BACKGROUND TO THE REPORT

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND INDUSTRIAL POLICY
Motivation and scope

• ECA’s 2015 Economic Report for Africa (ERA) established a clear case for the increased and improved use of trade and trade policy as tools to drive the continent’s industrialization.

• The report builds upon the recommendations of ERA 2015 through providing a thorough assessment of what is required of African economies to industrialize “smartly” through trade.

• The assessment is informed by an analysis of whether current trade policies and tariff structures positively contribute to Africa’s broader industrialization policy.

• The report is a joint publication of the ECA and ODI.
What is “smart” industrialization through trade?

• “A way to utilize trade policy as a means to drive industrial development and value addition, in the context of successive bilateral, regional and multilateral trade negotiations having constrained the use of traditional trade policy instruments once used by developed countries to promote industrialization.”

• NOT to be confused with smart protectionism, which advocates for increased protectionism in order to develop competitive industries!
KEY MESSAGES

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND INDUSTRIAL POLICY
1. Africa’s industrialization experience has been disappointing

- In 2014, Africa’s average share of manufacturing value added in gross domestic product (GDP) was 9.8 per cent, 3 percentage points less than the 12.8 per cent of 1990.
- The share of manufacturing exports in Africa’s total exports similarly declined from 25.6 per cent in 1995 to only 18.9 per cent in 2014.
2. Industrialization is central to African development policy

- Action Plan for the Accelerated Industrial Development in Africa (AIDA)
- African Union’s Agenda 2063
- Industrial pillar in the African Continental Free Trade Area (AfCFTA)
- Regional Economic Community (REC) Industrialization Strategies

3. Fresh thinking is needed to drive Africa’s industrialization

- **Intra-regional** trade offers particular potential to facilitate increased economies of scale, diversification and value addition.

- In 2014, **manufactured goods** accounted for 41.9 percent of intra-African exports, compared with only 14.8 percent of exports outside the continent.

- ECA modelling exercises indicate that establishing the AfCFTA would boost intra-African trade by 52.3 percent, and estimated increases are highest for **industrial products**.
4. Africa’s industrialization is externally influenced

- Preferential trade agreements - imbalance between productive capacity and stringent rules of origin and product standards
- Shifts towards greater reciprocity – risks reducing the competitiveness of African producers if the adjustments are not appropriately phased and managed.
- Mega-regional trade agreements – loss of market share by African countries

5. Targeting of protection could be improved

- Weak relationship between effective rate of protection (ERP) and revealed comparative advantage (RCA)
- RCA analysis can help identify potential areas of specialization
- African countries could make better use of export taxes which can help encourage value addition by reducing or banning the export of raw materials and unprocessed products
- But must be targeted at industries with comparative advantage and supported by other industrial policies to ensure that selected industries take off
6. Africa faces significant tariff and non-tariff trade costs

- The import-weighted tariffs on Africa’s **imported intermediates** are significantly higher than elsewhere particularly for industrial supplies, capital goods and transport equipment.

- Africa imports the large majority of its industrial inputs from **outside** the continent at high tariff rates – in 2015, intermediate goods imports into Africa from outside faced a tariff rate of 7.5 percent, compared with 4.5 percent for intra-African imports of intermediates.

- Prevalence of **non-tariff measures** and physical market access barriers.

- Inadequate **infrastructure** is a particular problem.
POLICY RECOMMENDATIONS

TRANSFORMING AFRICAN ECONOMIES THROUGH SMART TRADE AND INDUSTRIAL POLICY
1. Articulating smart choices in trade agreements

- African countries should use ex-ante and ex-post industrial impact assessments as tool to support the mainstreaming of industrial priorities into Africa’s trade agreements.
- Industrialization should be central to the AfCFTA negotiations process.
- Africa should smartly sequence its trade policy reforms – implement the AfCFTA quickly to avoid trade losses from MRTAs and growing reciprocity.

2. Using trade policy as a tool for industrialization

- African countries should base their industrial strategies on comparative advantage – lower tariffs on key inputs and time-bound and well-targeted export restrictions.
- Tariff rates should be reduced on important industrial intermediate inputs for which regional production capacity does not exist.
- The AfCFTA should aim to significantly reduce internal tariffs on industrial intermediates.
- African firms should industrially upgrade through participating in global value chains.
3. Complementary policies for industrialization through trade

• Interventions to reduce non-tariff trade costs are needed to tackle the binding supply-side constraints to industrialization – underpinned by the AU’s Boosting Intra-African Trade (BIAT) Action Plan

• Africans must be equipped with the skills needed to engage in skill-intensive manufacturing industries such as apparel and the manufacture of machinery

• Efforts to ensure an efficient and competitive trade facilitation framework should continue to receive attention – infrastructure, customs operations, services, trade facilitation etc.

• Enhancing access to affordable credit will be key to driving industrialization and supporting the integration of export-oriented firms into time-sensitive regional and global value chains.
4. Strengthening links among national development strategies, industrial policy and trade policy

• Industrial development must become the core objective of trade policy

• African countries must align their regional integration and trade policies with industrial policy that reflects the opportunities and challenges and resources they have.

• Industrial parks and special economic zones can be used to exploit linkages between trade and industry

• In particular, industrial parks could be organized on a cross-border basis to provide incentives for local and foreign industry-related investment to take full advantage of trade liberalization under the AfCFTA
THANK YOU!

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