HTTP://ATDFORUM.ORG AFRICAN TECHNOLOGY DEVELOPMENT FORUM 1 SEPTEMBER 2017

ATDF Journal

Volume 9, Issue 2 2018

Science; Innovation; Technology; Trade; Development

African Continental Free Trade Area (AfCFTA)

"The AfCFTA success will depend on supplementary policies and programmes – such as conflict resolution, fighting corruption infrastructure networks, better trade logistics, and governance reforms.

INSIDE THIS ISSUE

ISSN: 1817-2008
Abbreviation: Afr. Technol. Dev. Forum j

AUGUST 2018

Embedded ties create value through three mechanisms: **trust,** fine-grained **information transfer**, and **joint problem solving**.

INSIDE THIS ISSUE

ISSN: 1817-2008
Abbreviation: Afr. Technol. Dev. Forum j

Gold, Economic Transformation and Regional Integration in Africa

Dr Paul Jourdan, Professor Roman Grynberg and Mr Fwasa Singogo[i]
The authors are respectively Consultant on mining and minerals policy in Africa, Professor of Economics at the University of Namibia and Research assistant.

Abstract

The paper considers the role of Africa's regional economic communities (RECs) in increasing the returns to African countries from gold mining and advancing the economic transformation agenda of the numerous gold provinces on the continent. Several options are considered for the use of gold and gold mining to increase economic returns from the sector. Beneficiation, i.e. the transformation of gold into gold jewellery, while potentially the most beneficial in terms of possible employment creation is the least commercially propitious. The strengthening of fiscal linkages is vital given the incidence of gold smuggling and allegations of gold theft as well as the prevalence of illicit financial flows. The third option is to attempt to develop backward linkages through the development of mining feedstocks. The potential economic benefits of backward linkages are estimated in the mining sector. This option of development runs into the problem of economic polarisation where mining feedstock would almost certainly be produced in a small number of countries, most notably South Africa. A regional architecture is suggested that would create a 'mining feedstock community' similar to Europe's coal and steel community with appropriate mechanisms for counteracting the effects of trade and economic polarisation. In both the case of fiscal and backward linkages the role of the African RECs are central. However, the proposal faces considerable political hurdles.

Keywords: Gold, Mining, and Regional Economic Communities.

A. Introduction

The purpose of this paper is to examine the options for the development of new growth sectors in Africa using one of the continent's most important and expanding exports - gold. There exist several options for the management of the resource. At a political as opposed to an economic level the one most commonly argued use is that gold should be processed into jewellery. The world's biggest producers of jewellery are India and China. And for the former, there are almost no mineral resources. The most important and tangible driving force for African countries in terms of gold beneficiation is the 4.3 million Indian citizens employed in the production of jewellery (which includes gold, diamonds and other metals and gems)[2]. In many cases, these Indian producers are making use of gems and precious metals coming from African countries as the country has few operating mines producing these commodities.

The paper begins with a consideration of the increasing importance of gold mining and exports to African countries. It considers three separate approaches to making use of the gold resources for economic transformation. The first is the political aspiration of African leaders to make use of gold for the manufacture of gold jewellery, i.e. beneficiation. This objective is very much at the heart of political and aspirational documents of African leaders such as the African Mining Vision [3] as well as regional industrial policies[4]. The second part of the paper considers the appropriate role of regional bodies in assisting African countries deal with what appears to be the increasing incidence of gold theft and smuggling, illicit financial flows and other forms of trade malpractice that occur both in large-scale

mining (LSM) and amongst small-scale and artisanal gold miners (ASGM). The third part of the paper looks at the type of trade and economic arrangements that are necessary to assure that African countries benefit from backward linkages to the gold mining sector which are amongst the commercially more propitious options for gold producing countries. However, to overcome the issue of inherent geographic and economic disparities between African countries and the resulting economic polarisation that is likely to occur with any attempt to develop backward linkages a regional approach is suggested that recognises the constraints to a transformational approach to the minerals sector.

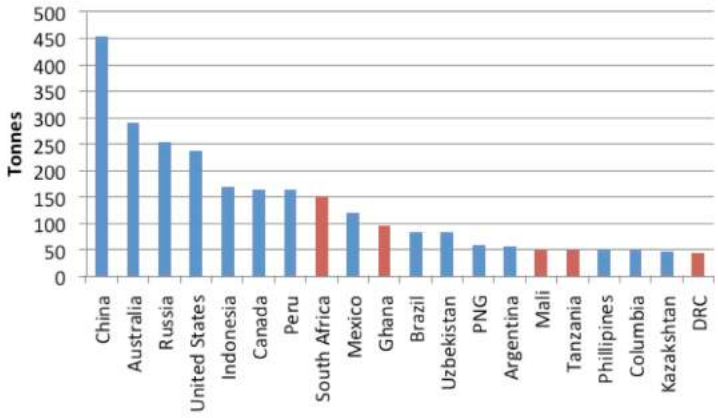
Coupled with a large number of mines becoming marginal, and with the prevalence of economies of scale[5], African countries have sought to create employment by trying to lever their gold resources in such a way as to attain greater value addition through beneficiation[6]. By beneficiation, it is meant the creation of forward linkages though some countries have sought to develop backward linkages which will also be analysed later in the study.

B. Gold in the African Context

In 1968 South Africa produced some 77% of what was the non-communist world's supply of gold. It is estimated that some 40% of the world's total gold supply came from the mines of the Witwatersrand[7]. Regarding employment, it peaked in 1988 in South Africa at 480,000[8] but had fallen to 120,000 in 2016. Extrapolating from the South African employment figures gold mining in Africa would employ approximately 470,000 workers in the African large-scale gold mining sector. Employment in the ASGM was considerably more significant than that of the LSM sector though no reliable employment estimate for the sector in Africa is available. The value of this production for exports can only be estimated given that gold trade statistics are notoriously inaccurate. The value of African production was an estimated US$23.6 billion in 2016[9]. Thus, based on these price calculations, gold production constitutes some 7.3% of total African exports for 2016.

Currently, half the gold mines in the Witwatersrand are considered to be marginal[10] as many are operating at depths of some 3,000 metres. South Africa has declined from producing 77% of world supply to slightly over 5% in 2016 but remains the single largest producer in Africa accounting for 22% of total African mined production in 2016. Despite this decline in the importance of South Africa, Africa as a whole has become an increasingly important supplier of gold with African countries being amongst five of the top twenty producers.

Figure 1: Top 20 Mined Gold Producers (2016)
Source: GFMS Thompson Reuters



Source: GFMS Thompson Reuters

Gold is produced and exported in significant quantities by some 19 African countries out of 54 members of the African Union. According to the World Bank database, there are 102 producing gold mines in Africa. There are 82 mines in the advanced stage of planning which brings the total countries from the database that are both producing and are in the advanced stage to 28. This number does not include gold coming from artisanal and small-scale gold mines (ASGM) which frequently creates far more employment than hard rock mines but is produced in small volumes.

