

THE EVOLVING GLOBAL TRADE POLICY LANDSCAPE AND THE AfCFTA

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Outline of Presentation

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- New Risks
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- AfCFTA



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Unbalanced Globalization

- Crisis at the WTO is part of a wider crisis in multilateralism
- At WTO, the crisis is rooted in the policies embedded in the legal commitments in the agreements
- Contributed to fostering an unbalanced globalization
- Massive extension of global markets and stronger intellectual property rights protection delivers enormous benefits for certain narrow interests
- But growing concentration of wealth, inequality, job losses and insecurity
- Backlash against trade and the WTO
- Changes in terms of engagement at the WTO by major economies



Unbalanced Globalization

- Follows longstanding concerns by developing countries that agreements prejudice their trade and development interests
- Unfair exchange of concessions: deep tariff reductions without a commensurate reduction of tariffs in sectors of their export interest
- Imbalances in agriculture: developed countries continue to provide massive distorting support to their farmers, with constraints on developing countries for food security
- Rules on industrial subsidies constrain policy space to support industries in developing countries but allows advanced economies to provide substantial support to high-tech, knowledge-intensive industries
- IPR that facilitate monopoly rents but diminish technology transfers that could spread growth and development more widely

New Risks

- Unilateral actions overshooting tariff bindings, MFN
- Risk to consensus decision making in the proliferations of plurilaterals (e-commerce, investment facilitation most notable)
- Proposals to narrow flexibility for developing countries - SDT
- Proposals to tighten rules on subsidies, technology transfer, SOEs: more constraints on development policy
- Disabled dispute settlement – prelude to reversion to power in resolution of trade frictions?

New Risks

- Covid-19 has disrupted global supply chains and trade is expected to fall by between 20-32% in 2020
- In discussion on recovery, three lines of argument are discernible:
 - One: when C-19 passes, back to business as usual. Restore GVCs and make them more 'resilient' – seen to require new rules and further liberalization (implement trade facilitation, liberalize trade in medical supplies and PPEs, remove export restrictions on agricultural trade)
 - Two: C-19 exposed strategic vulnerabilities of overdependence on fragile value chains now requires rebalancing GVCs and more domestic manufacturing - But not necessarily applied for all
 - Third: “resilience” should mean greater focus on building national manufacturing capabilities with accommodating



Responses

- Defending a rules based system does not mean accepting inherited inequities or new proposals that worsen imbalances
- WTO reform should be inclusive and developmental to respond to the underlying causes of the backlash against trade
- States must be able to pursue national industrialization within a broad framework of international cooperation – a ‘rebalancing’
- Address rules that constrain industrial policy and technology transfer
- More honest assessments of benefits and costs of liberalization
- Recognition of the value of economic and institutional diversity
- Preserve SDT and right to regulate in the public interest
- Many ideas embedded in positive developmental agenda in the Doha mandate remain relevant



An African Response: Context

- AU Agenda 2063 - Importance of structural transformation, industrial development, diversification
- Over-dependence on commodity, low value-added products for export
- Africa's share of world trade is small - estimated at 3%
- 80-90% of total trade with external partners (2000-17)
- Intra-African trade comparatively low: 16-18% (under-estimation - informal trade)
- Structure of trade: minerals (oil, ores) constitute 50% of exports to RoW, but just 33% of intra-African exports
- In aggregate, trade in manufactured products constitute 45% of intra-African trade



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An African Response: Context

Although Intra-Africa trade is low:

- Africa is by far the second most important export market for most African countries
- At least seven count it as their most important market
- The African market is important to African producers particularly for higher value added products that drive industrialisation and diversification
- Over three quarters of intra-African trade takes place within regional trading blocs



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An African Response: Context

- The main constraint to boosting intra-African trade is not tariff barriers per se but real economy/productive constraints
- These include under-developed production structures and inadequate infrastructure
- A “development integration” agenda should therefore combine market integration (AfCFTA) with programmes for cross-border infrastructure connectivity and industrial policy cooperation to promote regional value chains, and industrial development



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The AfCFTA: Background

- African integration is a longstanding continental objective – from immediate post-colonial era
- Embedded at the creation of the Organisation of African Unity in 1963
- Integration seen as essential to overcome the limitations of small fragmented economies established under colonialism
- Some progress is registered at sub-continental/REC levels: Arab Maghreb Union, ECOWAS, COMESA, EAC, SADC, SACU, etc.
- The AfCFTA aims to build on these sub-regional projects as a next step in the integration process as part of the wider African Union 2063 Agenda

The AfCFTA: Progress

- The AU launched the AfCFTA negotiations at 25th Summit on 15 June 2015 in Johannesburg
- The AU Heads of State adopted the legal instruments establishing the AfCFTA at Summit on 21 March 2018 in Kigali
- Summit in Niger, in July 2019 launched the operational phase
- 54 out of the 55 AU members signed the Agreement
- 28 countries have ratified the AfCFTA
- We are preparing for its operationalisation by moving towards completion of negotiations on core policy and technical matters.



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THE AfCFTA

- We still have some way to go to operationalise the AfCFTA
- Tariff Offers (of 28 members that have ratified, only 11 have submitted offers)
- Unfinished negotiations on Rules of Origin
- Just six AU members have submitted offers for trade in services in the 5 priority sectors (financial, communications, tourism, transport and professional services)
- Due to C-19, the 1 July 2020 deadline for operationalizing the AfCFTA has been postponed to 1 January 2021
- Negotiations on Phase II issues (Protocols on Investment, Intellectual Property and Competition) will also have to be delayed



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THE AfCFTA: Risks/Challenges

- Difficulties in agreeing on RoO – what constitutes “Made in Africa”
- Where will the benefits of preferences accrue: inside or outside the continent
- Risk of transshipment (3rd party products preferential access to domestic markets High level of ambition for tariff liberalization)
- Requires effective customs capacity to monitor and enforce RoO at ports of entry.
- Nigeria not yet ratified is major gap: largest economy and impacts on ECOWAS’ participation
- Risk of AfCFTA negotiations re-opening existing REC arrangements



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THE AfCFTA: Risks/Challenges

- Trade liberalisation involves gains and losses in production, trade and employment
- Management to share the gains/losses are key to sustainability of agreement and implementation
- How Africa positions itself in trade with rest of the world is also key to the effectiveness of the AfCFTA
- US-Kenya proposed FTA – with US indicating this will be model for others
- EU proposal for FTA with Africa



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THE AFCFTA: C-19

- C-19 has further exposed Africa's vulnerabilities
- Growth declines from 2.4% in 2019 to between -2.1 to -5.1% in 2020, commodity price declines, tourism collapse, remittances, currency depreciation, health and food security crisis
- Less fiscal space and finance to support economies and recovery
- UNCTAD/IMF proposal: i) \$1 trn liquidity injection (Special Drawing Rights); ii) \$1 trn debt write off; iii) \$500 bn for health recovery funded from the missing ODI; and iv) capital controls to curtail the surge in capital outflows, to reduce illiquidity driven by sell-offs in developing countries
- International response inadequate so far



THE AfCFTA: Next Steps

- Imperative to build greater resilience in our economies, shorten value chains and build national and regional capacity
- Focus on pharmaceuticals, medical equipment, food production, regional infrastructure and energy
- Benefits and costs must be equitably shared
- Broaden participation and consider ways to accommodate all African countries
- As we open up our economies to each other and build regional value chains, we need to carefully re-consider our trade policy stance to the rest of the world
- Operationalization of the AfCFTA brings us a step closer to realizing the historic vision of an integrated market in Africa



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Thank you



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