MEDIA RELEASE

Africa's development drive: Leveraging the benefits of the AfCFTA and regional integration

Africa is acknowledged to have much going for it. In particular, it has a fast-growing market and much untapped trade potential – both within the continent and beyond. The African Continental Free Trade Area (AfCFTA) should clear the way for greater integration among member states and be an important catalyst for export-driven growth and development. Yet, if unaddressed, numerous obstacles stand in the way of African countries realising their potential. For example, one of the most significant impediments to intra-regional trade is high trade costs. Africa's trade costs far exceed those of other regions.

This was the message of **Dr Maarten Smeets** (from the Institute for Training and Technical Cooperation at the World Trade Organization (WTO) in Geneva, Switzerland), who was a guest speaker at the **International Trade & TRADE-DSM® User Group Conference** in Pretoria on **30 October 2019**. The conference was held under the auspices of the **North-West University's TRADE research entity** in collaboration with the university's consulting arm, **Trade Advisory** as well as the WTO Chairs Programme.

"Trade costs isolate African countries from world markets and limit economic growth opportunities," said Dr Smeets. "Contributing to these costs are high tariffs, infrastructural deficiencies and costly border procedures. If trade costs could be reduced, African countries would be able to participate more meaningfully in regional value chains since they would enjoy economies of scale and would be able to export more competitively."

Although foreign direct investment (FDI) to Africa (and particularly southern Africa) has risen noticeably in the past couple of years – against a backdrop of generally declining FDI flows to developing countries – Africa still faces a huge infrastructure backlog. According to the African Development Bank, Africa needs between $130 billion and $170 billion each year to tackle its infrastructure deficit, notably in the areas of roads, ports, telecommunications and energy. Of great concern, too, is the fact that Africa's merchandise and services exports and imports as a proportion of global trade (which has always been small) have in fact been shrinking in recent decades. In contrast, other developing regions' share of global trade has been rising, particularly Asia.

"Under the AfCFTA, intra-regional trade in Africa is expected to increase by 15% to 25%," said Dr Smeets, "although this will still be low by other regions' standards because Africa will be coming off a low development base." Dr Smeets pointed out, though, that the potential of the AfCFTA can only be realised if countries undergo the necessary domestic reforms and structural adjustments. "This will involve driving domestic policy coherence and coordination, reducing the long-standing dependency on primary products, attracting FDI, encouraging technology transfer, and mainstreaming trade into economic plans and programmes."

Dr Smeets explained that many developing countries have benefited from the WTO's technical assistance over the years. Technical assistance is aimed at helping developing countries (and especially LDCs) to "secure a share in the growth in international trade commensurate with their economic development needs." Interestingly, Africa is the largest beneficiary of WTO technical assistance, although African countries clearly need to follow a more proactive approach where their trade and development efforts are concerned – particularly in the area of trade negotiations. After all, the WTO is a rule-making body, with all members having both rights *and* obligations.

Dr Smeets said that African countries need to move away from a trade preferences mind-set and focus instead on encouraging innovation and diversification. He said that the fast-evolving digital landscape presented many opportunities for African MSMEs to engage in regional trade relatively inexpensively – both in terms of start-up and transactional costs. The WTO-Joint Initiative on E-commerce aims to build consensus among members on digital developments, but Africa's involvement in the discussions is limited to a few countries. This is despite digital trade advancing at a rapid pace. Discussions on digital trade are complex and wide-ranging, covering digital infrastructure, payment instruments, data flows and location strategies, and innovation policies, among other topics. African countries can ill afford to avoid these important conversations, particularly if they are to leverage the much talked-about benefits of the AfCFTA.

Another guest speaker, **Dr Julia Spies** (from the Trade and Market Intelligence Section at the International Trade Centre (ITC) in Geneva, Switzerland) echoed Dr Smeets' concerns about Africa's slow pace of development and limited contribution to global exports and imports. She added that "product diversification on the continent is the lowest world-wide and intra-African export growth is actually declining, as is the contribution of new products to intra-regional trade". Yet behind this gloomy picture lie enormous (still to be realised) trade opportunities.

"As much as 50% of Africa's trade opportunities (amounting to about $23 billion) have not been tapped. Reasons include the high prevalence of non-tariff measures, price–quality mismatches, complex rules of origin and a lack of market information," Dr Spies remarked.

