



Conclusion: it's in the world's interest to give Africa a new trade deal

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8. Conclusion: it's in the world's interest to give Africa a new trade deal

David Luke

This book set out to examine *what* Africa trades, with *whom*, *where* and under *which* trade regimes, and also to assess and explain how the Covid-19 pandemic impacted how Africa trades. A normative framework that is pro-development and pro-equity provided the prism through which the issues were considered. This was complemented by an approach to trade policy analysis as applied to stages within the trade policy cycle to help identify what is working and what is not, and to concentrate analysis on the pressing issues at each stage.

We first set out the data on what Africa trades (Chapter 1) before reviewing the regimes, agreements and arrangements at continental, regional, bilateral and multilateral levels under which Africa trades (Chapters 2, 3, 4 and 5). Chapters 6 and 7 then explained the effect of Covid-19 on Africa's trade. Throughout the book, insights have demonstrated why Africa's trade is under-sized and underperforms in contributing to the continent's development aspirations for industrialisation and economic transformation. The inherent limitations of commodity concentration in Africa's trade were weighed against the relative diversification of intra-African trade. This is why there has been so much interest in the AfCFTA, which entered into force on 30 May 2019. Yet the AfCFTA project is stutter-starting and to date trade has not substantively flowed under the arrangement as envisaged in the agreement. The asymmetrical trade relationship between Africa and its main trading partners and the WTO's 'one size fit all' rules raise questions of what concessions might be essential for Africa – the world's least-developed continent, accounting for only a tiny fraction of world trade – to help change its trade underperformance. Two key questions arise from these insights. First, what is the ideal trade deal that Africa requires from its partners and at the WTO to boost intra-African trade and incentivise trade deconcentration? Second, what are the most critical policy initiatives and reforms that are required from African stakeholders?

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8.1 The ideal trade deal for Africa

Africa as the world's least developed region is increasingly where the last vestiges of extreme poverty reside, with 60 per cent of those living in extreme poverty now within the continent. With trade being a proven tool for growth, the advanced countries of the world can use it to help support Africa's self-chosen agenda for sustainable development. That would reduce global poverty, address instability and fragility, and make the world a more prosperous and secure place. But it would also be in the self-interest of those advanced countries of the world.

The African market will, in just 40 years, have more people in it than India and China combined. In the words of Janet Yellen, the US Treasury Secretary, at the *Délégation Générale à l'Entrepreneuriat Rapide des Femmes et des Jeunes*, in Senegal in 2023, 'Africa will shape the future of the global economy'. Reduced non-tariff barriers, lower intra-African tariffs, improved trade facilitation, and integrated markets can create a large, prosperous, peaceful, and more dynamic environment for trade and investment opportunities for Africa's partners as well as for Africa's own enterprises to grow. A more developed and integrated Africa is not merely philanthropy, but in everyone's best interest.

Yet, as discussed throughout the book, the trade relationships between Africa and its main trading partners are highly asymmetrical, a pattern observed in the bilateral relationships that were reviewed. In the case of the EU (the partner with the largest share of Africa's trade), asymmetry is compounded by the introduction of the EPAs, which are in effect reciprocal trade deals with gaps in their coverage of the RECs, resulting in hard borders for EU trade between African countries within the same customs union. In copying the EU's trade arrangements after Brexit, the UK (unlike Turkey, which as a member of the EU's customs union is obliged to maintain these arrangements) lost an opportunity to overcome the divisive implications of the EU's multiple trade regimes for Africa. China was shown to offer only a basic policy framework for guiding its trade with Africa. Overzealous implementation of its sanitary and phytosanitary regime, in which national quirks play a big role, limits the market access afforded by its duty-free, quota-free scheme for African LDCs. China is alone among the leading economies in not offering a generalised system of preferences scheme to African countries or a comparable programme such as the US's AGOA.

