Book Review: Africa in the New Trade Environment - Market Access in Troubled Times

By:

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Trade has long been seen as critical to the economic development of Sub-Saharan Africa; however, boosting both intra and inter-African trade to catch up with the rest of the world has remained an insurmountable challenge. In the new global trade environment that is characterised by increased rhetoric of protectionism vis a vis the enormously expanded fragmentation of production across borders, the rise of East and South Asia as new economic frontiers, COVID 19, and the Fourth Industrial Revolution, the Continent faces old and new problems but also opportunities. Navigating these ‘troubled times’ requires not just the adoption of the ‘old solutions’ that are already well known in both the economic and legal literature but innovative strategies that reflect the changing trade dynamics of today must also be considered. These strategies ultimately boil down to expanding the market access of African countries with each other and with other regions of the world

It is in this context that the new book *Africa in the New Trade Environment; Market Access in Troubled Times* is situated. The book is a collection of articles edited by World Bank renowned economists; Souleymane Coulibaly, Woubet Kassa, and Albert G. Zeufack. The work builds on the expert panel discussions on the future of global trade and its impact on Africa, the theme explored at the World Bank Africa Knowledge Fest on February 22, 2017. The authors make it clear that their goal is 'to present a strategy to bolster Sub-Saharan Africa's market access in the current global environment'.

The book starts by providing a general overview of trade in Africa. It highlights the evidence of strong growth that has been seen in the past decade. For example in 2019, the share of total exports in GDP terms was 53 percent in Sub-Saharan Africa compared to 30 percent in North America and 39 percent in South Asia. More so, from 2010-2014, trade in the Region (particularly in East Africa) grew faster than that of the world. Nevertheless, most of the data reveal the well-known perennial characteristics of trade in Africa. This includes the high dependence of the Region on international trade (given that exports are still largely based on commodities and raw materials) which makes it always vulnerable to external shocks; the fact that overall, Africa only accounts for just 2 percent of global production, 3 percent of global trade in goods and about 3 percent of trade in services etc (page 3). Not surprisingly, the overview (and the book generally) says nothing about the huge volumes of informal trade that goes on in the Continent which has already been subject to considerable analysis in this forum. (See here and here.)

The book provides the four major ingredients for any strategy to expand Africa's market access in the current global environment. First, there is a need for better utilisation of the preferences offered by the EU's Everything but Arms (EBA) Agreement and the USA's African Growth Opportunity Act (AGOA) to boost exports. Relying on sophisticated research conducted by the various specialist departments of the World Bank, the authors are of the view that Africa can do this by developing the necessary economic institutions and infrastructure (these include ICT infrastructure, integrity in legal and property institutions, stable exchange rates and low inflation etc). In addition, they recommend that countries in Central and West Africa that have not taken meaningful advantage of AGOA should do so by implementing tariff liberalisation and other domestic reforms. However, given the increase of

protectionist policies of high-income countries that have called into doubt the continuity of trade agreements with preferential access for African exports, the Continent must prepare for a post-AGOA period by developing effective structures that build convergence between regional integration (for example the AfCFTA) and trade agreements with the rest of the world.

Bearing in mind that the most significant development in international trade is the fragmentation of production across countries and the creation of global value chains (GVC), the book argues that any structural transformation of the region must include improved participation in GVCs. With the aid of data, the authors show unsurprisingly that the current GVC participation of Sub-Saharan Africa remains low compared to regions like East Asia or Latin America. Given that the 'Fourth Industrial Revolution is increasingly affecting firms' location and fragmentation decisions,' Africa must be dynamic in the adoption of measures that could attract offshoring and outsourcing opportunities, especially in areas where it has a comparative advantage like agriculture (page 15). Thirdly, there is also a need for a better estimation of the productivity forgone by restricted services trade and for enhanced trade in services liberalisation. It is important to determine more specifically, 'which dimensions of economic governance and institutional framework are relevant in shaping the effects of services trade policies' (page 18) In diversifying African market access, the Continent must tap into the growing potential of trade with Asia. The authors note that this could be achieved by developing a state/regional/sub-regional export orientation policy that targets the Asian region, especially its growing middle class. In all these strategies, the development of effective regional integration is extremely vital and remains the key connector across these ingredients.

The substantive analysis in the book, which is strongly based on econometrics data/modeling, is developed in seven chapters but under four parts. The first part covers the impact of trade agreements (unilateral, regional, and multilateral) with traditional partners (the US and the EU) on Sub-Saharan Africa's trade and the way forward (chapters 1-3). The role of new market frontiers in Asia from the perspectives of both restructuring African economies and the changes in GVCs and their implications for Africa (chapters 4, 5 and 7) are examined in the second part. The prospects of regional integration in Africa to exploit substantial economies of scale (chapter 6) and the challenges to

boosting trade in services in Sub-Saharan Africa and reducing nontariff trade barriers (chapter 7) are dealt with in the third and fourth parts respectively.