Dr Spies stressed that Africa's trade efforts, particularly at the intra-regional level, are severely hampered by a lack of data. In this regard, the recently launched African Trade Observatory (ATO) – which is a joint initiative of the African Union Commission, the European Commission and the ITC – represents an important step towards correcting the continent's market and trade data deficiencies. She likened the ATO (which will shortly enter the piloting phase) to a one-stop shop with key functions including: collecting trade and trade information from member states; analysing the information with a view to detecting regional value chain and ecommerce opportunities; monitoring and evaluating the ATO implementation process at individual country level; and overseeing progress with the AfCFTA and African integration in general. One of the planned deliverables of the ATO is detailed trade- and market access-related information, in the form of company–product–market combinations.

"The ATO will provide valuable insights for African policymakers, including current levels of trade integration and export/import complementarity on the continent, as well as the main drivers of trade competitiveness," Dr Spies said. "Better information will lead to better decision-making."

The third guest speaker, **Dr Jonathan Calof** (from the Telfer School of Management at the University of Ottawa in Canada), reiterated how important it is for African exporters to have complete and accurate information about markets and product–market opportunities if they are to make sustainable inroads on the continent. Unfortunately, too many companies rely on a gut feel when choosing markets for expansion purposes.

"Decisions need to be fact-based – the result of having crafted reliable intelligence from a range of information sources," said Dr Calof. He explained that probing questions need to be asked, such as: What are the best markets? Where are the markets going in the next five years? How strong is our competitive advantage? Why are people buying (or not buying) our product? Who are the best customers to focus on? Why?

All these considerations, explained Dr Calof, are the domain of competitive intelligence, which can be defined as the interpretation of signals from the external environment which allows an organisation's decision-makers to understand and/or anticipate industry change.

"Governments usually make poor export decisions – they often select the wrong markets," said Dr Calof. "You need the right indicators to do a proper analysis." Even if organisations have access to market-related information, they often lack the skills and/or capacity to analyse it effectively. Dr Calof referred to the important role that the NWU's TRADE-DSM® plays in this regard. The model uses a scientific method to filter large volumes of information in order to reveal optimal markets for different products.

The final guest speaker, **Dr Johan van den Heever** (from the Bank of Namibia), provided some interesting perspectives on the benefits and drawbacks of the SACU (Southern African Customs Union) model. Although the smaller economies of Lesotho, eSwatini, Botswana and Namibia have clearly benefited from the revenue-sharing formula, the development component of the customs revenue tends to disappear into government coffers and is not spent on infrastructure development and other capital projects. Although it seems like a good idea for SACU members to grow the revenue pool by importing more from non-members, this would alter – and possibly adversely affect – members' share of the pool. With the four smaller economies being so heavily reliant on their current share of the customs revenue, any revision to the formula is practically inconceivable. This is why trade negotiations (including those underpinning the AfCFTA) and their implications need to be properly thought through from the outset.

"With African countries having a variety of tools and technical assistance packages at their disposal, they are well placed to make the transition into the new era that beckons on the continent," said session chair, **Prof Wilma Viviers** (WTO Chair and research professor in the NWU's TRADE research entity). "But this cannot happen without ongoing cooperation among key stakeholders and other interested parties."

Prof Viviers, who was director of the TRADE research entity since it was established in 2012, recently handed over to **Prof Danie Meyer** who has been given the mandate to expand the scope of TRADE's research activities to all three campuses of the North-West University as well as include local economic development and resource economics. This is in acknowledgement of the fact that a country needs to create and sustain a strong domestic economy in order to become a formidable player in the international trade arena.

For more details about the work of the TRADE research entity at the NWU, contact Prof Danie Meyer at danie.meyer@nwu.ac.za; and to learn more about the WTO Chairs Programme, contact Prof Wilma Viviers at wilma.viviers@nwu.ac.za.

From left to right: Dr Julia Spies (ITC), Dr Martin Smeets (WTO), Prof Jonathan Calof (University of Ottawa), Prof Wilma Viviers (TRADE, NWU and WTO Chair), Dr Johan van der Heever (Bank of Namibia), Martin Cameron (Trade Advisory), Francois Fouche (Trade Advisory) and Prof Danie Meyer (TRADE, NWU)