With positive elements such as non-reciprocity and uniform coverage among the eligible African countries, the US's AGOA was assessed to be a generous offer that is aligned to Africa's need for a tactical sequencing of trade opening with advanced country partners. That African beneficiaries have generally underperformed under AGOA illustrates the need for investment in productive capacity and other 'behind the border' reforms in African countries to complement the AGOA preferences; it is not an argument for shutting down AGOA, as some have advocated. However, AGOA is limited to the

countries south of the Sahara. This has limited the incentives for the nascent intra-African supply chains that criss-cross the continent to be fully leveraged to boost internal and external trade. As a unilateral initiative, AGOA comes with political conditionalities that are determined by the US. This ushers an element of uncertainty into the deal. The other bilateral trade relationships that were briefly surveyed, such as Africa's trade with India, Turkey, Japan, Russia and Brazil, lacked ambition for leveraging trade for development.

The insights from the review of these trade relationships suggest that new trade deals are needed for Africa. Africa is the world's least-developed continent with the lowest global trade shares. It needs trade arrangements that incentivise and reward reduced commodity dependence, expanded productive capacities, interconnected supply chains, and diversified trade growth. The empirical evidence suggests that, for these goals to be met, two complementary measures are required: the right sequencing of trade policy that prioritises intra-African trade, which is already more diversified than Africa's external trade, and liberalised trade with harmonised trade rules between African countries as offered by the AfCFTA initiative. Evidence from economic modelling at the Economic Commission for Africa (ECA) was cited to illustrate this point in regard to Africa's trade arrangements with its biggest partner, the EU.

This evidence suggests that implementation of the EU (and other advanced country) reciprocal agreements ahead of the AfCFTA would result in losses in trade – or trade diversion – between African countries. On the other hand, if the AfCFTA were fully implemented before the reciprocal agreements, this negative impact would be mitigated. Trade gains by both African countries and the EU would be preserved, while intra-African trade would expand significantly, benefitting trade in industrial goods. African integration is in the world's interest. Reduced non-tariff barriers, lower intra-African tariffs, improved trade facilitation and integrated markets create a large, prosperous, peaceful and more dynamic environment for trade and investment opportunities for Africa's trading partners, as well as for African own enterprises to grow. This points to the need for strategic sequencing that prioritise implementation of the AfCFTA first.

The main elements of the ideal trade deal for Africa at this stage of its development can be sketched along the following lines: for a transitional period benchmarked against milestones in AfCFTA implementation and the gains emerging from it, a good development case can be made for Africa's trading partners to offer to all African countries unilateral market access that is duty-free and quota-free with a cumulative rules of origin regime. Concessions to Africa, as the world's poorest continent, that allow non-reciprocal access in goods and services to partner markets for a fixed transitional period, are strongly pro-development. With external market access secured for Africa's exports, they incentivise African countries to seek trade opportunities with each other and mitigate the risks of trade diversion. By ensuring such a

deliberate sequencing for the AfCFTA, this will help Africa to build productive capacities and achieve its potential for strong and diversified growth in intra-African trade, with inclusive and transformational consequences. The ideal trade deal for Africa raises three immediate questions, centring on what might constitute a sufficient transition period, the justification for the inclusion of North African countries, and possible obstacles to a WTO waiver that would allow special treatment for Africa as a whole.

On the first question, of a sufficient transition period, the first clue is the AU's Agenda 2063, which envisages significant transformation of African economies by that year. The EU's Post-Cotonou Agreement (PCA), which was reviewed in Chapter 3, provides another clue. The EU's existing bilateral trade deal with sub-Saharan countries is for a period of 20 years from 2021. This suggests that, in the minds of the negotiators, it may take up to two decades for significant changes in Africa's trade to emerge, which at that point would warrant a review of the PCA. As regards the US's AGOA, 10 years from 2025 is understood to be the timeframe that is, as of late 2022, being considered for a renewal of this trade concession. Yet another clue comes from ECA modelling, cited earlier, which projects that, after full implementation of the AfCFTA, gains for Africa would essentially be concentrated in intra-African trade, which could see an increase of up to 33.8 per cent by 2045, as compared to a baseline without the AfCFTA. The data-driven ECA projection may be considered to be a judicious timeframe for the transition period.

