# 6

# Expanding African Trade:

## Creating a Comparative Advantage and Strengthening Regional Partnerships

>> ISSUE BRIEF from the AUTHOR

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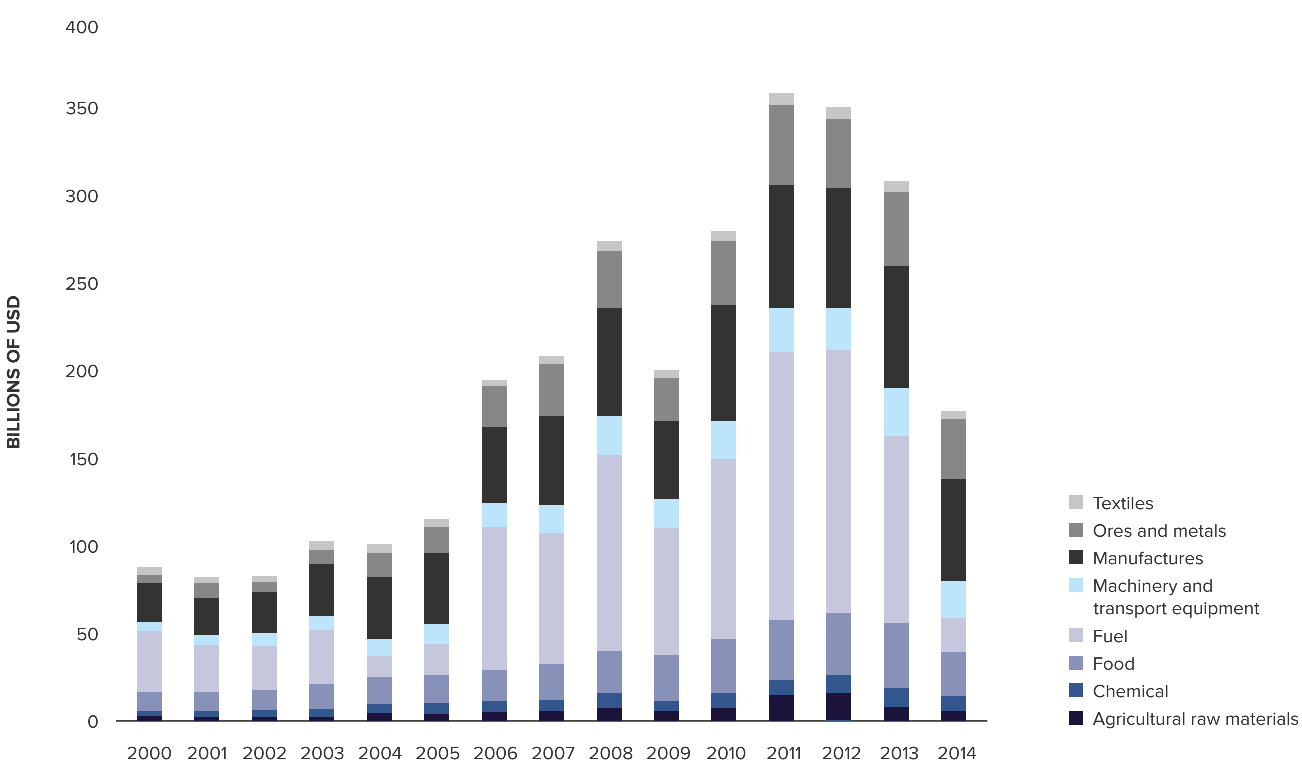
# Integrating Africa into the Global Economy: What are the Implications of the Trans-Pacific Partnership Agreement?

Joshua Meltzer

How Africa responds to and addresses the changing international trade environment from the rise of mega-regionals trade agreements should be a key focus for the region's leaders in 2016. The most significant of these trade agreements is the Trans-Pacific Partnership (TPP) agreement that was concluded on October 5, 2015. Comprising 12 countries including the United States, Japan, Canada, Mexico, Australia, Vietnam, Malaysia, and Chile, TPP countries represent 40 percent of global GDP, 25 percent of global exports, and 30 percent of global imports.

**FIGURE 6.1.** SUB-SAHARAN AFRICA'S EXPORTS BY SECTOR




Source: WITS, accessed on November 14, 2015, based on SITC Rev2 groupings.

The U.S. is also negotiating with the European Union the Transatlantic Trade and Investment Partnership (TTIP) agreement, which, combined with the TPP, will cover nearly 60 percent of global GDP. The effect of two such significant FTAs is that their rules will become de facto global standards. Moreover, the U.S., the EU, Japan and 21 other countries are negotiating the Trade in Services agreement—an FTA focused on liberalizing barriers to trade in services. Finally, the Association of Southeast Asian Nations (ASEAN) plus China, Japan, Korea, India, Australia, and New Zealand are negotiating the Regional Comprehensive Economic Partnership agreement.

