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Talking Points

## **Briefing to Parliamentarians on Trade and Industrialization**

*11:00-12:00, 21 February 2018  
Committee Room 13, House of Commons, London*

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### **ECA-ODI Partnership**

- The ECA and ODI initiated a joint research project “Support for the African Union and ECA on trade policy in Africa” in 2016, funded by the UK Department for International Development (DFID).
  - I would like to take this opportunity to thank DFID for their generous support to this project.
- The project has included a number of joint sub research programmes; most notably research on the:
  - Trade relationship between emerging market economies and Africa;
  - Opportunities and challenges for a future Africa-UK trade partnership post-Brexit; and
  - Important linkages between trade and industrialization on the continent – the focus of today’s parliamentary briefing.

### **Industrialization is central to Africa’s trade and development priorities**

- The importance of industrialization and structural transformation has gained increasing importance in Africa’s development policies and frameworks in recent years.
  - The AU dedicated its 2008 Summit to the theme of “*the industrialization of Africa*”.
  - The Action Plan for the Accelerated Industrial Development of Africa (AIDA) was adopted at this summit - now serves as the main agenda for Africa’s industrialization.
  - In 2010, the Programme for Infrastructure Development in Africa (PIDA) was launched - aimed at enhancing cross-border collaboration in the design and implementation of regional energy and transport infrastructure projects.
- The African Union reaffirmed the continent’s commitment to industrialization with its “Agenda 2063: The Africa We Want”, which defines the continent’s broad development priorities and objectives.
  - Emphasis attached to the need for structural transformation to drive economy-wide productivity improvements, job creation and sustained progress in growth and poverty reduction.

- The agenda calls for the promotion of sectoral and productivity plans and regional and commodity value chains to support the implementation of industrial policies.
- Trade-related priorities - the agenda also calls for developing productive capacities, boosting intra-African trade, the establishment of the African Continental Free Trade Area (AfCFTA) - it's first flagship programme - and improved regional infrastructure.
- Significant and impressive efforts have already been made towards establishing the AfCFTA, of which my colleague, Jamie Macleod, will provide an update on later in the meeting.
- In this context, the ECA and ODI, in collaboration with important partners such as the AUC, agreed to work together to assist African countries to more effectively use trade as a tool to deliver on their industrialization frameworks.
  - My colleague, Lily Sommer, will present the key messages and recommendations from this collaborative work.
  - The report has been very well received by researchers, the African Union, African Member States and ECA's sub-regional officers.
  - In 2018 we plan to take the key findings to the national-level and assist a selected number of countries to domesticate them. This will help to ensure that the important recommendations are not lost and can have a real impact on the ground.

### **Lessons learned from EPAs**

- African countries' ability to use trade to transform their economies will be influenced not only by domestic reforms and continental integration efforts, but also by trade partnerships with the rest of the world.
  - Preference-granting countries determine the products and countries covered under preferential trade arrangements, along with the terms for granting preferential access.
  - For example, in many African countries, there is an imbalance between productive capacity and stringent rules of origin and product standards.
  - Improvements in design are therefore necessary to support Africa's industrialization and development effectively.
- The current Economic Partnership Agreements (EPAs) between African regional groupings and the EU could be significantly improved upon.
  - In their current form, EPAs are perceived as hindering the development of domestic industries through increased competition from European producers. While the agreements include provisions allowing for the protection of infant industries, such measures are limited in duration and can be complex to justify.
  - More broadly, EPAs have been criticized for limiting the policy space of African signatory countries to achieve their industrialization and development objectives.

For example, while the WTO does not expressively prohibit export taxes, they are to be restricted and monitored under EPAs.

- The fragmented approach to the negotiations (i.e. the division of the continent into five blocs) also creates obstacles for African countries to develop regional value chains (RVCs). The application of several cumulation regimes in particular, and difficulties linked to administrative cooperation requirements, limit opportunities for value chain development between countries in different EPA blocs.
- Recently agreed EPAs contain calls for the partial and gradual asymmetric opening of African markets to European Union imports, which has important implications for the continent's industrialization agenda.
- ECA modelling suggests that the implementation of new EPAs in West Africa and the East and Southern Africa region would see a significant influx of European Union exports to African countries in almost all sectors (especially in industrial goods), a reduction in intra-African trade and tariff revenue loss.

#### **How can the UK support Africa's industrialization through trade?**

- Joint ECA-ODI research highlights that Brexit offers a significant opportunity for Africa and the UK to improve their trading relationship in a mutually beneficial way, that better supports the achievement of Africa's industrialization, trade and development objectives.
  - More generous industrial provisions - related to infant industries, temporary export duties, rules of origin and standards requirements and aid for trade (AfT) targeted at reducing the binding constraints to industrialization - could be used to support Africa's structural transformation.
  - Services and investment - both key to driving Africa's industrialization - should be considered in any Africa-UK trade agreement.
  - Reciprocity should be appropriately managed and gradually phased to ensure that increased intra-African trade takes place before any significant opening up of African markets to the UK. This is needed to allow African countries to harness the economies of scale and learning by doing needed to develop competitive RVCs, and domestic industries which are well positioned to compete internationally and integrate into global value chains (GVCs).
  - Although Africa decided to negotiate EPAs in regional groupings fourteen years ago, the continent's trade landscape has now significantly changed. Current EPA regional blocs do not match REC groupings and the EPA process has not evolved with Africa's industrialization and development objectives. Africa's decision to establish the AfCFTA and the intention to establish a continental customs union, mean that it now makes even more sense for the UK to negotiate with Africa as a whole, just as the EU negotiates as one.