The importance of African gold producers is depicted in Figures 2 (a) and (b) below. As can be seen even with the decline in South African production there has been a significant increase in total African gold production over the last decade. This has been the direct result of the decreased perceived risk of mining exploration and development in what were

Figure 2 A

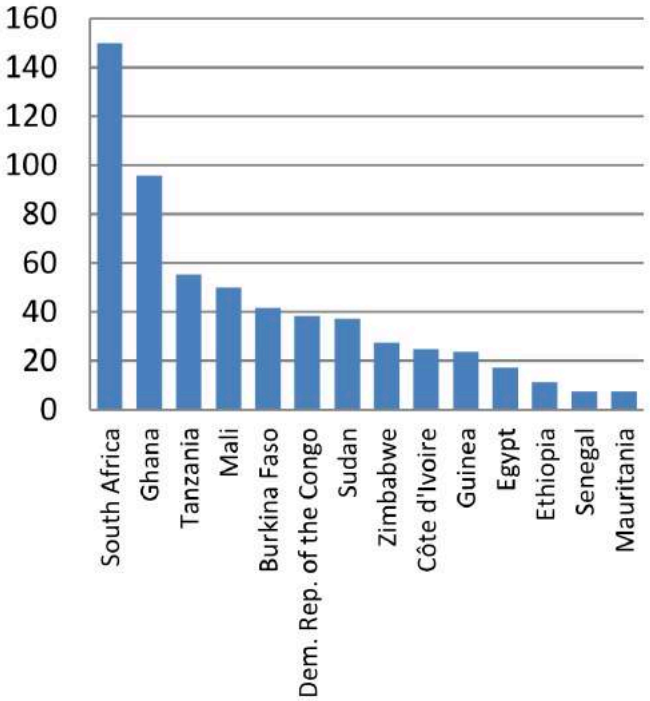
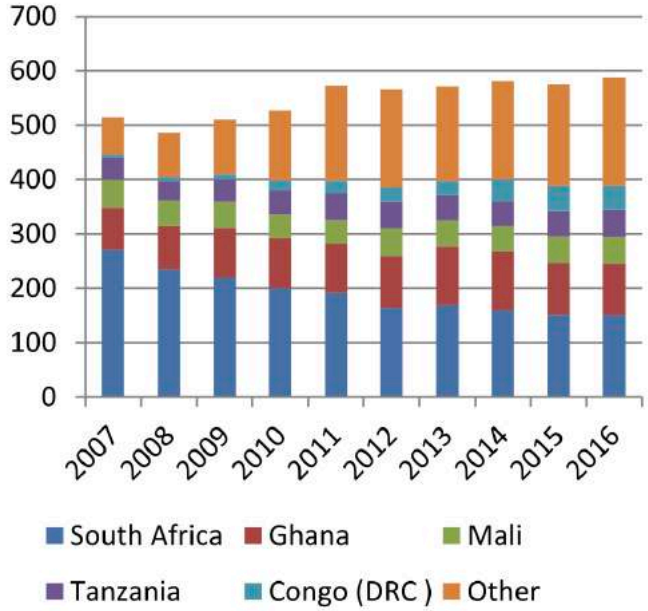


Figure 2 B



otherwise undeveloped jurisdictions, many of which had experienced relative to that which existed in the 1990's during the periods of intense armed conflict in the 1980's and 1990's high conflict in Africa.

While African gold production has been rising over the last decade and coming from an ever increasing number of countries which have traditionally not been gold mining provinces e.g. Egypt the number of refineries has not significantly changed and the only refinery that is accredited to produce 'Good Delivery' gold bars is the Rand Refinery in Germiston South Africa[11]. There are at least seven other refineries in Africa[12], outside of South Africa, but none are accredited to the London Bullion Metal Association (LBMA) and hence cannot produce bars that can be traded in the loco-London market OTC which accounts for 70% of world trade. There was one other refinery, Fidelity Printers in Zimbabwe[13] which had LBMA accreditation and fell below the minimum level of production for LBMA accreditation of 10 tonnes per annum during the 2008/9 crisis and lost its accreditation leaving the Rand Refinery as a monopoly on the African continent. However, given the global nature of refining and the relatively high cost of transportation of doré along with very large excess capacity amongst LBMA accredited refineries this monopoly may be of limited commercial value. Many of the small refineries that are dotted around the continent derive their supplies from the ASGM sector and would find it very challenging to be able to control their value chains and identify their suppliers.

C. Forward Linkages- Gold Beneficiation and Jewellery Manufacturing

Three potential uses of gold stand as possible areas of downstream beneficiation. Historically and still to this day the most important is jewellery production. Of the 4,511 tonnes of gold produced by primary refineries and secondary recyclers, some 1,891 tonnes was used for manufacturing jewellery which historically is the oldest and most significant manufactured use of gold. A further 354 tonnes was used in various manufacturing activities such as electronics, dental use and ornamental uses. In all of these manufactured uses, gold has become less significant with manufacturers seeking cheaper alternatives where they can. Even the traditional use of gold to weave wedding gowns has succumbed to the new price peak for gold established in the wake of the 2012 boom and have begun using gold of lower caratage for weaving into dresses. The production of jewellery remaining the only area with potential to create both employment and forward linkages.

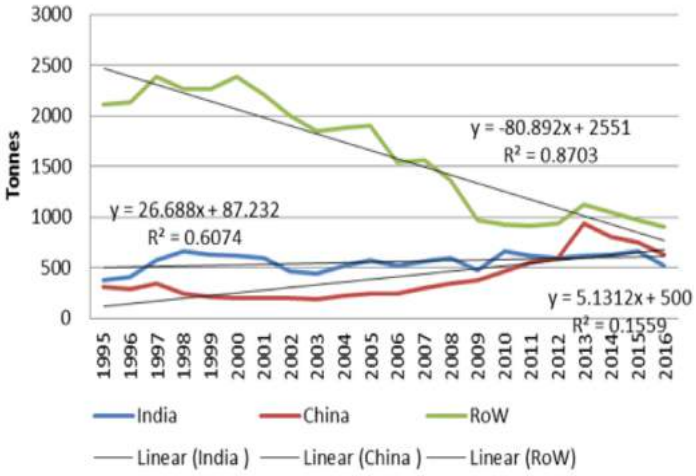
Political leaders commonly argue that having an endowment of mineral resources in a country should provide a source of commercial advantage for those wishing to add value to their unprocessed minerals. The empirical evidence does not necessarily support this argument, and many African countries have struggled to transform the presence of minerals into a commercial advantage further down the value chain. The case of South Africa, which in the 1960's produced, in any year, over 70% of the world's gold and a similar percentage of diamonds until the 1970's while remaining the world's dominant producer of platinum (68% of world production in 2015) stands as an essential counter-example as it never developed a very significant gold jewellery fabrication capacity despite concerted attempts to do so in both the pre and post-apartheid era. This industry, at least as it pertains to the local market is now in rapid decline to the point where some 80-90% of jewellery sales in South Africa are currently imported[14]. In South Africa, the use of gold in the manufacturing of jewellery stood at 2.5 tonnes in 2016, down from 7 tonnes in 2007[15]. Due to trade preference arrangements in the USA such as AGOA jewellery exports have expanded while production for the local market has declined.

Many countries in Africa have gems and jewels and in many cases a long history of gold jewellery production dating back to the pre-colonial era and therefore it is seen at a political level as a logical reason for attempting to develop a local jewellery manufacturing sector. However, this indigenous capacity to make and refine gold only exists in small pockets. The bulk jewellery sector in Africa for Africans is made up of production of products, not made from gold but are referred to as costume jewellery and these are imported mainly from China. There exists a small local and tourist market for gold as well as one in the African diaspora.

Production of gold jewellery in such volumes that would absorb significant numbers of unemployed African workers would require incentives to induce Green-fields investors to consider an African country as a location for such an investment. Any state must review the following facts (and constraints) considering the development of such forward linkages:

- Declining Global gold jewellery demand.. This decline in gold use and demand exists at a global level despite rising consumption in India and China, the world's two largest producers and consumers of gold jewellery. The decline in demand stemming from a change in taste amongst a new generation of so-called 'Millennials' who have less interest in gold jewellery given the widening range of luxury commodities available to them.