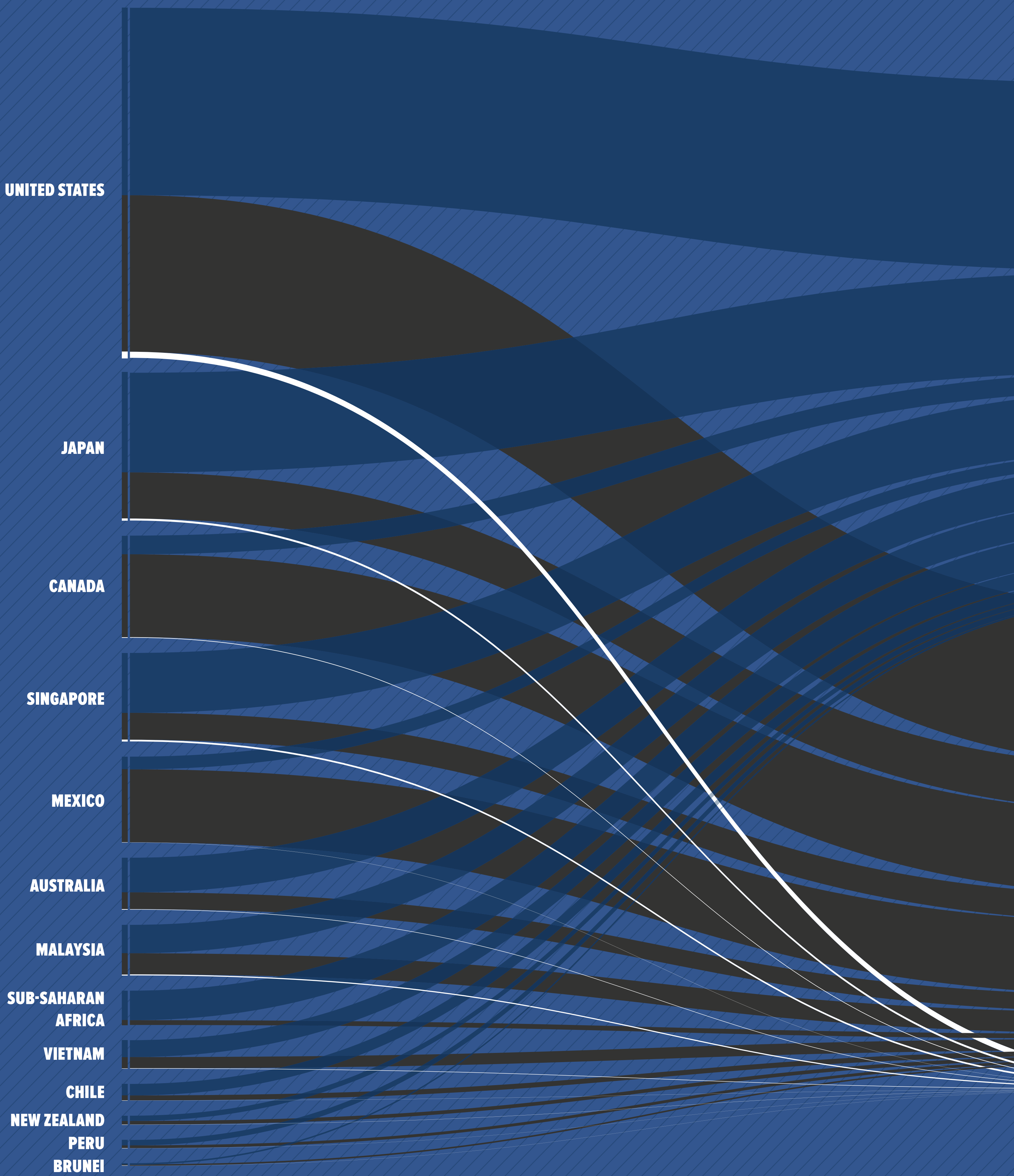
**Successfully finishing the CFTA could stimulate intra-African trade by around 50 percent ($35 billion) by 2022.**

Africa is not a party to any of these mega-regional trade negotiations. At the same time, little progress is being achieved on completing the WTO Doha Round multilateral trade negotiations. This means that there is currently no large global trade negotiation where Africa's views can be considered and progress can be made. The risk for Africa in this is that new rules and market access preferences agreed under the mega-regional FTAs will make it increasingly difficult for African businesses to compete globally, confining Africa to a shrinking share of international trade and diminish its attractiveness as a destination for investment

Probably the region's most significant response to date has been the decision to further integrate Africa's economies. In 2008, negotiations commenced on the Tripartite FTA (TFTA) between three major regional African economic communities. The TFTA will come into force in January 2016 and ultimately will comprise 26 countries, 640 million people, and have a total GDP of $1.2 trillion. So far, however, the proposed TFTA only covers trade in goods.

