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Item 6: Evolution of the international trading system and its trends from a development perspective

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Connecting trade and trade policy to the SDGs – an African perspective

Talking points by

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- The SDGs as we all know aim at sustainable, inclusive development, and broad-based poverty reduction as universal rights. It sets out a universal agenda with goals and targets for the next 15 years applicable on a customized basis to all countries.

- Trade is recognized as 'a means of implementation' in the light of its role in generating dynamic economic growth, incomes and employment. SDG 17 on the renewal of the global partnership for development like MDG 8 recognizes the need for an open, rule-based, non-discriminatory multilateral trading system.

- But the multilateral trading system is not expected to provide momentum for the SDGs at least in the medium-term. It is unlikely that the outcome of the forthcoming MC10 will be ambitious, given the deadlock in agriculture domestic support and a commensurate reduction of ambition in other areas of negotiation in the Doha Round. If this is the case, it will be disappointing especially since a WTO ministerial conference will be held for the first time in Africa in December this year.

- Moreover, when concluded, the mega-regional trade agreements are expected to erode the preferential margins from which African countries currently benefit in major export markets.

- In this scenario, from Africa's perspective, it remains important to preserve policy space to support structural change on the continent including through building productive capacities in higher productivity sectors and enhancing competitiveness as the key to sustained, inclusive, job-rich growth.

- This is why the steps that are being taken to align the SDGs with Africa's own agenda for economic transformation within the framework of Agenda 2063 will be a defining moment for the continent.

- In the rest of my presentation, as the director in charge of the African Trade Policy Centre, at the UN Economic Commission for Africa, the only think tank on trade policy on the continent, I want to share with you our current thinking for aligning the SDGs with the continental agenda for structural transformation and the role that trade and trade policy is expected to play.

Aligning the SDGs with the continental agenda for structural transformation

- There are essentially three elements in this alignment.

- The first is the African Union's Agenda 2063 which provides a vision for the Africa we want by the year 2063. This fifty year time horizon exceeds the SDGs' own fifteen year time frame but in view of the challenges, it makes sense for Africa to take a longer view. The second element in the alignment between Africa's own agenda for transformation and the SDGs is the rolling 10-year development plans based on Agenda 2063, the first of which is currently being prepared and which aims to ensure coherence between the agreed development frameworks from agriculture to industrial development; from energy to generating financial flows for development; from infrastructure to human development, from boosting intra-African trade to regional integration. The third element is the African Development Goals which the July 2015 African Union Summit directed should be prepared with measureable outputs and targets aimed at facilitating monitoring and reporting on progress. The clear expectation is that these three levels of alignment of Africa-s own development agenda with the SDGs will be customized at country level in relation to national specificities.

The connection between trade and trade policy and the SDGs from an African perspective

- How is trade and trade policy connected to Africa's framework for alignment with the SDGs? The connection is through intra-African trade liberalization and the initiative to boost intra-African trade under the provisions of the Abuja Treaty.

- The Abuja Treaty establishing the African Economic Community, lays out a road map towards establishment of an economic community covering the entire African continent

- Intermediate steps towards the African Economic Community are the setting up of FTAs and customs unions in each of Africa's subregions under the umbrella of its regional economic communities or RECs, prior to the establishment of a continental customs union.

- In line with the Abuja Treaty, several RECs, namely COMESA, EAC, ECOWAS and SADC now have operational free trade areas; ECCAS also has one, but there are issues with implementation (although the average applied tariff on intra-ECCAS imports is actually relatively low, at 1.8 per cent). AMU has almost finalized the negotiation of an FTA and IGAD has decided to adopt COMESA's trade liberalization programme, since all of its members are also COMESA members (except for Somalia). COMESA, EAC and SADC agreed a tripartite free trade area between their 26 member countries this June, though some details still need to be ironed out.

- EAC and the Southern African Customs Union also have functioning customs unions; COMESA has a customs union, though implementation is uneven. ECOWAS put its customs union into effect in January this year; at the end of April, eight of the bloc's fifteen member states had started implementation.

- Overall, formal intra-African trade is low at an average of 15 per cent. But the good news is that value-added and intermediate products constitute over 40 per cent of intra-African imports.

- At the same time as strengthening integration within the RECs, facilitating integration between them is steadily progressing. The main initiatives in this regard are the launching of the Tripartite Free Trade Area (TFTA) in June this year (which is expected to come into force once ongoing work on establishing tariff schedules and the rules of origin are completed) and the negotiations for a Continental Free Trade Area in goods and services (CFTA, the modalities for the negotiations aimed at arriving at an ambitious and modern 21st century trade agreement are currently under discussion).

- In putting Africa first, the CFTA has the added benefit of bringing coherence to Africa's trade policy given the clear trend towards non-reciprocal trade arrangements with major trading partners such as Europe through the EPAs and in the light of signals from the United States of its interest in replacing that the current 10 year extension of the African Growth and Opportunity Act (AGOA) in 2025 with a free trade area agreement

- As emphasized in ECA's *Economic Report on Africa 2015*, getting the timing and sequencing of trade liberalization right is imperative so as not to destroy Africa's potential for industrial development, as well as the potential to enhance its participation in global production networks and value chains; global imports and exports.