On the second question, of the inclusion of North African countries, as was noted in Chapter 4, the August 2022 US Strategy Toward Sub-Saharan Africa announced by the Biden administration calls for the US to 'address the artificial bureaucratic division between North Africa and sub-Saharan Africa'. The EU too, with the 2018 Jean-Claude Juncker State of the Union address, raised the prospect of a 'continent-to-continent free trade agreement as an economic partnership between equals'. This appreciates that the value chains that are developing across the continent outdo artificial divisions and that trade integration on the continent as a whole provides a more dynamic market for both imports and exports. Egypt and Tunisia are already members of COMESA and Mauritania is in ECOWAS, while Morocco has sought ECOWAS membership. Algeria, Egypt, Mauritania, Morocco and Tunisia have ratified the AfCFTA Agreement, while at this point Libya has only signed it. It should also be noted that the ECA modelling results assume continent-wide implementation of the AfCFTA.

On the third question, of multilateral legitimisation through a WTO waiver, the precedent established by the US's AGOA in obtaining a WTO waiver suggests that this is not an insurmountable feat. Here it must be recognised that the WTO's 'one size fits all' rules require reimagination to meet the 21st-century realities and challenges facing late developers, such as African countries. As a member-driven organisation, with African countries accounting for a quarter of its membership, consensus on a special deal for Africa may not prove too difficult to achieve.

The ideal trade deal that assures non-reciprocal market access as sketched out above is conscious of the fact that African countries do not pose a threat to any of their trading partners in both goods and services. African countries account for just 2.3 per cent of world trade. This is underscored by the low levels of African participation in the WTO's dispute settlement system, which were discussed in Chapter 5. With insignificant shares of international trade, low-income countries have less economic heft to back up settlements whether as complainants or respondents in retaliating or absorbing retaliatory measures. This is compounded by the expense involved in litigation and by technical and capacity constraints at the African diplomatic missions in Geneva and at home in the capitals. The international trading system can accommodate a special trade deal for Africa with negligible systemic effect.

It further follows that African countries should rethink the merits of working through coalitions at the WTO that include other developing countries' groups such as the G90 or the Organisation of African, Caribbean and Pacific States (OACPS) as this does not allow for sufficient differentiation of Africa's specific needs. On some special and differential treatment (SDT) issues, for example, emerging economies or higher-income developing countries that have already acquired substantial market share in some sectors are unlikely to be granted policy space flexibilities, having already climbed some distance 'up the ladder'. As the region with the smallest (and declining share of world trade), African members should differentiate and pinpoint with finer clarity where SDT is required to support their growth. A related question concerns the distinction between 'least-developed countries' (LDCs) and 'developing countries'. With continental trade integration as the main strategy for boosting intra-African trade and global trade shares, this distinction between African countries is no longer tenable as it transcends the outworking of value chains on the ground. This is recognised in the AfCFTA protocols that require all signatories to assume the same obligations, with only a relatively short transition period granted to LDCs specifically with regard to the schedule for the liberalisation of trade in goods. In practice however, customs unions such as ECOWAS and EAC that encompass both LDCs and developing countries are following the same schedule for the liberalisation of trade in goods, which underscores the artificial distinction between the two categories of countries with respect to trade policy measures. Yet it is increasingly recognised by African policymakers that merely created exceptions to the general WTO rules, through SDT, has not in itself worked and is not sufficient (See communication of the Africa Group to the WTO General Council, WT/GC/W/868). The WTO needs to be wielded more proactively by African countries. This will involve pushing for provisions to the Agreement on Trade-Related Aspects of Intellectual Property Rights to encourage technological transfer, particularly of vital technologies needed for fighting climate change and catching up with digitalisation. African countries, as relatively small countries, must also fight for the equalising potential of the WTO in a world in which unilateralism is increasingly prevailing, even

among advanced countries that were formally champions of multilateralism, such as the United States.

With dour realism the EU Parliament's 2021 resolution that was cited in Chapter 3 concluded that Africa requires a level playing field to reshape economic and trade relations and empower the continent. The ideal trade deal for Africa provides a basis for achieving the reasoning behind the resolution.

8.2 Critical responses required from African stakeholders

Three clusters of responses are required from African stakeholders. The first concerns implementation of the AfCFTA; the second is the importance of behind-the-border reforms that are also related to AfCFTA implementation; and the third is about strategic coordination in engaging with external partners. The responses required from African stakeholders are in line with the continent's industrial development aspirations and can help to drive diversification and ramp up trade performance.