Figure 3: India, China and RoW Gold Jewellery Consumption (tonnes per annum 1995-2016)



Source: World Gold Council https://www.gold.org/research/gold-demand-trends/gold-demand-trends-full-year-2016/jewellery and author's calculation

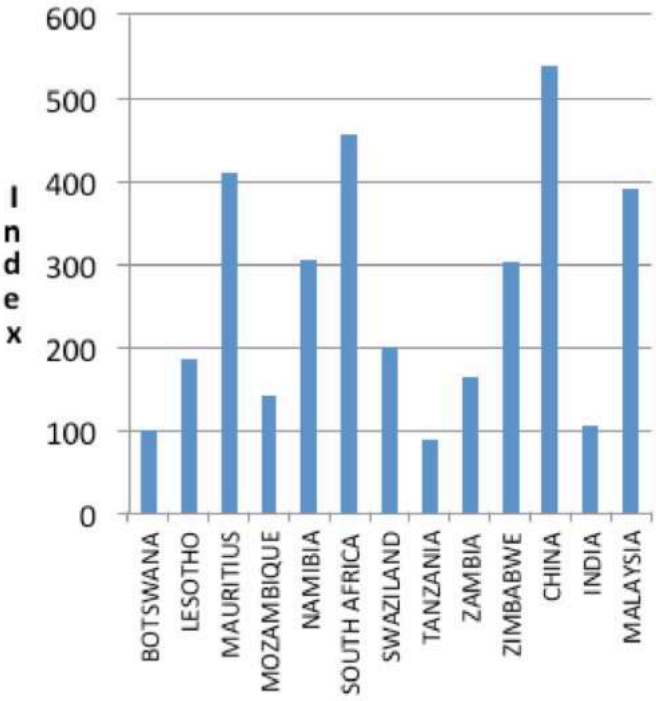
- The commercial reality of competition. India and China are both biggest markets for gold jewellery but at the same time the biggest and the world's most competitive exporters of gold jewellery. The advantage of commercial, physical and cultural proximity of Indian and Chinese gold jewellery producers to their local consumers should not be seen as minor by those contemplating entry. Furthermore, both India and China have Export Processing Zones (EPZs) which offer the usual range of tax concessions and duty and VAT free trading that are found in many countries for the production and export of Jewellery.

- Cost of unskilled, skilled and professional labour. In comparison to India and China, the

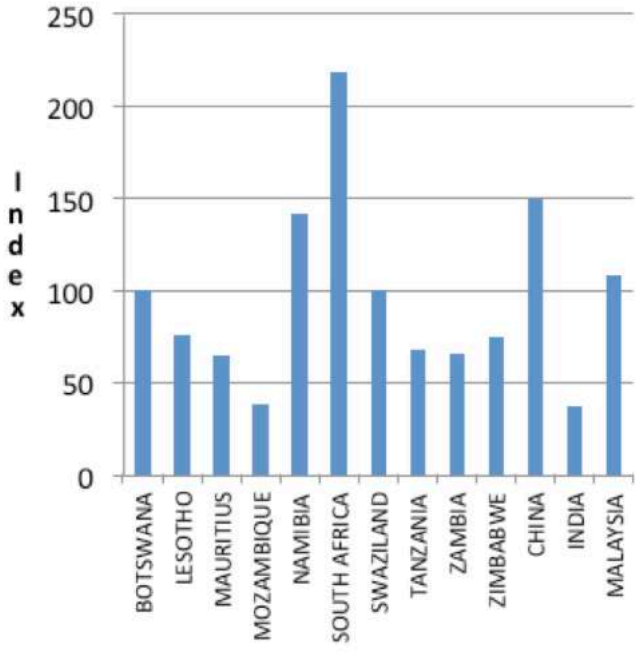
aforementioned costs are considerably higher in southern Africa. The charts below present the

Figure 4 (a & b) Index of Unskilled Wages (a) and Professional Salaries (b) in SADC and Asian Countries

(a)



(b)



Source: Economist Intelligence Unit (Custom Research) Survey, May 2012 NB: Index; (Botswana = 100)

differences in costs.

- Lack of commercial advantage. Having a gold mine in a country provides absolutely no source of commercial advantage to gold jewellery manufacturers because of required processing (refining). In Namibia for example, a country which produced 6.6 tonnes of gold for export in 2016 yet has no refinery and exports its gold for further processing in South Africa. Gold jewellery manufacturers in Windhoek report that they have to pay a 7% premium over spot price for fine jewellery delivered to Windhoek from South Africa. Therefore without a gold refinery, gold mining is not a source of a commercial advantage down the value chain. In the case of South Africa who has a gold finance policy, goldsmiths training program, Jewellery makers, designers as well as the most significant domestic market in Africa and has abundant supplies of gold, diamonds and platinum and has had them for over a century has not been able to develop an internationally competitive jewellery industry. With domestic demand in South Africa catered for by imports of as much as 80-90% of gold Jewellery according to industry sources.

- The alternative in artisanal gold, time frame and significant investment. Artisanal gold jewellery manufacturing may provide a basis for some downstream processing of gold but is not likely to give rise to a sector with considerable employment effects in the medium term. It also requires significant investment by government in refining capacity, transport and storage capacity; training, incubator and mentoring schemes; gold financing programs, hallmarking, web development and IT enhancement. This constitutes a significant investment by government and the experience from South Africa suggests that only a small percentage of those trained in the area of gold jewellery design and production find employment.

2) Lateral Tax Linkages

There have been two principal benefits that are seen by governments from the existence of large-scale gold mining (LSGM) operations in their

jurisdictions. First, gold has been recognised as a source of dynamic and technically sophisticated employment for the local population. This benefit may shortly be eroded almost entirely by the effects of the application of artificial intelligence in the mining sector which will lead in turn to fully mechanisation of the mining process. It is estimated that the full mechanisation of the mining sector will result in some 200,000 job losses in the SADC region alone[16]. Second gold mining has provided substantial fiscal benefits for countries but three incidents in the last 2-3 years suggest that governments in sub-Saharan African are achieving a less than optimal linkage between the gold mining operations and the level of tax flows. These include:

i. The Acacia (Barrack Gold) -Tanzania gold dispute

In early March 2017, the Tanzanian Ministry of Minerals issued a press release banning the export of gold-bearing concentrate and arguing that the concentrate should be exported in a more processed form[17]. In late March 2017 the President of Tanzania, Mr Magafuli paid a very public visit to the port of Dar Es Salaam to inspect some 277 containers of concentrate that were held there pending approval of authorities[18]. There were two Presidential Committees, the first of which in May 2017 concluded that the shipment in the Port of Dar Es Salaam contained levels of gold that were approximately ten times that which Acacia had declared. Acacia stated that it was not given a full copy of the report[19]. In response to the findings, Acacia issued a press release saying[20]:

Acacia's verified data shows that the 277 containers at Dar Es Salaam port contain 26,000 ounces of gold in total. Each of these containers contain on average around 3 kg (around 100 ounces) of Gold, 3 kg of Silver and 3,000 kg of Copper. The Committee's findings were that the gold content of these containers, which represent one month's production, totalled 7.8 tonnes (or 250,000 ounces). In 2016, Acacia produced and sold 250,000 ounces of gold in concentrate from these two mines in the whole of the year.

'The Committee's findings imply that Bulyanhulu and Buzwagi each produce more than 1.5 million ounces of gold per year. This would mean they are the two largest gold producers in the world; that Acacia is the world's third-largest gold producer; and that Acacia produces more gold from just three mines than companies like AngloGold Ashanti produce from 19 mines, Goldcorp from 11 mines, and Kinross from their nine mines.'

The results were widely dismissed in mining circles[21] and even amongst those who were broadly sympathetic to Tanzania's position and the obvious need for reform of its mining tax regime[22]. The failure by Tanzania to present the results publicly along with technical annexes and to be completely transparent only served to worsen investor perceptions of the country.

However, this apparently irrational dispute conducted in an opaque manner has its origins in the mining tax regime imposed on Tanzania in the 1990's by the World Bank. As late as 2016 after many years of operations, Acacia's two mines Bulyanhulu and Buzwagi, which together produced some 450,000 oz of gold in that year paid no company tax. Both mines have been in operation since 2001 and 2009 respectively and have paid no company tax while producing a total of 4 million oz of gold[23]. This experience is not only the case with Tanzanian gold but also the situation as it pertains to Zambian copper that we see poorly designed mining tax regimes of the 1990's resulting in a cycle of state – company disputes that have been referred to broadly and dismissively as 'resource nationalism'. These poorly designed laws drafted as they were during the period of 'high globalisation,' i.e. 1995-2005 resulted in an unstable commercial environment that has harmed both investors and governments.