The TFTA is also the building block towards a Continental FTA (CFTA). The Africa Union has committed to completing the CFTA by 2017, incorporating 54 African countries representing over 1 billion people and $3 trillion in GDP. In fact, successfully finishing the CFTA could stimulate intra-African trade by around 50 percent ($35 billion) by 2022.[1]

[1] Cheong, David, Jansen, Marion, and Ralf Peters (eds.). *Shared Harvests: Agriculture, Trade, and Employment.* Geneva: International Labour Office and United Nations Conference on Trade and Development, 2013.


UNITED STATES
JAPAN
CANADA
SINGAPORE
MEXICO
AUSTRALIA
MALAYSIA
SUB-SAHARAN AFRICA
VIETNAM
CHILE
NEW ZEALAND
PERU
BRUNEI

# The TPP and sub-Saharan Africa


Much of the world is entering into mega-regional free trade areas (FTAs), with the Trans-Pacific Partnership (TPP) the most significant in recent years. Representing 40 percent of global GDP, 25 percent of global exports, and 30 percent of global imports the TPP countries together largely dominate global trade and will likely move much trade away from Africa—including from AGOA. Though Africa continues to increase its trade, create new relationships, and integrate into the continental FTA, the creation of the TPP overshadows those efforts.

| Country/Region | Partner Name | Exports (USD billions) | Export Partner Share (%) |
|---|---|---|---|
| United States | Total to World | 1,619.7 | |
| | Sub-Saharan Africa | 25.3 | 1.56 |
| | TPP Countries Total | 726.3 | 44.84 |
| Australia | Total to World | 240.4 | |
| | Sub-Saharan Africa | 2.1 | 0.88 |
| | TPP Countries Total | 77.9 | 32.42 |
| Brunei | Total to World | 10.5 | |
| | Sub-Saharan Africa | 0.000469 | 0.00 |
| | TPP Countries Total | 6.1 | 58.33 |
| Canada | Total to World | 472.8 | |
| | Sub-Saharan Africa | 2.5 | 0.54 |
| | TPP Countries Total | 383.9 | 81.19 |
| Chile | Total to World | 76.6 | |
| | Sub-Saharan Africa | 0.4 | 0.47 |
| | TPP Countries Total | 23.0 | 30.03 |
| Japan | Total to World | 683.8 | |
| | Sub-Saharan Africa | 8.0 | 1.16 |
| | TPP Countries Total | 214.3 | 31.35 |
| Malaysia | Total to World | 234.1 | |
| | Sub-Saharan Africa | 4.8 | 2.05 |
| | TPP Countries Total | 97.8 | 41.78 |
| Mexico | Total to World | 397.5 | |
| | Sub-Saharan Africa | 0.5 | 0.12 |
| | TPP Countries Total | 338.4 | 85.11 |
| New Zealand | Total to World | 41.6 | |
| | Sub-Saharan Africa | 0.7 | 1.68 |
| | TPP Countries Total | 16.7 | 40.23 |
| Peru | Total to World | 38.5 | |
| | Sub-Saharan Africa | 0.2 | 0.62 |
| | TPP Countries Total | 13.0 | 33.71 |
| Singapore | Total to World | 409.8 | |
| | Sub-Saharan Africa | 7.8 | 1.91 |
| | TPP Countries Total | 124.6 | 30.40 |
| Vietnam* | Total to World | 132.0 | |
| | Sub-Saharan Africa | 2.3 | 1.72 |
| | TPP Countries Total | 51.6 | 39.13 |
| Sub-Saharan Africa | Total to World | 158.9 | |
| | TPP Countries Total | 22.0 | 13.83 |

* 2013

Source: WITS World Bank accessed on November 12, 2015.

VIEWPOINT

# REGIONAL ROUTE TO GLOBAL VALUE CHAINS

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Many African countries rely disproportionately on exports of traditional cash crops and other natural resources. One popular approach to remedy this situation has been to discourage the exports of raw materials or primary commodities, and to promote domestic processing of those products before exporting them instead. Such value addition would presumably help create higher productivity jobs, energize local economic activity, and improve trade imbalances by providing more foreign exchange.

More recently, another approach has attracted the attention of policymakers and policy analysts. It is to encourage African firms to integrate into the so-called global value chains—in which each participating producer focuses and specializes in particular tasks or activities. Participation in global value chains is expected to accelerate African economic transformation by encouraging technological transfer, fostering new economic activities, enhancing productivity, and promoting skills development.

Both approaches entail export diversification and a move into higher-value activities to seize a larger share of value in global markets—a massive effort. In order to successfully add value to their exports or to effectively participate in a given global value chain, African firms need to deliver higher-quality products at competitive prices and satisfy rigorous norms and standards set out by their trading partners. For many African firms, these tasks could be too challenging and may not fall within their capacity, at least in the short to medium run.

A third approach may be more pragmatic. Integrating into regional (instead of global) value chains can help generate economic gains in short run and facilitate the integration of African production into global value chains in the long run. By providing African firms access to the dynamic but more easily accessible African markets, regional integration offers a space for "learning to compete" and for "self discovery" to many firms and prepares them for the greater rigor and competition in global value chains. With fewer players, the competitive pressures on the regional value chains are likely to be lower than on the global chains. Also, domestic small and medium enterprises are more likely to succeed in regional markets first, where they are more familiar with the buyers' tastes and the standard requirements. Many of the smaller economies with low levels of industrial development will benefit from stronger links with larger regional partners before trying to capture larger global markets.

