

Launch of EDAR 2019 – TDB October session

Draft Statement, Mr. Paul Akiwumi, Director, ALDC, UNCTAD

Distinguished Delegates, ladies and gentlemen,

As you know, the African Continental Free Trade Area (AfCFTA) entered into force this year and its operational phase was launched in July 2019, during the African Union’s Extraordinary Summit in Niamey. As it currently stands, the AfCFTA process is well on track to become the world’s largest common market servicing approximately 1.3 billion people when it opens for trading in July 2020.

There are a lot of expectations for the AfCFTA to deliver much awaited development benefits to the continent.

This year’s EDAR has garnered a lot of interest in the press in Africa and elsewhere. In fact, we believe that it is contributing to changing the narrative on a unified Africa ready to conquer markets within the continent and beyond.

I would like to emphasize three points that highlight why the 2019 Economic Development in Africa Report on “Made in Africa – Rules of Origin for Enhanced Intra-African trade” is a major contribution to the AfCFTA process.

First, as with all Free Trade Areas, the AfCFTA, must mean more trade within Africa!

At present, intra-African trade remains weak and accounts for only 15.2 per cent of all African exports and imports, compared to Europe and Asia, where intracontinental trade accounts for 67 or 61 percent, respectively. More cross-continental trade means more wealth created and wealth staying in Africa.

The report argues that “Rules of Origin” will make or break the AfCFTA. Rules of origin determine whether a good qualifies as “Made in Africa” and thus provides the basis for assessing whether a product is eligible for preferential treatment or receives the standard WTO most-favoured-nation treatment.

The problem is that, the rules of origin can be difficult to comply with as they might require sophisticated accounting systems, can be complex in terms of processing requirements, are often costly owing to documentary or certification requirements, and frequently differ across trade agreements. In addition, in most African countries, customs institutions are not well equipped to ensure that the processing of Rules of origin is done in the most efficient and effective manner. As a result, rules of origin can represent a barrier to trade.

The report also shows that the complexity and incompatibility of different sets of rules of origin across Regional Economic Communities in Africa is one of the many obstacles that hinders growth of intra-African trade. Small and Medium Sized Enterprises, in particular, find them too difficult and costly to comply with.

In this regard, the Report recommends that it is critical that rules of origin are appropriately designed, transparent and lend themselves to easy implementation, in order to support preferential trade liberalization. This requires that they are simple, transparent, business friendly, predictable, trade-facilitating for businesses and trade operators. They must minimize hurdles and uncertainties for firms, thereby reducing compliance costs.

Second, the AfCFTA must help Africa deliver on its industrialisation agenda.

The Report is the first reference that maps all rules of origin across the continent's Regional Economic Communities and specifically highlight what the AfCFTA's own set of rules could mean for the development of cross continental value chains within Africa. It offers insights into what might be needed for the development of regional value chains, such as those examined in the Report, namely tea, cocoa-chocolate, cotton-apparel, beverages, cement and automotive.

Ladies and gentlemen, rules of origin are situated at the nexus of trade and industrial policy. Make them too lenient and a Free Trade Zone runs the risk of not spurring the creation of local value. Make them too strong and countries risk being considered too protectionist and hinder the sourcing of intermediate goods.

The right set of Rules of origin at the AfCFTA could help redress the fragmentation of the market in Africa across regional economic communities through a better harnessing of trade complementarities, and by opening opportunities to enhance value addition on the continent.

Take the example of the Cocoa to chocolate value chain. African countries produce roughly 75% of the world's cocoa beans. 70% of the continent's total exports of cocoa-chocolate products take the form of cocoa beans, while the continent remains a net importer of cocoa powder and chocolate.

Africa's participation in the cocoa value chain is characterized by a dichotomy. On the one hand, cocoa-producing countries such as Cameroon, Ghana, Ivory Coast and Nigeria are integrated through the supply of raw materials and semi-processed intermediates with limited added value to developed countries. On the other hand, a few countries – Egypt and South Africa, and to a lesser extent Algeria, Morocco and Tunisia – supply final chocolate products to their domestic and regional markets, but mainly import their intermediate inputs from outside Africa.

Africa loses billions due to the limited value addition along its cocoa value chain. In 2016, global chocolate sales fetched US\$112 billion but cocoa beans farmers, most of them smallholders, only got \$9 billion. Retaining part of this value within Africa involves at least four Regional Economic Communities, each with their own set of administrative and compliance hurdles: from West and Central Africa to North and Southern Africa.

From a tariff perspective, Africa's cocoa-chocolate sector remains heavily protected. The median most-favored nation tariffs range from 5% to 25%, depending on the tariff heading considered. Notwithstanding the tariff liberalization done, at the level of the regional economic communities, from ECOWAS to SADC and COMESA. The greatest potential for value addition in cocoa products lies along corridors that cut across the regional economic activities. Paradoxically, many cocoa-producing African countries exporting to other countries on the continent face tariff protection levels that are far higher than those applied by the rest of the world.

Let me emphasize once again, in this specific case, the AfCFTA is an opportunity to achieve two major outcomes. First, it will bridge the regulatory gap across the continent by giving an option for defining Made in Africa, for Africa, with billions of dollars retained across the value

chains across the continent. And second, major tariff reductions will make Africa based producers more cost competitive.

Beyond commodity-based industrialization, the right set of rules of origin within the AfCFTA will allow firms to benefit from economies of scale, in sectors such as automotives, and more investments in infrastructure, and ultimately contribute to fostering greater economic diversification.

For this virtuous scenario to occur, many countries will need complementary policies such as business, competition and trade facilitation measures, to keep local inputs competitive, relative to external suppliers.

Third, the AfCFTA must not leave any country behind.

The AfCFTA Agreement explicitly acknowledges the different levels of productive capacities and competitiveness across African countries and includes provisions that aim not to leave any country behind, in particular the least developed ones. The AfCFTA's set of rules of origin should address these concerns.

But what is at stake, is the continent's capacity to retain investments, create jobs and create higher value-added on its soil. The AfCFTA can be the main vehicle to achieve these objectives by increasing trade among regional economic communities within Africa.

Ladies and gentlemen, complex and stringent rules of origin may place the least developed countries at a disadvantage and deter them from utilizing trade preferences under the AfCFTA, while creating a captive market for intermediates produced, in the relatively stronger countries. Hence, less stringent or restrictive rules could enable a wider range of actors to benefit from the AfCFTA.

And finally, I want to say a few words on where we stand on the report's dissemination.

We have shared the report's findings with stakeholders in different countries, including through the participation of UNCTAD's Secretary General, Dr Kituyi, in a Business Forum that preceded the extraordinary AU Heads of State Summit in Niamey, last July.

We have received positive feedback both from the public and from the private sector. Some delegates have said that this is the resource reference they have been waiting for on Rules of origin. We have also been asked to present the report at the WTO's Committee on rules of origin in a few weeks' time.

We know that negotiations on specific elements of Rules of origin are still underway, and therefore, I urge you all to make sure that your country's negotiators all have a copy of the report. This year's Economic Development in Africa Report can help them bear the enormous responsibility of deciding what Rules of Origin are best for your countries and for Africa as a whole.

I thank you for your attention.