The mine owners responded to the obvious need to negotiate another agreement with Tanzania to resolve the dispute. To that end Barrick the majority of Acacia moved to begin negotiations with the Tanzanian government. On October 17th, 2017 Barrick Gold Corporation announced that the Company and the Government of Tanzania have agreed on a framework[24] for a new partnership between Acacia Mining plc and the Government of Tanzania, whereby economic benefits generated by Acacia's operations would be shared with Tanzania

on a 50/50 basis going forward. Barrick Gold Corporation provided the following details concerning the proposal for a new, 21st-century partnership with the Government of Tanzania. At the time of writing the negotiations between the Government of Tanzania and Barrick Gold are on-going.

By May 2018 there still had been no formal agreement between the parties to a revised taxation regime for the effected Acacia owned mines in Tanzania. In May 2018 the Government of Tanzania revoked a retention license held by Glencore and Barrick Gold. The licence for the Kabanga nickel project in northwestern Tanzania, which was among 11 retention licences cancelled by the government under the Mining (Mineral Rights) Regulations of 2018[25].

ii. UNCTAD – RSA Chamber of Mines Gold Trade Dispute over Illicit Financial Flows

The second recent international dispute in the gold sector has surrounded the publication of a report in 2016 by UNCTAD on trade misinvoicing entitled 'Trade misinvoicing in primary commodities in developing countries: the cases of Chile, Cote d'Ivoire, South Africa and Zambia'[26]; which tried to address and shed light on misinvoicing among mining companies. The study used the UN Comtrade database, from which it compared reported exports by product and country destination with the reported imports of the products by those same countries. The study found huge discrepancies between export values reported by the exporting countries and import values in the importing countries of the same product. Over-invoicing was found in Chile (copper), and both over and under-invoicing of the same product in different years-Nigeria (Oil), Zambia (copper) and South Africa (silver and platinum). The report stated that the companies had misappropriated as much as 67 percent of export revenue in the countries studied. For South Africa, the report calculated cumulative under-invoicing over the period 2000-2014 to have amounted to USD 102.8 billion: USD 600 million (iron ore); USD 24 billion (silver and platinum); and USD 78.2 billion for gold. From which one of their main conclusions was that gold was deliberately being smuggled out of South Africa (even though their report claims this is not possible by just looking at the data) [27].

In response to this, the Chamber of Mines in South Africa commissioned Eunomix research to scrutinise the report. Unsurprisingly given the weakness of African trade data, they found conflicting results to those of the UNCTAD report. They acquired their data from Statistics SA, SARS and the Chamber of Mines that is publicly available. Through which the found the gap between exports from SA versus imports from trading partners to be USD 19.5 billion and not USD 78.2 billion. They argued errors in reports with trading partners could explain this.

The above findings further 'substantiating' the calls by the South African Chamber of Mines for the UNCTAD report to acknowledge its shortcomings. Major criticisms of the report stem from the data source, the methodology that the UNCTAD report used and the conclusions that have been drawn. The methodology used in the UNCTAD report, in summary, was as follows[29]:

'Trade between two countries A and B are said to exhibit export misinvoicing when the value of exports from country A to its trading partner country B, as reported by country A, is significantly different from the value of imports by country B from country A, as reported in country B's data' - UNCTAD (2016).

Upon scrutiny, it was found that the methodology used had severe limitations that led to flawed conclusions on the purported missing gold. In regards to the data source and methodology, the United Nations Statistical Division (UNSD) cautioned against straight country to country analysis due to amongst other reasons: different trade statistics reporting systems; country of origin versus country of destination; Free On Board (FOB) and Cost, Insurance and Freight (CIF) differences. However, these issues were something the UNCTAD report "omitted" [30].

Institutions such as International Financial Integrity which undertake a regular analysis of these issues of commercial malpractice suggest that gold data from South Africa is so poor that no real conclusions can be drawn[31]:

'....irreconcilable issues in the destination reporting of Zambia's copper exports and South Africa's gold exports distort bilateral estimates of misinvoicing to such a degree that bilateral estimations of misinvoicing for these countries are of little practical use.'

Another flaw in the UNCTAD study was pointed out by SARS that, 'in the case of SA and some others there are large differences between the declared export and the final product at the destination, therefore, the analysis of the UNCTAD report should not have blankly generalised the issue that the difference between the exports and arrivals represented mis-invoicing'[32].

The shortfalls of the report cannot be ignored. However, it does bring to light huge discrepancies by authorities and monitoring agencies (where they may be some) that cannot be swept under the rag due to methodological issues as even the reports debunking it shows that even though the losses are not as severe, there are loses and reasons behind them need to be scrutinized. As the UNCTAD Secretary-General (Dr Kituyi, 2017 as reported by fin24) argued[33], 'Just making a blanket statement to say a report by the United Nations Conference on Trade and Development (UNCTAD) on mis-invoicing in South Africa's gold industry is not true is not the solution as it does not take away the fact that mis-invoicing is taking place.'

The mining industry has historically been secretive with subsidiaries operating in several jurisdictions, and transactions commonly occurring through tax havens and other jurisdictions where secrecy provisions are prevalent. Therefore, to know what transpires in such commercial transactions is not possible. However, these companies in the past have been known to use various tools to maximise profits of which misinvoicing is one. As alluded to in the UNCTAD report, merely looking at the data does not show whether there is over-invoicing or otherwise. Therefore, it is imperative that countries, in particular developing countries take the issue seriously. Monitoring agencies and governments need to know; the magnitude of deposits (commodities) they have, how much has been extracted, what is being traded, where it is exported. Unlike the case of Zambia's and Namibia's copper that is recorded as going to Switzerland but are not recorded in Switzerland's imports, these must be appropriately registered so that gains from trade are shared equally to ensure that mining companies pay the taxes they ought to and not avoid taxes using mis-invoicing.

iii. Smuggling of Gold in West and Central Africa

Not only are the issues that pertain to fiscal policy limited to the discrepancies aforementioned as was the case with the UNCTAD study dispute with SARS and the on-going Acacia dispute in Tanzania but also the lack of harmonisation of tax policies and a lack of substantial protection of the frontiers. The lack of alignment of tax policies and weak frontiers are highly prevalent issues on the continent. The continent is rife with several tax policies in principle to attract FDI and extract rents from the sector. However, it is noted that it is this difference in tax policies that have contributed in part to the creation of illicit conduits and or hubs in the trade of minerals (particularly gold in this instance).

There are several cases of countries being smuggling hubs coming to light and attributed to the shortcomings mentioned above among others – more so in the ASM/ASGM sector. One such example is that of Mali, in which a new study found that Mali's export tax laws have turned it into a conduit for the export of West African gold to the UAE[34]. ASM/ASGM is largely an informal sector, partly due to its lack of recognition in comparison to hard rock mining. However, ASM/ASGM extracts considerable revenues and provides substantial employment (amount over return for certain parties involved). However, it is the nature of the practice that is one of its shortcomings. In part due to its informal nature, the ASGM sector provides little reliable data on gold production and trade, with an instance of official data indicating production values of 4 tonnes per year, whereas government statistics reported 20.4 tonnes in 2013 – a majority of which is believed to have been smuggled out of Mali[35]. Even with some form of harmonisation between Mali, Côte d'Ivoire and Burkina Faso of a 3% export tax on gold,

Mali's export policy of applying tax to only the first 50kg of gold exported per month – among other issues have made the country a central hub for smugglers from neighbouring countries. This is creating a loss of tax income to its neighbouring countries as well as itself. Other discrepancies highlighted include: Mali's declaration of 40 tonnes of gold production for 2013, but the UAE alone imported 49.6 tonnes from the country in the same year and in 2014, whereas Mali declared 45.8 tonnes – the UAE imported 59.9 tonnes. In regards to Artisanal mining (particularly), it was estimated that the country's artisanal mining sector produced around 36 tonnes of gold per year (significantly more than the 23.7 tonnes officially documented) [36] in 2016.