Accelerating the ongoing negotiations, harmonization, and implementation of various African regional trade agreements (including the Tripartite FTA and the Continental FTA) in 2016 would greatly help African economies reduce their reliance on raw material or primary commodity exports and develop a greater capacity to compete on a global scale. More importantly, it will help them capture larger value from the global market place and efficiently participate in global value chains.

## Understanding the mega-regional FTAs

While the TFTA and CFTA are important steps, they are certainly not complete answers to the economic challenges the mega-regional FTAs present for Africa. The following will focus on the impact of the TPP for African countries. The TPP is the first mega-regional to be completed. The TPP also includes developed and developing economies, which means that it will affect Africa in terms of access to large developed economies and through competition with business in developing country parties. The TPP countries already represent around 15 percent of Africa's exports, and the impact of the TPP on Africa will also expand over time as more countries join the agreement. Already, Korea, Indonesia, Taiwan, Thailand, and Columbia have expressed interest in joining and the Obama Administration's goal is for the TPP to become a building block towards an FTA of the Asia-Pacific.

The following will look at the impact of the TPP in four key areas.

### TABLE 6.1. REGIONAL COMMUNITIES: HOW THE AFRICAN UNION AND EUROPEAN UNION DIFFER

The European Union largely serves as a model for the African Union, as the EU has shown success in creating standards to ease trade and labor movement, among many other ambitious goals. In fact, 2015 saw the creation of the Tripartite Free Trade Agreement among the countries of eastern and southern Africa. As the many African regional economic communities continue to integrate with the ultimate goal of a Continental FTA by 2017, a comparison between the EU and AU reveals different challenges to integration that Africa faces as it takes steps in 2016 towards the CFTA.

| Exports | African Union | European Union |
|---|---|---|
| **Member states** | 54 | 28 |
| **Population (million)** | 1,049.9 | 508.4 |
| **Land area (km$^2$, million)** | 28.9 | 4.3 |
| **Youth population (% of total population)** | 19.63 | 11.57 |
| **GDP per capita ($, current)** | 1,813.6 | 32,782.1 |
| **Urban population (% of total population)** | 39 | 74 |
| **GDP ($, billion)** | 2,289* | 16,449 |
| **GDP (% of world)** | 3 | 21 |
| **Budget** | $416.9 million (2016 FY) | $156.8 billion** (2014 FY) |

* calculated without Western Sahara, missing data for Somalia and Tunisia
** 142.6 billion euro; converted on December 10, 2015.

Source for EU: World Economic Outlook Database, April 2015, and https://www.cia.gov/library/publications/the-world-factbook/fields/2147.html.
Source for AU: World Development Indicators.
AU Budget source: Decision No: Assembly/AU/Dec. 577(XXV); EU Budget Source: http://europa.eu/about-eu/basic-information/money/expenditure/index_en.htm.
Sources for other data: Mo Ibrahim Foundation, Facts and Figures: Regional Integration, Uniting to Compete, 2014.

## 1. Tariffs and goods

The parties to the TPP have agreed to reduce tariffs on over 18,000 products ranging from reduced tariffs on automobiles in Japan, Malaysia and the U.S. to improved access for agricultural products in Japan, Vietnam, and Canada. One impact here of the TPP is that Africa's agriculture exports, for instance, will face only the WTO Most-Favored Nations tariff in TPP countries instead of the more preferential TPP tariff rate, increasing the cost of these African exports in TPP markets.

## 2. The services sector

The TPP will also lead to significant reductions in services barriers to trade in areas ranging from access for business services such as law, accounting and engineering, access to telecommunications services, health, research and development, sales, and education. Africa's services sector has been an important driver of its economic growth.

Services sectors internationally also are the most highly protected due to various regulations that require providers to be registered or licensed in the country of import, which is often a costly and time-consuming exercise. The TPP seeks to overcome these barriers through mutual recognition and agreement on the equivalence of standards that will avoid the need for a service supplier in a TPP country having to be re-tested or licensed in an importing TPP country.

Similar to the impact of lower tariffs on African exports, African service suppliers will be unable to take advantage of these opportunities, reducing the export opportunities in TPP markets for Africa's services exports.

## 3. Global supply chains

The TPP will affect the capacity of African businesses to participate in global supply chains in various ways. For one, preferential tariffs offered to businesses in TPP parties will make them more competitive participators in supply chains compared with African businesses.