AfCFTA implementation

The rationale of the AfCFTA is clear: it aims to boost intra-African trade and through doing so to diversify African economies, while contributing to their long-overdue industrialisation. It provides a platform for ambitious reforms that include elimination of nearly all tariffs, disciplining non-tariff barriers, harmonising approaches to services liberalisation and regulatory regimes, and ushering in a rules-based arrangement for trade governance across the continent. The AfCFTA enjoys broad consensus and strong political backing as a flagship project of the AU Agenda 2063, as discussed in Chapters 2 and 6. Covid-19 revealed the commitment of Africa's trade policymakers to the AfCFTA initiative, despite the considerable policy distractions of a global pandemic. With that commitment proven, it should be leveraged to broker the compromises needed to get the AfCFTA working to substantively transform trade in Africa.

The AfCFTA amounts to the crystallisation of decades of policy deliberation into an actionable and legally enforceable trade agreement. An increasing breadth of complementary projects, tools and initiatives such as the Pan-African Payments System and the Guided Trade Initiative have been put in place within the growing AfCFTA ecosystem to support implementation of the deal. However, with the start of trading stuck on technicalities, the AfCFTA is yet to substantively take off (beyond the products supported through the Guided Trade Initiative). Unlocking regional leadership could offer a solution, as has been the case with Kenya and South Africa in leading integration within EAC and SADC, respectively. Along with these countries, Egypt and Nigeria played a key role in bringing about the success that was achieved in the earlier phases of the AfCFTA negotiations. Rwanda, Senegal

and Uganda were also active in these phases in brokering compromises. The message here is the need for leadership, creativity and compromise in realising the start of trade under the AfCFTA to help generate the momentum needed to get trade flowing across and transforming the continent.

AfCFTA implementation should take account of the RECs, which have a practical function in enabling trade integration and connecting a continent that is as vast as Africa. As also discussed in Chapter 2, the RECs are massively under-resourced, but they help to find and apply common solutions to mutual supply constraints. As was also seen in Chapters 6 and 7, it was at the level of the RECs that safe trade measures were designed and rapidly rolled out during the Covid-19 pandemic. In the preamble to the AfCFTA Treaty, and in Article 5 of the AfCFTA Framework Agreement, the eight AU-recognised RECs are designated as the AfCFTA's 'building blocks', meaning that their best practices and achievements are to be followed and incorporated into AfCFTA implementation. Article 12 confers an advisory role on them in AfCFTA deliberations. This complements the role accorded to the RECs as partners in the implementation of AU programmes.

As the AfCFTA is implemented, informal cross-border trade must not be overlooked, particularly in policymaking circles, as a critical source of trade and livelihoods. This was shown again during the Covid-19 crisis as border health measures often disregarded such traders, as discussed in Chapter 7. Frequently, trade policy measures are designed and implemented without sufficient assessment of the implications for these valuable traders. They can be better brought into each stage of the trade policymaking cycle. Improving and developing the existing simplified trade regimes provides the ideal avenue to use policy to interact with, and support, informal cross-border traders.

Behind-the-border reform

Turning now to behind-the-border measures which are also related to AfCFTA implementation, as discussed in Chapter 3, the insights from the Post-Cotonou Agreement (PCA) provide a ready-made agenda for policy and institutional reform. The PCA gives prominence to business environment reforms along with implementing effective competition policies, simplifying business regulations and processes including non-tariff measures, reducing and streamlining administrative formalities and other customs modernisation reforms, compliance with trade facilitation commitments, sanitary, phytosanitary and other standards, and more generally reducing trade costs. These are important reforms that should be complemented with open, transparent and clear regulatory frameworks for business and investment along with protection for property rights. The AfCFTA provisions on trade facilitation and protocols on investment, competition policy and intellectual property rights that were adopted in November 2022, if fully implemented, will lock in common obligations and requirements and provide a basis for benchmarking best practices.