A lack of policy harmonisation is further illustrated as Sierra Leone's export tax on gold (unprocessed) – 3%[37], whereas its neighbour Guinea – on the export of the artisanal production of gold is at 1%. The aforementioned among other issues (another issue being differences in processing advancement and capacity) being attributed to why minerals, in particular, gold is "smuggled" from Sierra Leone to Guinea.

This issue is not unique to the aforementioned cases but is prevalent across several countries and regions across the continent and globe[39]. This further highlights the need for the formalisation of ASM/ASGM – though several countries have seen improvements by amending their mining codes and recognising ASM/ASGM. This has however had little impact as there is still uncertainty over actors along the value chain of ASMs that has left room for exploitation.

3) Backward Linkages and Economic Polarisation

The developments of down-stream processing, i.e. beneficiation, as well as lateral and backward linkages, are not mutually exclusive policy objectives, but they are often seen as competing concepts. It is entirely possible to pursue, where commercially viability can be demonstrated, forward and also backward linkages simultaneously. What will determine the viability of a particular policy direction will depend entirely upon the stage of development of a country with regards to mining and the economies of scale that are achievable with the development of new mines.

The size of the African market for capital goods and mining feedstocks for the gold sector is depicted below. It has been estimated by extrapolating based on the volume of ore in the sector as compared to the entire sector.

Table 1: Estimation of African Mining and Gold Mining Capital Goods Market (Mt & US$ mn)

Country	2013 All ore production, Mt	2013 Gold ore production, Mt	Gold ore as % of all ore	2013 Mining Cap Goods Import Value Million USD	Estimated Value of Mining Cap Goods Imports for Gold Mining, Million USD
South Africa	328.984	114.973	35%	2509	877
Ghana	57.811	55.999	97%	656	636
Burkina Faso	23.24	23.24	100%	244	244
Cote d'Ivoire	11.596	8.596	74%	211	156
Tanzania	22.859	15.744	69%	214	147
Mauritania	42.89	16.89	39%	360	142
Mali	18.205	18.205	100%	102	102
Guinea	17.994	17.994	100%	43	43
Zimbabwe	12.817	2.083	16%	215	35
Senegal	23.073	3.073	13%	151	20
TOTAL AFRICA	~1000	~300	~30%	~$16 billion	~$5 billion

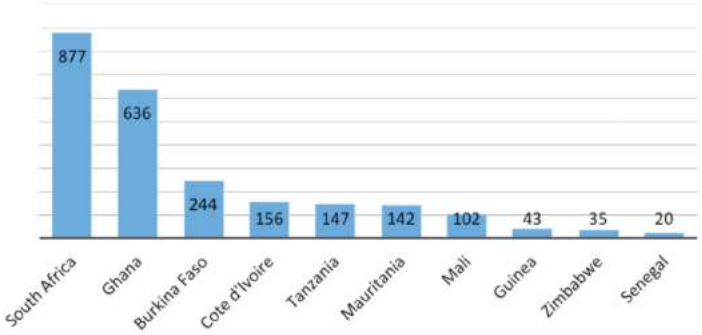
Notes: Countries that produced above 2 Mt of gold ore in 2013, Import data for Mali is for 2012, 2013 not available, Ore production data is from Raw Materials Data, Mining Capital Goods import data is sourced from Comtrade via www.trademap.org, in November 2017, Mining Capital Goods import data includes imports from all countries, for products referred to by the HS Codes. HS Codes selected also supply other sectors.

Ore production is a reasonably good proxy for the relative size of the mining inputs market/demand (the more ore mined, the more mining machinery, explosives, detonators, grinding media, chemicals for concentration, smelting/refining plant equipment and consumables, etc.) [41]. In 2013 Africa extracted about 1000Mt of ore (excluding coal) and about 300Mt of gold ore (RMD/SNL, 2015). Consequently, gold mining represents about 30% of all mining in Africa, ex-coal mining (about 150Mt in 2013), and probably represents roughly 30% of the continental

mining & processing inputs market. African imports from ROW (rest of world) of a selection of mining inputs capital goods and consumables are presented in Table 1. However, many of the articles are also used in other sectors such as construction (dump trucks, dozers, et al.) and water (drilling, valves, pumps, et al.). Africa's imports of the selected capital goods run at $13 to $16bn/an. As the selection excludes numerous inputs, particularly services and consumables (such as fuels and lubricants), the actual imports into the mining sector are probably well above $20bn/an.

African gold mining/processing imports of the select capital goods inputs are graphically presented in Figure 1, led by SA and followed by Ghana, Burkina Faso, Cote d'Ivoire and Tanzania. However, it is important to note that gold mining inputs are shared with other types of hard rock mining, and thus the potential market for developing the African minerals backward linkages capital goods sector is more in the order of $15bn per annum.

Figure 5: Estimated Gold Mining Capital Goods Imports for Select States (2013, US$mn)



Notes: Countries that produced above 2 Mt of gold ore in 2013. Source: table 1.

The development of linkages can be increased by local involvement at various stages along the value chain. Government's first need to consider the actors involved before the mine is constructed. One of the most serious policy lacunas has been the failure to recognise the central role that the very bottom of the gold value chain can play in the economic transformation of African countries. Government policy measures about mining usually begin after the development of the mine itself and this in effect means that governments in Africa are failing to extract a significant portion of the economic benefits earned by investors when they seek and develop new deposits.

This section considers the policy measures needed to pursue backward linkages into services and mining feedstock in light of what would almost certainly be serious economic polarisation resulting from such a minerals policy. Policy can be pursued at a national level, but with the possible exception of South Africa, no country in Africa alone has a sufficiently large mining sector to justify the development of backward linkages based on national demands. It is for this reason that what follows is based on a regional approach.

However, a regional approach immediately leads to economic polarisation. Economic polarisation, where production tends to be concentrated in what is commonly the economically largest entity, i.e. South Africa in the case of SADC or Nigerian, Senegal or Cote d'Ivoire in ECOWAS. Polarization has been at the heart of the slow pace of trade integration as regional member countries of the eight African economic communities see little immediate economic benefit to be derived from integration as all employment and production benefits are seen to flow to South Africa or other similar large economics.

REC Mining Inputs and Key Feedstocks Common Market

The creation of backward linkages will require the creation of a common sectoral market for mining feedstock. REC markets for backward linkages are theoretically significant but need to be realised through the creation of regional common markets for these products, with outer tariff barriers of around 10% (sectoral customs union), for regional strategic mineral feedstocks (minerals/metals, semis/intermediates and mineral/metal-based articles) as well as mining inputs. This will give all RMCs the advantage of the large regional markets but will require well-crafted interventions to support less developed states that would have difficulties in taking advantage of these opportunities.

The mining inputs markets of all RMCs, except to some extent SA, are too small to sustain viable-scale mining inputs industries. The largest market, after SA, is Zambia at around 10% of the African market. Consequently, a ring-fenced national RMC strategy has insufficient potential, due to the ever-increasing economies-of-scale of production, requiring larger markets. It is worthy of note that the EU started with a sector limited agreement in 1950 (Shuman Plan-Paris Agreement) for coal and steel only – European Coal and Steel Community (ECSC) – then moved to greater integration in 1959 (Rome Agreement).

The African REC markets for mining inputs are significant and growing faster than most other regional market sectors (it has grown at roughly the same rate as the mining sector). However, in many senses this "regional market" does not exist, in that RMCs that have mechanisms to support local content, reduce other RMCs to the status of overseas competitors (e.g. China, EU or NAFTA) in terms of tariffs, local content, etc. Consequently, for RMCs to realise this substantial mining inputs market, a system of regional-local content credits, which caters for RMC variable geometry, within a REC strategic MVCs common market, needs to be developed and adopted by participating RMCs.