The TPP's use of cumulative rules of origin (ROOs) will also affect access to supply chains. As a general matter, ROOs are used in FTAs to limit the scope for third party countries to access the FTA preferences by simply transiting through an FTA party or engaging in minimal value-added in an FTA party. The TPP includes cumulative ROOs that count the value of goods produced within TPP countries to meeting the final ROO required to qualify for TPP tariff preferences. This means that the TPP will limit the scope to source inputs from outside the TPP parties if the exporter wants to qualify for TPP tariff reductions, and it will create an incentive to invest and source from other TPP businesses. For instance, in order for a car from Japan to qualify for tariff preferences when exporting to the U.S., 45 percent of the value of the car needs come from TPP parties. The result is that automobile companies from TPP parties looking to sell into TPP markets will have a disincentive to expand production and source inputs from businesses in Africa.

## 4. International standards

The TPP will affect standards in a number of ways that will be significant for Africa. As a general matter, the standards in the TPP ranging from labor, environment to health and safety standards will become increasingly de facto global standards as the TPP expands its membership—and particularly should similar standards be included in the Transatlantic Trade and Investment Partnership. Such standards may or may not be optimal, or even achievable, for African business. But it is certain that these standards in the TPP and the TTIP are not taking into account African interests.

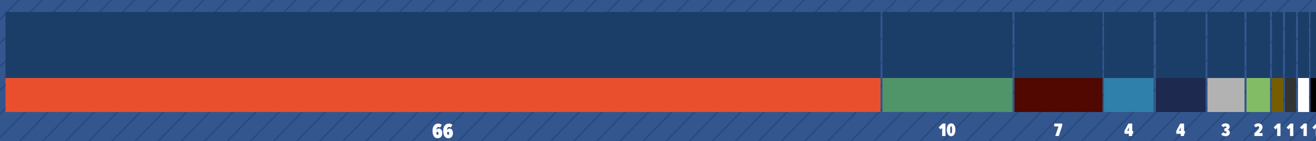
Specifically, the TPP includes labor and environment provisions that require TPP parties to have laws consistent with particular International Labor Organization (ILO) principles and multilateral environmental treaties. In many cases, it would be difficult for Africa to meet such standards. Moreover, business in TPP countries will increasingly expect their suppliers to comply with such minimum levels of labor and environmental protections.

The TPP also includes commitments on conformity assessment processes and conformity assessment bodies that reduce the need for goods manufactured in TPP countries to be re-tested before being sold in another TPP country. Such TPP commitments will reduce the time and cost to market of TPP exports, further increasing the relative competitiveness of these goods in TPP markets compared with African exports.

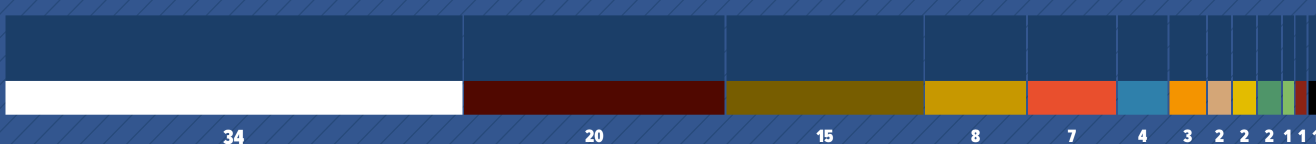
# PERCENT OF TOTAL EXPORTS

## MOZAMBIQUE

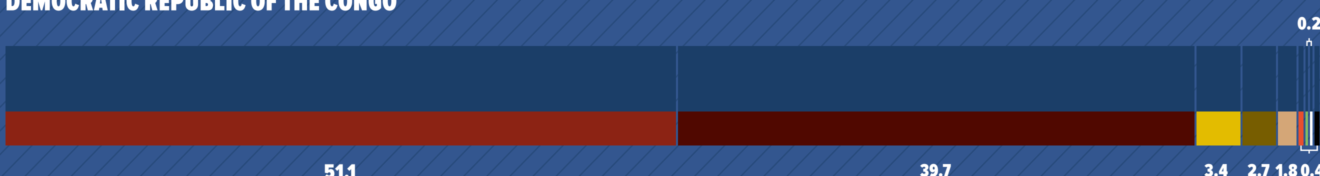

## ETHIOPIA



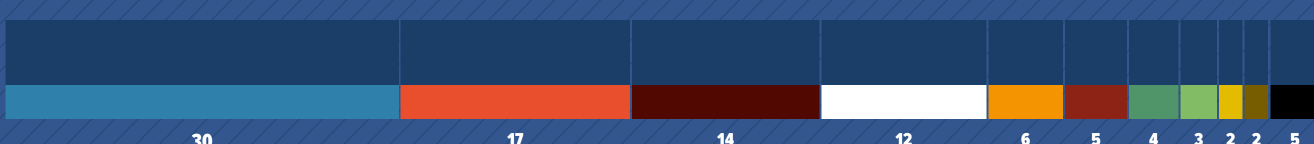

## COTE D'IVOIRE




## DEMOCRATIC REPUBLIC OF THE CONGO




## TANZANIA



# Sub-Saharan Africa's 5 fastest-growing economies in 2016

Though many African countries do rely on oil and metals for the majority of their exports, that is not the case for all five of the fastest-growing economies in 2016. True, the DRC and Mozambique still heavily rely on mineral products and metals, but Ethiopia and Côte d'Ivoire are not nearly as dependent. As commodity prices continue to tumble, diversification will be important for maintaining future growth.

