Essentials of Trade Policy in Africa – The Repertoire

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In the pecking order of cabinet ministries, Trade and Industry tends to come close to the bottom. What is more, is that Trade and Industry Ministries typically get allocations of less than 1 percent of national budgets. No wonder, then, that ecosystems don't exist that would facilitate production and trade of high-value, transformative products with high impact in the broader economy. Yet, the rhetoric about export-led development is ceaseless. This is certainly the case in practically all African countries.

Trade must always be at the core of interventions for social-economic transformation. This arises mainly from its broad and cross-cutting scope but equally from the trite fact that people require and earn incomes from producing and trading products.

Products fall into the following categories –

- Goods – under the 97 chapters of the Harmonised System for Commodity Coding and Description (HS) – structured in increasing value addition and technology and information content and covering all physical things that are traded on earth, large and small;

- The 12 services sectors under the WTO Classification in document W/120 – business services, communication services, construction and related engineering, distribution services, education services, environmental services, financial services, health related and social services, tourism and travel related services, recreational cultural and sporting services, transport services, and other services not included elsewhere including energy;

- Intellectual Property, including industrial property, copyrights, geographical indications and traditional knowledge, global brands, and digitalisation within an innovation ecosystem.

From this vast universe of products, identification and selection of strategic products for a country can be undertaken through –

1. analysis using market intelligence tools and installed production/ industrial capacity– which would have the limitation that results will only reflect recorded data available in those tools;

2. value chain and smile curve analysis – through regular and continuous market and industry surveys, which could cover goods, services, assets and other intangibles not comprehensively captured by data in given market intelligence tools;

3. observation by economic operators for own-use on products that are performing well on the domestic and export markets – which would be inclusive and realistic if venues exist for such inputs by economic operators;

4. new products that can be introduced into the economy through innovation – which can be discovered through innovation competitions, incubation centres, exhibitions, and talent scouting, among others.

But what is trade policy? Traditionally, it concerned instruments for regulating exports and imports – in terms of increasing exports and restricting imports into the domestic market. A number of other tools complemented these instruments – such as Government procurement, technical and health standards and administrative regulations and interventions typically categorised as non-tariff barriers. Multilateral, plurilateral, regional and bilateral trade arrangements also complemented national level policy instruments.

This approach has over the years turned out to be overly limiting and restrictive to policy space for development, as many of the policy instruments are now prohibited or highly regulated under the rules of the World Trade Organisation and other Trade Agreements. Moreover, a developmental approach to trade requires industrial components and specific attention to inclusiveness and equity, diversification, resilience, sophistication and interlinkages with industrialisation, infrastructure, and macroeconomic and political stability. Trade Policy has thus featured as a continuum with other enablers and complementary policies. On the basis of development practice in the contemporary era, industrial Policy, for example, will typically have various Trade Policy Instruments, with the implication that they are to be complementary.

Trade Policy should be mainstreamed into Economic Policy and owned across a broad range of government ministries, departments, agencies and regulatory authorities, and trade and investment support institutions, to promote policy coherence and coordinated implementation, and thus better prospects for better outcomes. This would also mean that trade-related budget lines of all relevant ministries, departments, agencies and regulatory authorities can be collaboratively sourced, as appropriate, in implementing the National Trade Policy. Structures should be in place for continuous inter-ministerial consultations and dialogue with all relevant stakeholders.

The process of design, formulation, implementation and continuous review of National Policies should be consultative and inclusive, in order to ensure buy-in, ownership and awareness by all relevant stakeholders in the public, private, civil society, and academic sectors – including all relevant ministries, departments, agencies, regulatory authorities and partners.

National Policies should have clear institutional arrangements, setting out activities, timelines and responsibilities; and requiring coordination, collaboration and accountability among all relevant stakeholders. There is also need for continuous capacity building, awareness creation and consultations; regular monitoring and evaluation and correction of adverse developments and learning of what is working well so that it is scaled up; and use of virtual means for frequent and wider outreach. There is need also for mindset change – towards a collaborative and learning mentality, being action- and results-oriented and integrity in public service delivery. All of these should be underpinned by adequate resources; visionary and transformative leadership in the public, private, civil society and academic sectors; and a robust communication strategy for continuous awareness creation and capacity building.

Trade has been universally acknowledged as a fulcrum of social economic transformation. However, there are critical caveats to be made. If it is pursued as a purely neo-liberal intervention, aiming only for liberalisation, the economy will definitely crash, as the African economy did in the 1980s under the structural adjustment programs and as a resurgence of right-wing politics especially over the last decade has shown. The real economy matters. A comprehensive approach must therefore be taken, which simultaneously combines large regional and global markets with other key simultaneous interventions, namely, Sustainable Industrialisation, Infrastructure, Macroeconomic and Political Stability, and Flexibilities of Policy Space, as well as mutually beneficial trade and economic relations with old and emerging powers characterised by a concurrence of interests and priorities.