Regional-Local Content Provisions in all RMC Mining Licenses

The creation of a regional common market is in itself insufficient to stimulate the development of a relatively capital and knowledge-intensive backward linkage sector, and the commercial co-operation of mining houses is also essential. The first step is for all RMCs within the REC to make provision for local content targets in all mining licenses/leases, which may require the amendment of mining laws and regulations. These targets should be disaggregated into a capital goods target, a consumables (excluding energy/liquid fuels and water) target and a services target, because a global "local content" target will result in the companies concentrating on localising services (the easiest to achieve) at the expense of industrialisation (capital goods and consumables).

The local content targets should recognise regional content at a discounted rate (inverse of the RMC GDP/capita) under a regional-local content system (R-LC). Regional supplier R-LC eligibility in any participating RMC should be inversely discounted according to the RMC "richness" (1/GDP/capita) with the wealthiest participating RMC counting 50% and the poorest 90%, towards the mining and processing R-LC targets of another participating RMC. Besides, all other African countries (ex-REC concerned) could count 50% towards an RMCs R-LC targets. The host RMC local content would always count 100% towards its R-LC targets (or more, with an indigenisation multiplier).

Further, in order to gradually build national RMC capital in the region and to correct the skewed colonial-settler legacy in the ownership of mining and mining inputs firms, there could also be a 10% (1.1) multiplier for goods or services produced or supplied by firms that are majority-owned (>50%) by indigenous individuals/entities. The precise definition of “indigenous” could be determined by the RMC, to take into account each country’s particular history. Using SADC GDP/capita in 2015 in 20,), the highest R-LC eligibility would be for Malawi (90% credits) and the lowest for Mauritius (50%)[42]. South African suppliers would be credited with 61% of local value addition (or 67% if >50% indigenous owned) and Mauritian 50%[43].
With regional supply in play, albeit discounted, the R-LC content targets could be set at:

- 80% for services,
- 70% for consumables (excluding utilities and liquid fuels & lubricants) and
- 60% of capital goods.

These could be reasonably stretched every 5-10 years, as the REC mining inputs supply capacity is progressively built. The target milestones (e.g. 50% by year t1, 100% by year t2) could be left to the discretion of the RMCs to customise for particular mines or projects (in general, mines in production for longer would have to comply quicker and new mines/projects would be given some leeway).

The onus of certifying R-LC (VA) would be on the mines, and it should form part of their annual financial audit. Consideration could be given to exempting ASM from R-LC obligations/targets (mines with less than 15kt/month ore milled = 180kt/an).

Table 2, below, gives the same eligibility for regional-local content based on the inverse of GDP/capita for another REC, ECOWAS, with the highest being for Niger (90% recognition in other RMCs) and the lowest for Cabo Verde (50% recognition in other RMCs).

Highest GDP/cap counts 50% and lowest 90% towards local content targets, Rest of Africa (RoA) 50%; Rest of World (RoW) 0%

Managing Variable Geometry[44]

One unavoidable aspect of trade and economic integration is economic polarisation. In part what has been suggested above is meant to address the issue of polarisation through the weightings on local content requirements. This would however not be sufficient. This is the "normal" initial impact of regional economic integration where the historically

Table 2: Possible ECOWAS Regional-Local (R-LC) Content Recognition (1/GDP/cap)

Country	2013 All ore production, Mt	2013 Gold ore production, Mt	Gold ore as % of all ore	2013 Mining Cap Goods Import Value Million USD	Estimated Value of Mining Cap Goods Imports for Gold Mining, Million USD
South Africa	328.984	114.973	35%	2509	877
Ghana	57.811	55.999	97%	656	636
Burkina Faso	23.24	23.24	100%	244	244
Cote d'Ivoire	11.596	8.596	74%	211	156
Tanzania	22.859	15.744	69%	214	147
Mauritania	42.89	16.89	39%	360	142
Mali	18.205	18.205	100%	102	102
Guinea	17.994	17.994	100%	43	43
Zimbabwe	12.817	2.083	16%	215	35
Senegal	23.073	3.073	13%	151	20
TOTAL AFRICA	~1000	~300	~30%	~$16 billion	~$5 billion

Highest GDP/cap counts 50% and lowest 90% towards local content targets, Rest of Africa (RoA) 50%; Rest of World (RoW) 0%

stronger economies initially benefit disproportionately from the broader regional markets[45]. Consequently, instruments would need to be created that advantage the less developed RMCs to become more attractive locations for mining inputs production capacity for the regional (REC) markets.

Nevertheless, the main advantage of regional common markets would be to progressively displace extra-REC imports from the rest of the world, with REC products of requisite quality and price. Imports of mining inputs (capital goods, consumables & services) are probably in the order of $20bn - $30bn/an (~30% into gold mining & processing). Accordingly, the realisation of the African REC mining inputs markets is not a zero-sum game but should be a win-win strategy, with all RMCs gaining a share of the displaced extra-African imports. However, due to the economic polarisation effect, the more developed economies would initially "win" disproportionately, and thus strategies to overcome this are needed.

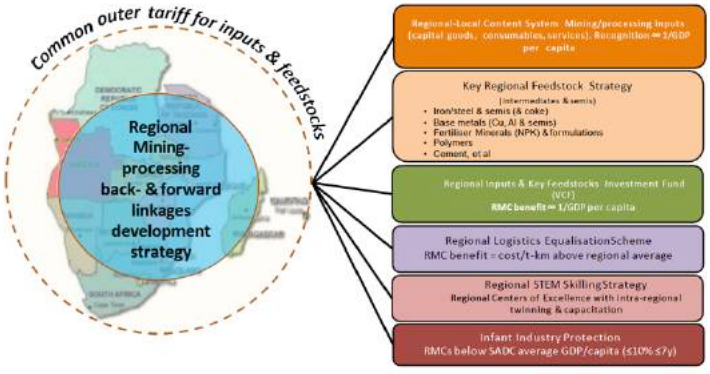
Several such REC strategies are suggested, mainly based on RMC GDP/capita, which has the advantage of self-adjusting to success, in that if the poorest RMC received most of the investments, its GDP/capita could increase considerably and the instruments would become progressively less favourable/ attractive for that RMC.

The six principal instruments are suggested to develop a regional industry (proposal 1&2 below) and the remaining instruments are ways of channelling resources to the least developed and most disadvantaged members of a particular REC:

1. Time-bound Infant Industry Protection: This concession would permit any RMC to impose a tariff of up to 10% on intermediates, semis and

Figure 6: Conceptual Key Elements of an African REC Backward Linkages Strategy

Regional Mining Vision (RMV) RBI Strategy



RMC: Regional Member Country

inputs imports from other RMCs for up to 7 years on new projects that conform to the regional strategy, to ameliorate the extra costs borne by new plants (capex servicing, workforce training, et al). The import tariff would be from 0% to 10% depending on the RMC GDP/capita. Such an RMC infant industry tariff would be added to the outer, REC, tariffs on the intermediates /semis concerned for extra-REC imports.

2. Regional-local content (R-LC) targets in all RMC mining licenses, which also recognise local content from other RMCs, but discounted proportional to their GDP/capita, from 50% eligibility (richest RMC) to 90% (poorest RMC) and 50% eligibility from the rest of Africa.

3. A regional Venture Capital Fund (VCF) that will fund pre-feasibility studies (PFSs), debt and take up to 49.9% equity in investment projects: PFS funding 0-90%, debt funding 0-90% and equity 0-49%, depending on the GDP/capita of the participating RMC, with a possible multiplier for >50% indigenous-owned projects.

4. A regional (REC) logistics equalisation scheme: Regional mineral-based intermediates and semis producers (products >90% regional VA) and inputs manufacturers (>65% regional VA) that incur higher logistics costs in supplying the regional downstream intermediates and semis markets and inputs markets, could be partly compensated, for intra-RMC logistics costs in excess of the weighted average RMC intra-regional logistics cost/t-km.

5. Other RMC mining license obligations such as a minimum local STEM skills corporate spend (>5% payroll) and minimum local RDI spend (>0.5% of sales) would also include regional expenditures, but discounted according to the RMC GDP/capita.