**CATEGORY**


Source: Observatory of Economic Complexity. AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011) Available online here: http://atlas.media.mit.edu/en/resources/data/.

VIEWPOINT

# AGOA'S RENEWED. WHAT NEXT?

Witney Schneidman
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The extension of the African Growth and Opportunity Act (AGOA) to 2025 has introduced an important measure of predictability and stability in U.S. commercial relations with Africa that has not previously existed. Given that non-oil AGOA imports decreased by 10 percent between 2013 and 2014 to $4.4 billion, AGOA's renewal is not only well-timed but also creates an opportunity to enhance the legislation's value.[1]

One of the most important aspects of the renewed legislation is congressional focus on "biennial AGOA utilization strategies," which place the ball firmly in the court of the nearly 40 African governments with access to AGOA to utilize the legislation more fully to increase the export of manufactured products to the U.S. on a duty-free basis.[2] Given that just over 6 percent of all jobs in Africa are in the manufacturing sector—a figure that has not changed in several decades—AGOA is an under-utilized resource.[3] While the legislation also calls for the Office of the U.S. Trade Representative (USTR) to post African utilization strategies on its website, as of this publication there are none posted nor an indication that any soon will be.

**Given that just over 6 percent of all jobs in Africa are in the manufacturing sector—a figure that has not changed in several decades—AGOA is an under-utilized resource.**

Inevitably, developing an AGOA strategy will play an important part in focusing a government on its comparative advantages as well as identifying its obstacles to enhanced trade. The reality is that those governments that have taken proactive strategies, including drafting an AGOA strategy, have found success. Ethiopia, for example, drafted an initial strategy in 2013, and has increased its manufacturing output by an average of 10 percent per year between 2006-2014.[4] Moreover, Ethiopia's AGOA exports increased 151 percent between 2013 and 2014. African governments need to use the momentum of AGOA's renewal to create these strategies in 2016.

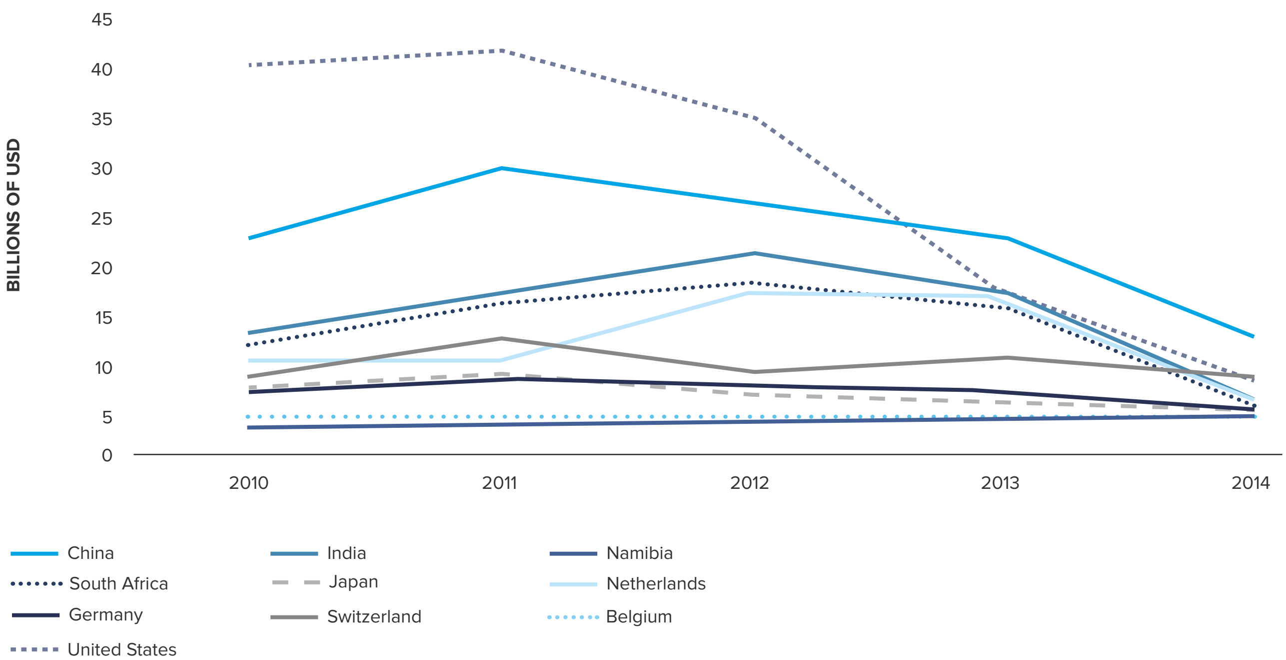
Similarly, the U.S. and its commercial partners in Africa need to begin discussions in 2016 on a trade relationship that ensures American competitiveness on the continent. Indeed, AGOA also calls on USTR to assess the prospects for negotiating free trade agreements (FTA) with African countries and to submit a report by June 2016. Assessing potential for FTAs in the region is not new: The original AGOA legislation included a similar clause.[5] Unfortunately, 15 years later, the U.S. has made no progress on any FTAs and, in fact, was forced to suspend FTA negotiations with the Southern Africa Customs Union in 2006.