Using cutting-edge research data and analysis (specifically synthetic control methods (SCM) and differences-in-differences analysis), the authors provide a solid assessment of the impact of the EBA and AGOA Agreements in Africa. Concerning the impact of the AGOA, the data shows that the Agreement has contributed to increased exports in most Sub-Saharan countries but most of this trade has been in fuel and mineral exports. In 2017, non-oil export to the US stood at only $4.3Billion. However, states like Kenya, South Africa, Ethiopia, Botswana, Rwanda, Lesotho, and Tanzania were able to register massive gains under the AGOA from non-fuel exports. An examination of the trade flows in these countries 'reveals the importance of diversifying exports from commodities to agricultural produce, apparel and other manufactured products.' (page 49). The major task that is undertaken in chapter 1 is to examine the reasons for the heterogeneity in the effects of the AGOA. Using the SCM model, the authors were able to reduce the determinants of export gains in the AGOA to many factors including the role of infrastructure, the quality of institutions (e.g political stability, legal and property, corruption, labour regulations etc), and a sound macro-economic environment (including stable exchange rate and low inflation). Countries that have done better in these areas were able to expand their export capacity under the AGOA. However, a paradoxical point that is noted is that whilst the quality of rule of law and other legal strictures may play an important role in enhancing exports, political corruption and political stability (which of course have some legal implications) do not seem to have a significant impact (page 61). Given the limitations of the SCM model that the authors themselves acknowledge, it is clear that further research is required in this area.

Chapters 2 and 3 continue the deep dive into scrutinizing the economic effects of the preference agreements with the US and the EU. Chapter 2 uses a product-level analysis (with highly detailed data) to investigate the impact of US non-preferential agreements broadly (General standard of Preferences in 1997 and AGOA) on African manufacturing export performance especially for apparel products while Chapter 3 compares the impact of AGOA and EBA on West Africa. The research seems to show that the GSP and AGOA only marginally boosted African 'manufacturing' export performance given the

varied results from different sub-regions/states. The analysis shows that ‘understanding the precise reasons for the heterogeneous responses to trade preferences remains a challenge’ but it is clear ‘that access per se is not sufficient to deliver even temporary export success.’ (Page 97). It is also important to further examine the impact of liberal rules of origin (like the one adopted by the US for apparel products) on export diversification and promotion in Africa considering the fact that it could create a strong disincentive for domestic industries to flourish. (Page 51), Designing a balance mechanism that takes into account the data and the manufacturing needs of the African region should remain an important quest for the Regional Economic Communities (RECs).

Part 2 of the work provides important insights into Africa’s increasing trade with Asia. First, it gives some context to the current state of African trade with Asia. For example, whilst North America’s share of Sub-Saharan Africa’s export declined from 18 percent in 1997 to just 7 percent in 2016, Africa’s trade with Asia increased from 13 percent to 26 percent in the same period. In 2000, China and India were Africa’s eighth and ninth trading largest partners but in 2017, they were the first and second largest. India has since 2005 become the largest export destination for Nigeria, Ghana, and Tanzania. Most importantly, the book provides an in-depth study on the enormous potential to grow Africa’s trade with Asia in the medium to long term in view of the expanding middle class in the Region. The analysis shows that by 2030, global middle-class consumption will be $29 trillion more than the $35 trillion figure in 2015 and only $1 trillion of that will come from Europe/America. The book goes into a detailed review of the various ways Africa can target this burgeoning Asian middle class. For instance, with respect to the seafood industry, the full exploitation of all stocks of fish and the limited opportunities for expanding aquaculture in Europe, North America, and East Asia mean that by 2030 only countries in South Asia, the Pacific, and Africa can make up for the additional demand which is estimated to be about 200 million by 2030. Furthermore, in 2018, Africa was the top destination of choice for Chinese tourists. Given the projected increase of overall tourist arrivals (3.3 percent per year from 2010-2030), Africa can tap into this trade potential which would reach $1.8 billion by 2030 and which will be controlled by emerging economies (57 percent). The analysis also covers the trends in middle-class spending in the

housing/furniture industry, and cotton industry and how Africa can exploit this. However, the authors warn that the mega-regional trade agreements (TPP, RCEP) may cause trade diversion and limit these opportunities if they enter into force. (164).