6. 6) Fiscal RMC instruments that reduce according to local VA such as lower royalties on more processed products, a RRT-VA[46] offset system or export taxes on unprocessed minerals (e.g. concentrates). These could all recognise regional VA, but discounted Recent studies have indicated astounding illicit financial flows from Africa[47] (~$60bn/an) mainly through transfer pricing (especially over-invoicing of costs), particularly the extractives sector. It is more difficult to over-invoice R-LC (similar tax jurisdictions) and almost all the transfer pricing (over-invoicing of costs) originates ex-Africa, meaning that a strategy of increasing R-LC will also have a collateral positive impact of curtailing illicit financial flows.

STEM Skills and Technology Development

Leaving aside the not inconsiderable political constraints to such a comprehensive regional approach to the development of backward linkages the greatest single technical challenge will come from an inadequate supply of STEM Skills and RDI capacity in almost all African countries. These are pre-requisites for developing a competitive mining inputs sector. In this regard all REC RMCs could consider:

1. Making provision for a minimum STEM skills corporate local spend of 5% of payroll (with discounted regional spend credits) in all mining licenses/leases;

2. Making provision for a minimum RDI corporate local spend of 0.5% of sales (with discounted regional spend credits) in all mining licenses/leases.

Expenditure of 5% of payroll on HRD and 0.5% of sales on RDI is now SIB (stay-in-business) figures for responsible mining companies, so the issue is only whether they spend it in the RMC/REC or overseas. Expenditure in other REC RMCs could be credited at a discounted rate (as per R-LC) from 50% to 90%, inversely proportional to RMC GDP/capita to slowly build regional Centres of Competence in STEM skilling (engineering, science, trades/artisans, technicians, et al) and RDI (mining, concentration, smelting, reefing, semis, fabrication). Almost all RMCs have skilling capacities in their universities, colleges or training centres (earth science, engineering, science, artisans, technicians, et al) which could be candidates for regional training centres (e.g. the Schools of Mines in Bulawayo and Guinea).

The mining license STEM skilling and RDI provisions, together with discounted regional credits, should provide the requisite basis for regional universities, colleges and institutes to compete on a roughly equal footing for the mining company expenditures, and to progressively build niche centres of regional competence.

Whether there exist the political will to implement such a comprehensive program regionally remains in question. However, without either the investment in forward linkages or a program that will develop lateral and backward linkages African countries will lose what is the most dynamic employment generating sectors without an obvious replacement.

Conclusion

The prospects for the beneficiation of gold, i.e. downstream processing into the only labour intensive component of manufacturing i.e. jewellery manufacturing is, for most African countries, not commercially propitious. Gold jewellery, except India and China, is a luxury commodity in decline amongst the generation of Millennials. The only two major markets where gold jewellery consumption exhibits strong growth is in India and China which are the two largest and most competitive producers of gold jewellery. Most SADC countries cannot compete with India and China in terms of unskilled and professional labour costs. In terms of lateral taxation and revenue benefits, there is an increasing number of studies of illicit financial flows, as well as accusations of gold theft and fairly substantial evidence of smuggling of very large volumes of gold to the UAE, i.e. Dubai. These all suggest that there are considerable benefits to be derived by member countries of regional economic communities in dealing with these taxation and border issues regionally and co-operatively.

Lastly, the possibility of establishing backward linkages is also constrained by the fact that no country alone, not even South Africa has a sufficiently large market for mining feedstocks as to support a national policy based on establishing or strengthening domestic production in this area. Only through a regional co-operation that recognises the inherent cost disadvantages of smaller and landlocked members, i.e. the issue of economic polarisation, can the development of backward linkages to mining be effective as a means of development. The approach proposed deals with the issue of polarisation but at the political cost of requiring unprecedented levels of regional co-operation of African states to create a regional mining feedstock community. It also has the economic consequence of raising the cost of mining in Africa relative to other regions. Thus leveraging Africa's increased gold production for economic transformation is trapped between the economic rock of African lack of competitiveness which pervades all sectors, and the political hard place of African regional co-operation.

References:

Acacia. (2016). Payments to Governments Report: Maintaining Open and Transparent Disclosures. Acacia Mining Plc. Retrieved from: http://www.acaciamining.com/~/media/Files/A/Acacia/reports/2017/2016%20Payments%20to%20Governments.pdf

Acacia Mining Plc. (2017, May 26). Further Response to the First Presidential Committee's findings on the Export of Gold/Copper Concentrates. Acacia Mining Plc. Retrieved from: http://www.acaciamining.com/~/media/Files/A/Acacia/press-release/2017/update-on-presidential-committee-report_20170526.pdf

Acacia (2017, March 17). How and why we produce concentrate. Acacia Mining Plc. Retrieved from: http://www.acaciamining.com/~/media/Files/A/Acacia/documents/concentrate/how-why-we-produce-gold-copper-concentrates-english.pdf

African Union. (2009). African Mining Vision. The African Union. Retrieved from: http://www.africaminingvision.org/amv_resources/AMV/Africa_Mining_Vision_English.pdf

AU/ECA. (2011). Illicit Financial: Report of the High Level Panel on Illicit Financial Flows from Africa. Retrieved from: https://www.uneca.org/publications/illicit-financial-flows

BarrickGold. (2017, November 27). Barrick Reports Progress on Proposed Framework for Acacia Mining plc Operations in Tanzania. Barrick Gold Corporation. Retrieved from: http://www.barrick.com/investors/news/news-details/2017/Barrick-Reports-Progress-on-Proposed-Framework-for-Acacia-Mining-plc-Operations-in-Tanzania/default.aspx

BarrickGold. (2017, November 27). Barrick Comments on Proposed Framework for Acacia Mining plc Operations in Tanzania. Barrick Gold Corporation. Retrieved from: http://www.barrick.com/investors/news/news-details/2017/Barrick-Comments-on-Proposed-Framework-for-Acacia-Mining-plc-Operations-in-Tanzania/default.aspx

Blore, S. (2015). Contraband Gold in the Great Lakes Region. In-region Cross-border Gold Flows Versus Out-region Smuggling. Partnership Africa Canada. Canada, Ottawa, Ontario.

Business Live. (2018, May 14). Tanzania cancels Barrick Gold-Glencore mining licence. The loss of the retention licence will affect the undeveloped Kabanga nickel project. Retrieved from: https://www.businesslive.co.za/bd/companies/2018-05-14-tanzania-cancels-barrick-gold-glencore-mining-licence/

Chamber of Mines. (2018). Major Sectors. Chamber of Mines. South Africa. Retrieved from: http://chamberofmines.org.za/special-features/11-mining-in-sa/major-sectors

Choi, C. (2002). Origin of World's Largest Gold Deposit Found? National Geographic. Retrieved from: https://news.nationalgeographic.com/news/2002/09/0923_020923_wiregold.html

Crowson, P. 2003. "Mine size and structure of cost", Resources Policy, 29(1-2): 15, 36

Eunomix research. 2016. A review of the UNCTAD report on trade misinvoicing, with a focus on South Africa's gold export. Eunomix research, Johannesburg.