Financial sector reforms are also crucial for improving trade performance as recognised in the PCA. In particular, sustainable and responsible investment – from domestic and foreign, public and private sources that focus on sectors that are essential for economic development – has high potential for job creation in value-adding sectors and foster environmental sustainability. At the same time appropriate measures are required that promote improved access to finance and financial services, especially for micro, small and medium-sized enterprises (MSMEs), the development and interconnectivity of financial markets, and the integration of capital markets to ensure the efficient allocation of savings to productive investment. Competition between financial service providers and strengthened mobile and digital financial services further helps to enhance access to finance, especially for MSMEs. Access to affordable finance is one of the drivers of the formalisation of informal cross-border trade (ICBT). As discussed in Chapter 7, the Covid-19 pandemic provided insights on how scale efficiencies can drive and transform ICBT.

There is evidence to suggest that African countries that work towards systematic improvements of behind-the-border measures are also performing better as traders. With regard to AGOA, for example, as discussed in Chapter 4, the strength of the trade support environment in African countries has determined whether or not they have been able to take advantage of AGOA. Countries with AGOA utilisation strategies have performed better. It is in this regard commendable that over 40 African countries are participating in programmes designed to enhance performance under the AfCFTA through national implementation schemes.

Strategic coordination

African Union resolutions frequently call upon its member states to consistently apply their own resolutions agreed under AU auspices ‘to engage external partners as one ... speaking with one voice’. As was noted, summits between African leaders in an AU configuration and partners now occur with regular frequency. In recent years, and in particular since 2013 when the AU’s Agenda 2063 was adopted, the focus has turned towards how these partnerships can be leveraged to support long-term economic transformation in Africa. This can be seen in the increasing attention to support for overcoming supply-side constraints such as infrastructure, energy, human development and sustainability. Since Agenda 2063 shares many of the same aspirations as the UN’s SDGs, it provides a ready-made basis for achieving consensus on priorities between Africa and its partners. Yet the AU Commission has no mandate to act on behalf of member states in trade negotiations or indeed in climate talks, although it is well established that Africa is disadvantaged in these two policy areas. Only ad hoc arrangements are put in place to coordinate negotiations.

Although the African Union maintains diplomatic representation in key capitals such as Washington, DC, Brussels and Beijing, African diplomatic missions struggle to engage strategically and coherently, and so

underperform. Washington, DC, and Brussels offer multiple entry points for engagement through the diverse agencies of the US executive branch, the congressional caucus and committee system, and the EU Council, Commission and Parliament, respectively. Such pluralism may not be present in Beijing, but its concentrated power structures should perhaps make the task less onerous for coordinated African diplomatic activity. In Geneva, where an African Union office is also in place, as noted in Chapter 5, it lacks capacity to provide technical services to the WTO Africa Group including in drafting proposals and preparing responses to proposals from interlocutors. To enhance the role of the African Union in Geneva, it was suggested that it is essential it is given observer status at the WTO, which it is currently denied. It was recommended that to help ensure that African countries engage proactively on current and future questions that arise at the WTO, the African Union should set up a dedicated think tank on WTO issues to provide its member states with policy options that support African interests. One of the emerging issues that will impact how Africa trades concerns initiatives to decarbonise national economies and the role that border adjustment measures can play in reducing the risk of carbon leakage. It is essential that, from this early stage, African countries are able to shape new global rules on trade and climate.

Without effective coordination, African countries are vulnerable to being outmanoeuvred in trade negotiations and in their engagement with partners. In geoeconomics and geopolitics, individual African countries lack influence on their own to achieve meaningful outcomes that impact their development prospects. They should work together. The AU Commission must be given a mandate, direction and resources to secure outcomes that meet African aspirations. The stakes are high. A reliable revenue stream from trade is critical for development finance and sustainable debt management. Transforming how Africa trades will unlock structural changes in African economies that have proved elusive so far.

Final word

Informed deliberations on African trade policy need not be an activity for ‘experts’ alone. Trade affects the lives of ordinary Africans, shapes development outcomes, and impacts the continent’s aspirations for economic transformation. *How Africa Trades* is packed with insights for interrogating the undersized and underperforming state of Africa’s trade. The book is published on an open access basis to make it easily accessible and to enrich discussion and engagement on issues of trade policy reform. Researchers are encouraged to go deeper into the issues covered in this book. For teachers and educators, the book can be used in interdisciplinary courses on international development and across several disciplines in the social sciences including economics, law, politics and international relations. Most importantly, it is hoped that this book will help to bring about change in how Africa trades.