During the same time frame, the European Union (EU) negotiated an FTA with South Africa and Economic Partnership Agreements (EPAs) with 40 countries in the region.[6] As a result of the EU's progress in Africa, the U.S. is increasingly at a commercial disadvantage there. The National Trade Estimate for 2015 (NIE) is a stark warning on the U.S.'s distinct disadvantage in South Africa, with many American products facing a tariff of 15 percent or higher than the same products from the EU.[7] As the NIE concludes, "the EU-SADC EPA will further erode U.S. export competitiveness in South Africa" and, ultimately, across the region. Furthermore, in 2015, a long-standing dispute over U.S. poultry exports to South Africa came to a head, as South Africa refused to accept U.S. chicken products (due to claims of dumping and inadequate phytosanitary requirements), and in turn, the U.S. threatened to remove South Africa's AGOA status. This dispute is a potential bellwether of the U.S.'s changing attitude—from unilateral generosity toward a more reciprocal trade partnership at least with South Africa, and potentially, the rest of the continent.

AGOA's non-reciprocal access has been the cornerstone of the U.S.-Africa commercial relationship for the last 15 years but it is not sustainable over time as currently structured. If 2015 was about renewing AGOA, 2016 must be about using it and planning for the post-AGOA era.

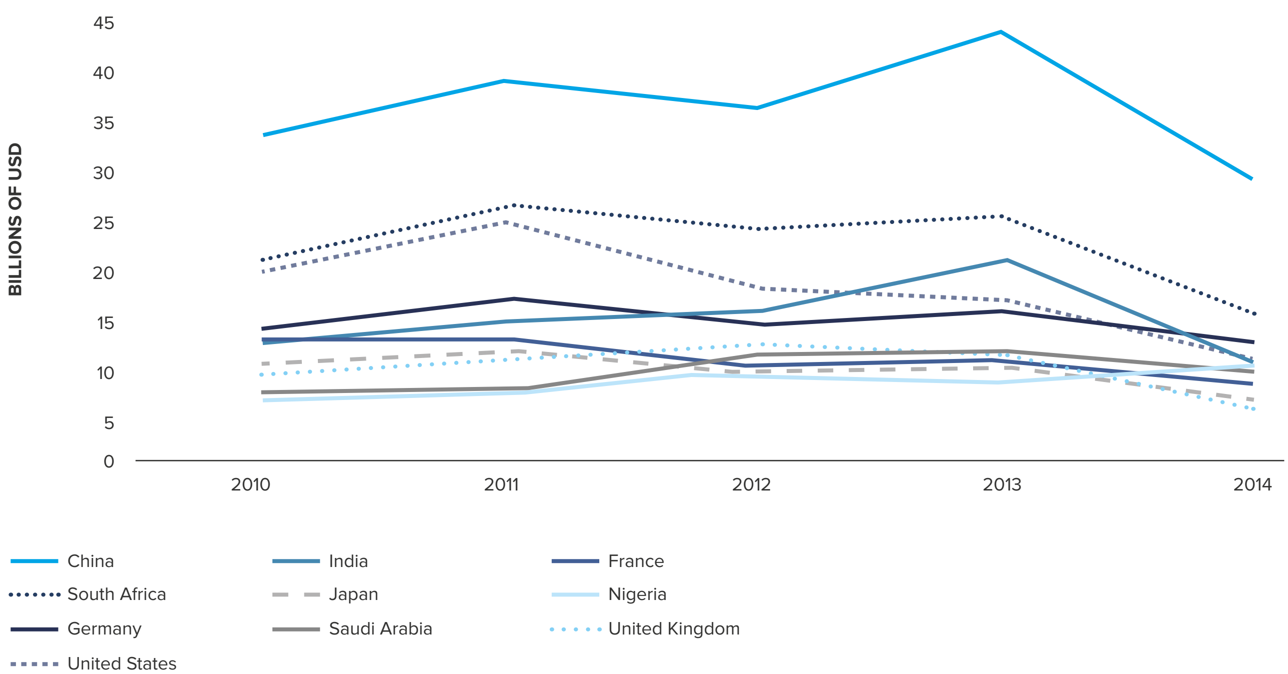
[1] *U.S. Trade with sub-Saharan Africa, January-December 2014.* Washington D.C.: International Trade Administration, 2014. http://trade.gov/agoa/pdf/2014-us-ssa-trade.pdf.
[2] *Extension of African Growth and Opportunity Act, 2015*, 114th Cong., 1st. Sess. (January 6, 2015) http://agoa.info/images/documents/2/bills-114hr1295public-law-pl-114-27.pdf.
[3] "Industrialisation in Africa: More a marathon than a sprint." *The Economist* (London, U.K.), Nov. 7, 2015. http://www.economist.com/news/middle-east-and-africa/21677633-there-long-road-ahead-africa-emulate-east-asia-more-marathon.
[4] *Ethiopia's National AGOA Response Strategy.* Addis Ababa: Ministry of Trade, October 2013. http://agoaethiopia.org/wp-content/uploads/2015/01/AGOA-NATIONAL-STRATEGY-DRAFT.pdf.
[5] *Africa Growth and Opportunity Act, 2000*, 106th Cong., (May 18, 2000) http://agoa.info/images/documents/2385/AGOA_legal_text.pdf.
[6] "Africa, Caribbean, Pacific (ACP)." Brussels: European Commission, 2010. http://ec.europa.eu/trade/policy/countries-and-regions/regions/africa-caribbean-pacific/.
[7] *2015 National Trade Estimate Report on Foreign Trade Barriers*. Washington D.C.: Office of the United States Trade Representative, 2015. https://ustr.gov/sites/default/files/2015 NTE Combined.pdf.