Trade must be relevant to addressing the existential priorities of the day, including climate change, geopolitical crises (such as food, nutrition, and energy insecurity), public health and access to life-saving vaccines and pharmaceutical products, the fourth industrial revolution (4IR), and a stable international order that is inclusive and rule-based.

Economies of scale cannot be overlooked. Trade will not be insular, autarchy is not a tenable pathway, while networking the economy into the regional and global economies are matters of economic survival. Attention is required to growth of companies, and agglomeration of small-to-medium scale enterprises. Together with this, is the utter importance of trade in intermediates and promotion of transport, logistics and information and communication services – popularly known as regional or global value and supply chains. This also underscores the value of regional economic integration frameworks.

North-South trade relations and frameworks have been avidly pursued for decades now, particularly with old and emerging global powers. While intuitively attractive because developed countries present large markets, evidence now strongly suggests that these frameworks have, by and large, not achieved their promise. On the contrary, new dynamic markets, including those on the continent, present vibrant opportunities for diversification of export destinations and investment sources. A key lesson from these traditional frameworks is that market access by itself, is not a game-changer; the production side is even more critical and must take into account and be based on the actual initial conditions on the ground.

Commodity dependence, lack of diversification, low levels of industrialisation and economic sophistication or resilience, anaemic investment flows, small markets arising from a balkanised Africa, barriers to movement of production factors and people, and erroneous policy prescriptions over the decades, have constituted serious challenges and constraints to social economic transformation. All these have to be squarely tackled, to improve prospects for social economic development.

Smart trade policy interventions now require facilitative approaches, such as, participatory discovery with industry and government working jointly, trade facilitation measures within and beyond the national borders, generation of and trade in intangibles including services and intellectual property, market institutions complemented by industrial policy, and a developmental and entrepreneurial state that goes into high-risk areas while progressively paving the way for the private sector. Typical and recurrent complaints from Industry include high cost of credit, non-tariff barriers, and overall high cost of doing business – despite legal and policy frameworks that may be in place, but that are hardly implemented or complied with. This set of interventions will be priority areas for the new National Trade Policy, together with the overarching interventions indicated so far.

Conclusion and Lessons

In summary, some key lessons for trade policy include the following:

1. Large markets for economies of scale are required, particularly regional economic integration in the case of Africa;

2. Beyond intensive margins, that is, producing and exporting more of the same low value products, economies grow much faster at the extensive margins, that is, through introduction of new products and industries into the economy;

3. Diversification and value addition do not happen by themselves nor through market forces left to their own devices; rather, the game changer is a facilitative innovation ecosystem from which new technologies arise that spur value addition and diversification – the technologies can be harnessed from around the world and the economy progressively becomes an industrial hub;

4. Linear speeds of change and growth are far too slow and do not appropriately address the pressing developmental challenges facing low-income countries; rather, exponential speeds of change and growth are required for transformative impact – exponential speeds are characterised by doublings, which come from big-picture approaches, use of ever newer technologies and dematerialisation. Exponentiality requires mindsets that think big, that take humankind as family and one entity for universal interventions and solutions, that seek meaning in life and lives lived to the full, that are action-oriented and that aim for a 1000 percent-change rather than a linear 10 or less percent-change; and

5. Above all, clear political leadership, pragmatic in seeking to achieve economic transformation, is a critical success factor.

What this means in practical terms is that a country could consider key interventions that introduce highly prioritised, well-thought out high-value high-technology new industries into the economy, rather than doing more of the same primary low value products that, moreover, stretch the resources far too thinly for real impact. This does not mean totally ignoring legacy or existing industries – it's simply about strategy and prioritisation. This could take the following ascending order of prioritisation –

1. Existing industries can continue to produce and existing products to be traded, benefitting from the general macroeconomic conditions, a conducive business environment and the enablers;

2. Products that have been identified under other Policies and Strategies, can remain prioritised as such and also receive support according to those Policies and Strategies, as well as the general macroeconomic conditions, a conducive business environment and the enablers;

3. Generation of investment into strategic areas, such as finance, information and communication technology, energy, transport, and minerals especially elements for the fourth industrial revolution and greening, should not be merely in terms of putting incentives in place and waiting for investors to show up – it is likely that the wrong ones will show up. Rather, a pro-active approach is what works – going out to hunt across the world, with support from regional and international organisations, screening top investors across the continent and the globe on the basis of criteria for positive impact into the economy; and

4. Economies grow through introduction of new industries, at the extensive margins, rather than doing more of the same primary products. Government can prioritise the identification of new products that be scaled into industries and global brands, with high impact in the economy. A

supportive innovation ecosystem, incubation centres, entrepreneurial education and innovation competitions can be means of identifying potential candidates. Leadership will be a critical success factor.

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