Chapter 5 continues the theme of exploring Asian/African trade by specifically investigating the current GVC links between the two and ways to further improve it. The book goes into a very complex analysis of examining how increased Asian economic engagement with Africa has affected various GVC measures relating upstreamness, length of production and domestic value added. The chapter challenges the concern that the rapid growth of these Asian economies and the consequent increase in the demand of Africa's natural resources will continue to perpetuate the 'resource curse' that has been attributed to many African nations. Given that there is no increased specialisation in material-intensive African exports, the authors are of the view that this concern is unfounded. Instead, economic engagement with Asia is positively correlated with increase in upstreamness. It also shortens the length of production and enhances the capital deepening of African exports. Again, unlike corruption, the general measure of a country's rule of law does not affect the relation between Africa's trade with Asia and their GVC outcomes (page 228). This remains a puzzling point. In addition, Africa's increasing trade with Asia is happening notwithstanding the fact that there are no formal trade agreements between two. I and other scholars like Akingkugbe have argued that more research is needed to determine the history and place of law as a tool for regional integration and trade in Africa. The summary of the data shows that increase in exports to but not from Asia will help African states move up and participate better in GVCs

The deepening of regional integration and regional value chains (RVCs) is one of the key strategies for Africa's survival in the new global trade environment and these are the themes explored in the last part of the book. In the case of the latter, the key question examined is whether non-trade measures (NTMs) and restrictive services sectors play any role in explaining Africa's limited participation in GVCs but also in the creation RVCs. Another subject explored, is the link between higher manufacturing exports and foreign affiliates' participation in African services trade. However, given that the analysis only covers four countries, the result of the econometrics assessment does not seem

to be a strong basis for policy decisions. The general point seems to be that decreasing services restrictiveness (and by extension NTMs) will increase the productivity of manufacturing sectors that use services (communications, transportation financial and other business related services) as intermediate inputs in production and this is positively correlated with a better integration in GVCs.

The AfCFTA according to the authors will be vital in resolving these challenges and in promoting more trade within Sub-Saharan Africa and beyond. Consequently, a good part of the book (chapter 6) examines the promises and challenges of the AfCFTA as the most important tool for improving economic integration in Africa. The work reiterates the now widespread notion that the nature of many African economies means that the justification of economic integration will not conform to the classical (Viner) theories of integration. Therefore, a more suitable analytical framework for evaluating the AfCFTA will focus on examining its dynamic effects capabilities including the potential to support economies of scale and the growth of a strong competitive manufacturing sector. However, the potential benefits of the AfCFTA is now a well-discussed topic in the literature. See here and here and has also been discussed in this forum. The authors argue that on a broad level, the success of the AfCFTA will depend on two interrelated factors; 'the political economy of regional integration which determines the extent of state and regional commitments….and the choice between more restrictive or more liberal rules of origin.' In the case of the latter, the book points out that the liberalisation of 90 percent of tariff lines (which was what was initially agreed on) may effectively represent just a small value of trade. Given that intra-African trade is already low, States may need to further subject more of their sensitive products to liberalisation since an 'exclusion of even a small set of tariff lines could effectively exclude a significant share of imports to a country'.

The usual political economy dynamics of integration in Africa seem to be already affecting the progress of the AfCFTA. Part of what is entrenched therein relates to the way flexibility is conceived in understanding African nations' commitments to regional integration norms. I have argued in this forum that there is a need for a clearer conceptualisation of the flexibility paradigm of African regional trade agreements. I do think that while many aspects of the current flexibility paradigm in the literature are beneficial, it is important that

flexibility should not be used as a basis to justify derogations from treaty commitments. If African RTAs are not viewed as rule-based dispensations even in the context of Africa's socio-economic peculiarities, then this is a problem. It is my opinion that flexibility is partly responsible for the compliance/implementation issues that have followed the first and second-generation African RTAs. Although it is still too early to tell (and there are contrary arguments), the recent actions of Kenya and Ghana in negotiating external deals (see here and here) may also be indicative of the continuation of the 'flexibility problem' since it may be reflective of African states attitudes to regional trade norms. This of course may affect the success of the AfCFTA. In addition, there are already some worries that the AfCFTA seems to be gradually following the fate of its predecessor (AEC) and other African RTAs by being ' stuck somewhere between its "negotiation" and "implementation" phases' even if widespread optimism of its success is still largely shared. Even if valid concerns remain, it has to be said the AfCFTA still represents one of the Continent's finest chance for real transformative growth and all hands must be on deck to make it work.

The book is a strong addition to the much-needed literature on international economic law in Africa. Its findings are based on solid research data and analytical skills that are in line with global best practices. The four key strategies that the authors suggest for Africa's fight for survival in the new global trade environment have useful implications for policymakers. The recommendation to promote intra-African trade through the creation of African neighbourhoods (instead of through the RECs considering the asymmetry economic power) is fairly original and should be taken up further. However, given that my background is not in economics, I have not offered a critique of how the data have been analysed because I do not have the capacity to do so. Since most of the data used in the work have 2017 as their cut-off date, it would be interesting to see how COVID 19 has affected the numbers and the various findings arrived. In addition, the world is still unsure on how the virus would further change the trade environment (for example if another strain of the virus starts to wreak havoc) and what it would mean for Africa. Importantly, the book also shows that the place of law as a tool for regional integration and the overall promotion of trade in Africa continues to be complex, conflicting and multi-dimensional and is definitely in need for further research.

Book Title: ***Africa in the New Trade Environment; Market Access in Troubled Times***.

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