- While the CFTA initiative was conceived before the SDGs, I argue that there is a link to them and to the framework for aligning Africa's agenda for structural transformation to the SDGs.

- The evidence is clear: African regional trade integration will substantially boost inclusive development on the continent, by supporting the continent's economic transformation towards sectors that add more value to goods, rather than simply growing or extracting commodities.

- Recent ECA modeling work has shown that intra-African trade in value-added goods would grow strongly in response to the introduction of an African CFTA.

- According to this research, the removal of tariff barriers only between African countries would lead to an estimated increase of over $36 billion in intra-African trade in industrial products. When complemented by trade facilitation reforms, as foreseen in the boosting intra-African trade initiative, intra-African trade would rise further, as would the industrial component of intra-African trade.

- In addition, reducing non-tariff barriers will allow African firms in all sectors to tap into economies of scale by allowing them to sell to a larger market, thus improving their competitiveness as well as deriving efficiency gains through specialization, boosting productivity, competitiveness and growth.

- This, in turn, should also provide a springboard for Africa to increase its manufactures to the rest of the world, creating even more jobs and growth.

- Indeed, the continent's competitiveness in the industrial sector is already increasing, as Africa's share in global manufacturing value added has grown at an average annual rate of 4.2 per cent from 2009 to 2013, although this rate of growth is still relatively low and concentrated in a few countries.

- As I mentioned earlier, this kind of transformation is the key to sustained, inclusive development that is the main aspiration of the SDGs.

- Our research suggest that the CFTA will provide African economic operators and firms with better market access terms vis-à-vis exporters from outside the continent in supplying Africa's demand for value-added goods and services, meaning that their market share within Africa will expand. This is particularly significant given that the African middle class is now estimated to be around 400 million people in a population of just over 1 billion with an annual consumption of US $1.1 trillion in current prices. Indeed while the recent commodity super cycle was responsible for much of Africa's growth since the turn of the century, domestic demand also had a significant share.

- Increasing market share will allow Africa's economic operators and firms to 'learn by doing': in the manufacturing sector, a key sector for value addition, the simple act of production has been shown to lead to rapid productivity growth, significantly faster than in the primary commodity or services sectors. This will create a virtuous cycle in which Africa's value-added sectors' competitiveness grows further, leading to further increases in productivity through learning by doing, and so on.

- Making it easier for African manufacturers to export will particularly boost their productivity, since our research also shows that African manufacturing firms that export internationally experience an even stronger increase in productivity than those that only produce for the domestic market.

- Through these broad-based rises in productivity and incomes generated by incremental steps towards economic transformation, an African CFTA that includes services – especially those related to lowering trade costs - complemented by concrete achievements in the boosting intra-African trade initiative and in the agreed development frameworks, would further stimulate demand for an increasing variety and sophistication in goods and services.

- This would advance a number of the SDGs that relate to specific services.

- These include:

    - SDG 3 on health, through better access to higher-quality health services
    - SDG target 4.3 on access to technical, vocational and tertiary education
    - SDGs relating to infrastructure, since access to better quality and more affordable construction services can also be expected through the CFTA and boosting intra-African trade initiative, leading to a reduction in infrastructure costs. These include:

        - SDGs 6 and 7 on water and energy infrastructure respectively
        - SDG target 9.1 which is concerned with general improvements in infrastructure.
        - SDG 11 on improving human settlements

    - SDG targets 17.6 and 17.7 regarding technology transfer including through South-South cooperation, which can be advanced through balanced treatment of intellectual property, investment and competition under the CFTA since these subjects are also on the negotiation agenda.

- African regional trade integration would further help to reduce the continent's reliance on external resources and allow it to better finance its own development, which is recognized under SDG targets 17.1 and 17.3

- Some of Africa's regional economic communities, such as EAC, have agreed or are already negotiating frameworks to liberalize cross-border financial services and movement of capital.

- This is expected to improve the facility for resource mobilization within Africa.

- In addition, a continent-wide investment agreement under the CFTA should facilitate mobilization of cross-border investments within Africa.

- In fact, an estimated 75 per cent of Africa's greenfield outward direct investments in 2014 were within the continent; however, that still leaves 25 per cent to be captured by African firms.

- The increase in Africa's growth that the CFTA promises to deliver, as outlined in previous ECA work, will also provide additional resources that can be tapped for financing development.

- On top of this, as mentioned above, by increasing Africa's competitiveness, the CFTA should lead to increases in the exports of African firms to the rest of the world, contributing to reduction of the continent's trade deficit.

- These additional financial resources can also be used to finance other aspects of the SDGs

Conclusion

- In conclusion, I have argued that trade and trade policy is connected to the SDGs through Africa's own agenda for structural transformation.

- As a late developer, the path that Africa has chosen to achieve economic transformation and convergence is challenging but not fanciful. It is an empirical fact that today's emerging economies and regions have pursued similar strategies. For Africa, much will depend on an ambitious outcome from the CFTA and concrete achievements in the implementation of agreed policies and strategies.