

MEDIA RELEASE

Trade Flows in Africa: Unlocking the Potential

Growth rates in many African countries have been accelerating, but much of the continent's trade potential remains untapped – particularly at the regional level. Trade costs are very high and often act as a deterrent to intra-regional trade. While the launch of the African Continental Free Trade Area (AfCFTA) represents an important step in prising open markets (notably, through the phasing out of tariffs) and improving the trade and investment climate on the continent, the matter of trade costs should not be downplayed.

This was the message of **Dr Mustapha Sadni Jallab** (from the African Institute for Economic Development and Planning at the United Nations Economic Commission for Africa/UNECA), who was speaking at the opening session of a 'Trade flows in Africa' conference held in Pretoria on **11 September 2018**. The conference was organised under the auspices of the **NWU's WTO Chairs Programme in collaboration with TRADE Advisory**. Sharing the results of a wide-ranging statistical analysis of the anticipated effects of the AfCFTA on Africa's trade flows, Mustapha reported that the FTA has the potential to significantly boost trade on the continent. However, he added: 'tariffs matter, but trade costs matter as well'. He highlighted the leading role that the Trade Facilitation Agreement (TFA) could and should be playing in streamlining trade rules and procedures, thus encouraging more unencumbered trade between African countries.

'The WTO has estimated that TFA implementation would reduce trade costs by about 14.5%; this is even higher than the cost reduction that would be achieved if all MFN tariffs were eliminated. Combining the AfCFTA and the TFA will yield a more profound impact on growth on the continent,' Mustapha remarked, adding that different analytical models had been applied for East, West, Central and North Africa, and South Africa.

Among the benefits of a combined strategy are: improved prospects for economic transformation and export diversification because of the more efficient collection of customs revenue; mitigation of possible revenue shortfalls due to tariff reductions; more opportunities to participate in regional and global value chains; more FDI likely to flow into productive sectors; and a more active and capacitated SME trading community. Of course, it is crucial to adopt policies that reconcile the AfCFTA and TFA objectives while also advocating appropriate domestic reforms to boost economic efficiency.

Another guest speaker, **Trudi Hartzenburg** (Executive Director of tralac), said that the AfCFTA is an extremely ambitious plan to boost African trade, integration and development. Forging a broad consensus and a network of interlinking pathways among some 55 countries with vastly different characteristics will involve concessions – particularly in accommodating new-generation issues (such as services, intellectual property rights, competition and investment) without taking the focus away from more traditional economic sectors (such as agriculture and the extractive sector). Trudi emphasised that the AfCFTA will not create a 'supra-national' institution.

'It's an FTA. Regional Economic Communities (RECs), such as SADC and ECOWAS, and existing trade agreements will continue. The AfCFTA will not undermine SADC, for example.'

At present, about 70% of intra-African trade takes place within SADC. Thus, the question needs to be asked: What additional liberalisation or value could the AfCFTA agreement offer the members of SADC which is not already covered by the SADC FTA agreement? New-generation issues currently being negotiated under the AfCFTA agreement – including competition, intellectual property rights, investment and dispute settlement – have the potential to expand countries' trade capacity and reach. In addition, a continent-wide agreement has the potential to encourage trade and investment links with relatively untapped regions (e.g. the potential of North Africa for South Africa).

However, as Trudi pointed out, the complexity of the negotiations means that the ratification process has been slow. To date, seven countries have ratified the AfCFTA agreement, while a total of 22 ratifications are needed for the agreement to come into force (for those countries that have ratified it). However, the modalities and rules still need to be negotiated, without which the agreement is essentially rudderless. As a result, its full activation could still be a long way off. A sector like clothing and textiles has much untapped potential for intra-regional trade as these products are in high demand and there are insufficient numbers of producers. Yet the clothing and textile market in many African countries is difficult to access due to high tariffs and complex rules of origin. The AfCFTA agreement needs to address this and other impediments which constitute barriers to competitiveness and trade-enabling structural transformation. In addition, stronger intra-regional investment is one of the cornerstones of the AfCFTA, with good governance and transparency being obvious drawcards. Whether these are achievable remains to be seen.

Picking up on the trade facilitation theme, **Fred Levitan** (from the USAID Southern Africa Trade and Investment Hub) spoke about the challenges of measuring the time and cost involved in moving goods across borders, which is important for logistics and supply chain management. The Southern Africa Trade and Investment Hub is coordinating the rollout of a web-based Truck Monitoring System (TMS) which tracks data from cargo-laden vehicles as they traverse various transport corridors and generates reports on border crossing and route trucking times. Which routes are congested and therefore more costly are particularly important pieces of information. Although developmental work is ongoing, the system already covers an extensive geographical area and is capable of producing high-quality datasets. Offered as a public good by USAID, the TMS is proving to be a valuable tool for supply chain planning and a useful companion to other trade facilitation initiatives in various parts of the world.

Prof Reid Whitlock (from the National Agricultural Export Development Board of Rwanda) provided some fascinating insights into how Rwanda – despite its troubled past and limited resources (including electricity) – is exceeding expectations and outshining other African countries in many spheres, from value-added agricultural production to technological innovation. From a policy perspective, Rwanda is taking steps to become a middle-income country, relying less on foreign aid and fast-tracking its development by leveraging its available assets and regional partnerships. The shortage of land is a significant challenge; yet among the envisaged solutions are to add value to Congolese mining output and extend Rwanda's farming interests into neighbouring DRC – but to operate according to Rwanda's quality standards which, according to Reid, the government is uncompromising about. 'Rwanda wants to be known as an oasis for quality products,' he said.

Recently the government began to take stock of Rwanda's trade profile and performance with a view to optimising its evident trade opportunities on the continent and beyond. In this regard the government has been assisted by the TRADE research entity of the NWU and the TRADE

Advisory technical team who have applied the TRADE-DSM® methodology to Rwanda to reveal high-potential product-market combinations that could be profitably exploited (see: <https://www.theigc.org/project/using-decision-support-model-identify-export-opportunities-rwanda/>).

Reid explained that the bulk of Rwanda's exports are entering the DRC in the form of livestock – not, as one might imagine, high-value goods going into Europe. In fact, about 80% of the country's exports are non-fuel primary commodities which do not demand particularly high skills levels. However, a strategy being seriously considered is to diversify away from traditional ('core') products into less well-developed product categories, such as macadamias and avocados. The intention is to make value-added production the centrepiece of Rwanda's regional expansion and consolidation drive. Added to this should be efforts to develop the country's human capital and to reduce logistics and trade costs in order to give Rwanda a distinct competitive advantage as a regional trading partner.

While African countries have the opportunity to catch up with other parts of the world through more open and efficient trade, they need to be bear in mind that the global economy is always evolving. Traditional economic patterns are changing. For example, in the wake of robotics and artificial intelligence, outsourcing has lost some of its appeal as more goods can be cost-effectively produced at home. Value chains are contracting and making a smaller contribution to GDP. In fact, cross-border trade in general could progressively decline as technology transforms the way countries trade with one another. This sounds like good news from a trade cost point of view, which Africa has always struggled with. Yet a more technology-rich trading environment will carry a plethora of new costs and challenges that need to be continuously and skilfully managed.

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