## FIGURE 6.2. SUB-SAHARAN AFRICA'S EXPORTS TO ITS TOP 10 PARTNERS




Source: WITS, accessed on December 11, 2015. Data sorted on 2014 imports numbers.

## FIGURE 6.3. SUB-SAHARAN AFRICA'S IMPORTS FROM ITS TOP 10 PARTNERS




Source: WITS, accessed on December 11, 2015. Data sorted on 2014 imports numbers.

# What next for Africa?

**Africa and the U.S. need a post-AGOA trade strategy that includes enabling Africa to integrate into supply chains and develop the capacity to meet international standards.**

First, a word about the Africa Growth and Opportunity Act (AGOA), which was renewed in June this year for 10 years. AGOA grants trade preferences to exports to the U.S. from qualifying countries from sub-Saharan Africa. Combined with the Generalized System of Preferences, the U.S. provides duty-free access for around 6,400 product lines from 38 sub-Saharan countries. AGOA has grown U.S-Africa trade, mainly in apparel, vehicles, and some agricultural products. However, U.S.-Africa trade remains dominated by petroleum products, which has been declining due to the growth in the U.S. of petroleum resources.

Despite the benefits of AGOA for Africa, trade preferences cannot respond to the challenges of the TPP and other mega-regional FTAs. For one, the TPP will erode the tariff preferences granted to Africa under AGOA as the U.S. further reduces its trade barriers under the TPP and other mega-regional agreements. Moreover, AGOA does not address the challenges African countries encounter integrating into supply chains or adapting to new global standards. As U.S. Trade Representative Ambassador Michael Froman noted at a ceremony to mark AGOA renewal, Africa and the U.S. need a post-AGOA trade strategy that includes enabling Africa to integrate into supply chains and develop the capacity to meet international standards.[2]

Responding to the challenges of the mega-regional FTAs will require African countries to develop domestic and international strategies. Domestic strategies should focus on increasing the competitiveness of Africa broadly. As noted, the TFTA and CFTA are important first steps. Africa needs to ensure these agreements are comprehensive and high standard. From a global supply chain perspective, countries need to see reducing barriers to imports as important as increasing their exports, especially if they want to increase the value added of their exports by developing more backward-linked supply chains.

**It is also important to ensure that TFTA and CFTA are developed consistently with the emerging international architecture—the new rules and standards in the TPP and TTIP.**

It is also important to ensure that TFTA and CFTA are developed consistently with the emerging international architecture—the new rules and standards in the TPP and TTIP. This will require closely following the developments in these FTAs.

Another step Africa should take is to develop continent-wide standard-setting bodies that can develop continent-wide standards consistent with the TPP, inform African businesses of the TPP standards, and provide technical assistance and support. Broader efforts to reduce the costs to African businesses of international trade, such as investments in better infrastructure, assume even greater importance in light of the TPP.

[2] Remarks by U.S. Trade Representative Michael Froman at the Opening Ceremony of the 2015 U.S.-sub-Saharan Africa Trade and Economic Cooperation Forum, August 26, 2015.

Africa also needs to engage internationally. Each country should refocus on concluding the WTO Doha Round.  This means accepting that the WTO Doha Round 2008 positions are no longer viable, closing out the round while making as much progress as is realistic. The end goal should be reinvigorating the WTO as a forum for trade negotiations with the aim of having many of the outcomes agreed to in these FTA being multilateralized under a new WTO trade round.

More effective engagement in international standards bodies should also be a priority. The TPP agreement includes commitments among the parties to cooperation in such bodies, and the aim will be to multilateralize TPP standards through such processes. Africa can use these bodies to better understand the TPP standards and seek to ensure that their internationalization is done in a way that is sensitive to African interests.