelerated Industrial Development in Africa (AIDA)
- African Union's Agenda 2063
- Industrial pillar in the African Continental Free Trade Area (AfCFTA)
- Regional Economic Community (REC) Industrialization Strategies

3. Fresh thinking is needed to drive Africa's industrialization

- **Intra-regional** trade offers particular potential to facilitate increased economies of scale, diversification and value addition.
- In 2014, **manufactured goods** accounted for 41.9 percent of intra-African exports, compared with only 14.8 percent of exports outside the continent.
- ECA modelling exercises indicate that establishing the AfCFTA would boost intra-African trade by 52.3 percent, and estimated increases are highest for **industrial products**.

4. Africa's industrialization is externally influenced

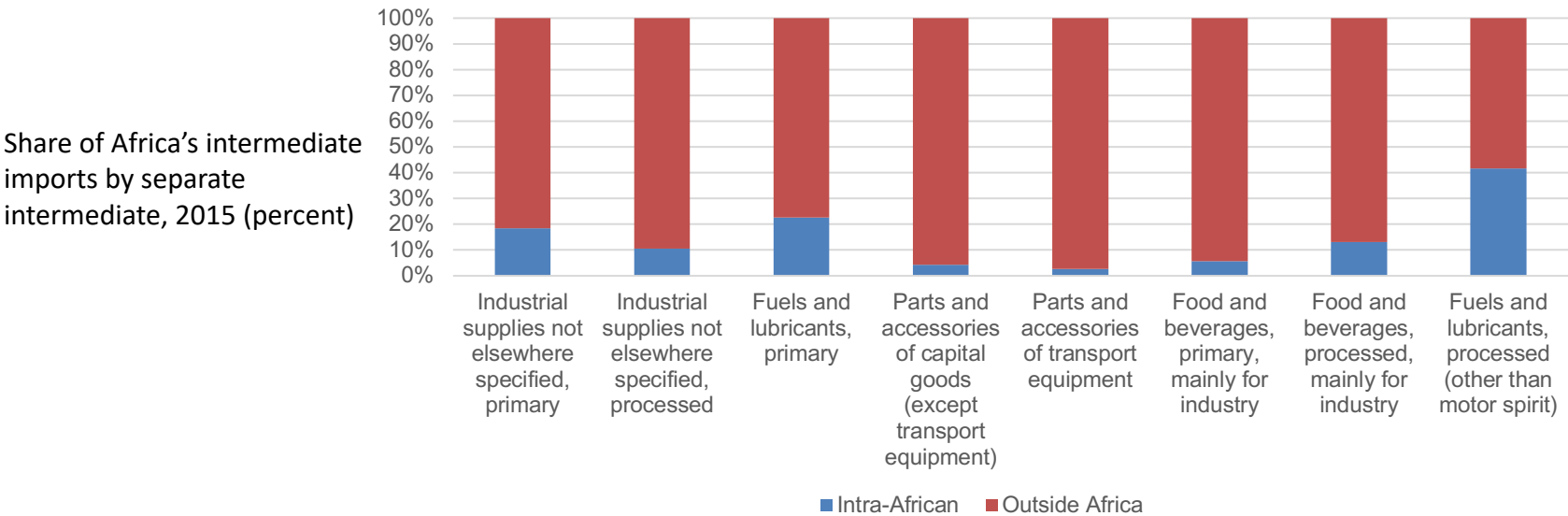
- Preferential trade agreements - **imbalance** between productive capacity and stringent rules of origin and product standards
- Shifts towards greater reciprocity – risks reducing the **competitiveness** of African producers if the adjustments are not appropriately phased and managed.
- Mega-regional trade agreements – loss of **market share** by African countries

5. Targeting of protection could be improved

- **Weak** relationship between effective rate of protection (ERP) and revealed comparative advantage (RCA)
- RCA analysis can help identify potential areas of **specialization**
- African countries could make better use of **export taxes** which can help encourage value addition by reducing or banning the export of raw materials and unprocessed products
- But must be targeted at industries with **comparative advantage** and supported by other industrial policies to ensure that selected industries take off

6. Africa faces significant tariff and non-tariff trade costs

- The import-weighted tariffs on Africa’s **imported intermediates** are significantly higher than elsewhere particularly for industrial supplies, capital goods and transport equipment
- Africa imports the large majority of its industrial inputs from **outside** the continent at high tariff rates – in 2015, intermediate goods imports into Africa from outside faced a tariff rate of 7.5 percent, compared with 4.5 percent for intra-African imports of intermediates
- Prevalence of **non-tariff measures** and physical market access barriers
- Inadequate **infrastructure** is a particular problem



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POLICY RECOMMENDATIONS

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1. Articulating smart choices in trade agreements

- African countries should use ex-ante and ex-post industrial impact assessments as tool to support the mainstreaming of industrial priorities into Africa's trade agreements
- Industrialization should be central to the AfCFTA negotiations process
- Africa should smartly sequence its trade policy reforms – implement the AfCFTA quickly to avoid trade losses from MRTAs and growing reciprocity

2. Using trade policy as a tool for industrialization

- African countries should base their industrial strategies on comparative advantage – lower tariffs on key inputs and time-bound and well-targeted export restrictions
- Tariff rates should be reduced on important industrial intermediate inputs for which regional production capacity does not exist
- The AfCFTA should aim to significantly reduce internal tariffs on industrial intermediates
- African firms should industrially upgrade through participating in global value chains

3. Complementary policies for industrialization through trade

- Interventions to reduce non-tariff trade costs are needed to tackle the binding supply-side constraints to industrialization – underpinned by the AU's Boosting Intra-African Trade (BIAT) Action Plan
- Africans must be equipped with the skills needed to engage in skill-intensive manufacturing industries such as apparel and the manufacture of machinery
- Efforts to ensure an efficient and competitive trade facilitation framework should continue to receive attention – infrastructure, customs operations, services, trade facilitation etc.
- Enhancing access to affordable credit will be key to driving industrialization and supporting the integration of export-oriented firms into time-sensitive regional and global value chains.

4. Strengthening links among national development strategies, industrial policy and trade policy

- Industrial development must become the core objective of trade policy
- African countries must align their regional integration and trade policies with industrial policy that reflects the opportunities and challenges and resources they have.
- Industrial parks and special economic zones can be used to exploit linkages between trade and industry
- In particular, industrial parks could be organized on a cross-border basis to provide incentives for local and foreign industry-related investment to take full advantage of trade liberalization under the AfCFTA

THANK YOU!

More info: sommerl@un.org

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