Fin24. (2017, February 9). 'UNCTAD chief sets record straight on SA gold mis-invoicing.' 24.com Retrieved from: www.fin24.com/Special-Reports/Mining-Indaba-2017/unctad-chief-sets-record-straight-on-sa-gold-mis-invoicing-20170209

Forstater, M., & Readhead, A. (2017, July 6). A brutal lesson for multinationals: golden tax deals can come back and bite you. The Guardian. Retrieved from: https://www.theguardian.com/global-development-professionals-network/2017/jul/06/a-brutal-lesson-for-multinationals-golden-tax-deals-can-come-back-and-bite-you

Frost, S. (2017, March 1). Mali revealed as hub for illicit gold. Materials World magazine. Retrieved from: http://www.iom3.org/materials-world-magazine/news/2017/mar/01/mali-revealed-hub-illicit-gold

Global Financial Integrity. (2017). Illicit Financial Flows to and from Developing Countries: 005-2014. Global Financial Integrity. USA, Washington. Retrieved from: http://www.gfintegrity.org/wp-content/uploads/2017/05/GFI-IFF-Report-2017_final.pdf

Harington, J.S., McGlashan, N.D., & Chelkowska, E.Z. (2004). A century of migrant labour in the gold mines of South Africa The Journal of The South African Institute of Mining and Metallurgy, 65- 71

Indian Department of Industrial Policy and Promotion. (2017). Gems and Jewellery SectorAchievements Report. Retrieved from: http://www.makeinindia.com/documents/10281/114126/Gems+%26+Jewellery+Sector+-+Achievement+Report.pdf

Kamagi, D. (2017, March 26). 260 gold ore containers held at dry port. The Citizen Sunday Retrieved from: http://www.thecitizen.co.tz/News/260-gold-ore-containers-held-at-dry-port/1840340-3864994-o7kj4qz/index.html

Kar, D., & Spanjers, J. (2014). Illicit Financial Flows from Developing Countries: 2003-2012. Global Financial Integrity. USA, Washington

Martin, A., & Helbig de Balzac, H. (2017). The West African El Dorado: Mapping the Illicit trade of Gold in Côte d'Ivoire, Mali and Burkina Faso. Partnership Africa Canada. Canada, Ottawa, Ontario.

Martin, A. (Ed.s), & Taylo, B. (Ed.s). (2014). All that Glitters is not Gold: Dubai, Congo and theIllicit Trade of Conflict Minerals. Partnership Africa Canada. Canada, Ottawa, Ontario.

Morris, M., Kaplinsky, R., & Kaplan, D. (2012). One Thing Leads To Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa. Open University Commodities Programme. Retrieved from: www.commodities.open.ac.uk

Norton Rose Fulbright. (2013, June). Amendments to the Guinean Mining Code. Norton Rose Fulbright. Retrieved from: http://www.nortonrosefulbright.com/knowledge/publications/99188/amendments-to-the-guinean-mining-code#section14

O'Connell, R., Alexander, C., Strachan, R., Always, R., Namblath, S., Wiebe, J., Li, S., & Aranda, D. (2017). GFMS GOLD SURVEY 2017. Thomson Reuters. UK, London.

OpenOil. (2016). Financial analysis of the Acacia Mining tax dispute. OpenOil. Retrieved from: http://openoil.net/wp/wp-content/uploads/2014/09/Acacia-Tax-Dispute-Briefing-160610_v0.2.pdf

Ousman, G., & Mouna, B. D. (2015). 'Economies of Scale in Gold Mining' Working Paper 222, African Development Bank. Côte d'Ivoire, Abidjan.

SADC Secretariat. (2012). SADC Industrial Development Policy Framework. Retrieved from: http://www.sadc.int/files/2013/8969/0505/Final_SADC_Industrial_Development_Policy_Framework.pdf

hSARS. (2016, July 29). MEDIA STATEMENT ON UNCTAD REPORT PRETORIA. Retrieved from: http://iffoadatabase.trustafrica.org/iff/sars-media-statement-on-unctad-report-29-july-2016.pdf

Sierra Leone. (2017). Trade Policy Review. World Trade Organization.

UNcomtrade. (2016). READ ME FIRST (DISCLAIMER). UNITED NATIONS. Retrieved from: https://comtrade.un.org/db/help/uReadMeFirst.aspx

UNCTAD. 2016. Trade Misinvoicing in primary commodities in developing countries: The case of Chile, Cote d'Ivoire, Nigeria, South Africa and Zambia. United Nations, New York and Geneva.

Van Wyngaardt, M. (2017, November 28). Acacia says committee's findings on its Tanzanian gold exports inaccurate. Mining Weekly. Retrieved from: http://www.miningweekly.com/article/acacia-says-committees-findings-on-its-tanzanian-gold-exports-inaccurate-2017-05-26

Endnotes

1. The authors are respectively Consultant on mining and minerals policy in Africa, Professor of Economics at the University of Namibia and Research assistant in the Economics Department at the University of Namibia.
2. Indian Department of Industrial Policy and Promotion 2017 Gems and Jewellery Sector Achievements Report, http://www.makeinindia.com/documents/10281/114126/Gems+%26+Jewellery+Sector+-+Achievement+Report.pdf Downloaded January 2018
3. The African Mining Vision (2009, p. 3), www.africaminingvision.org/amv_resources/.../Africa_Mining_Vision_English.pdf downloaded November 2017 "beneficiation encourages a knowledge-driven African mining sector that catalyses and contributes to the broad-based growth and development of a fully integrated single market through down-stream linkages into mineral beneficiation and manufacturing."
4. SADC Secretariat, 'SADC Industrial Development Policy Framework', 2012, p. 21, http://www.sadc.int/files/2013/8969/0505/Final_SADC_Industrial_Development_Policy_Framework.pdf,accessed 2017: The Southern African region produces significant quantities of major metals and minerals such that it contributes substantially to world production to the extent of about 53% of vanadium, 49% of platinum, 40% of chromite, 36% of gold, 50.1% of diamonds, 20% of cobalt. Given this remarkable contribution to world production, it is imperative that these minerals are beneficiated in the region. Value-added processing, or beneficiation, involves the transformation of the raw material using local factors (labour and capital) into a semi or finished product that has a higher value than the sale of the raw material.
5. Ousman Gajigo & Mouna Ben Dhaou (2015) 'Economies of Scale in Gold Mining' Working Paper 222, African Development Bank, Abidjan see also Crowson, P. 2003. "Mine size and structure of cost", Resources Policy, 29(1-2): 15 , 36
6. Mining engineers consider that beneficiation begins once the ore is extracted from the ground. However, this definition of beneficiation is not widely accepted by some economists, who create a distinction between processing and beneficiation. see Morris M, Kaplinsky R &D Kaplan,'One Thing Leads To Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa', Open University Commodities Programme, 2012, p.24, www.commodities.open.ac.uk accessed 2017
7. Nearly 40 percent of all gold mined during recorded history has happened in the past 120 years from "the Rand"—the Witwatersrand Basin in South Africa. https://news.nationalgeographic.com/news/2002/09/0923_020923_wiregold.html downloaded May 2018
8. J.S. Harington*, N.D. McGlashan, and E.Z. Chelkowska (March 2004) A century of migrant labour in the gold mines of South Africa The Journal of The South African Institute of Mining and Metallurgy, pp. 65- 71 https://www.saimm.co.za/Journal/v104n02p065.pdf downloaded October 2017
9. This figure is determined based on the GFMS Thompson Reuters estimates of gold production and multiplied by the average gold price of that year.
10. http://chamberofmines.org.za/special-features/11-mining-in-sa/major-sectors downloaded May 2018
11. The shareholding in Rand Refinery is is AngloGold Ashanti 42.41%, Sibanye 33.15%, DRGOLD 11.3%, Harmony Gold Mining Company 10.38% and Gold Fields 2.78%. It is in effect managed as a utility of the benefit of these mining house.
12. These refineries include African Gold Refinery - Uganda was established in 2014 and has a reported annual capacity of 12 tonnes of gold (99.99%) per annum. Media reports indicate that facility cost between USD15-20 million to build. It is the first gold refinery in East Africa. Uganda currently has an informal mining operation at the Rupa Gold Mine is one of the informal mining operations. It is located in the Karamoja Region. The sources of supply for the refinery will be from informal miners as well as from

neighboring countries. Sahara Royal Gold Refinery - Ghana has a reported capacity of 300kg/day ie 90 tonne capacity which the company's official website indicates is a starting point and the intention is to increase throughput to 500kg/day. Sudan Gold Refinery located in Al-Hila Al-Jadida area north of the capital Khartoum, was opened in 2012, its production capacity was 900 kilograms of gold a day. Fidelity Printers and Refiners (FPR) - Zimbabwe The Reserve Bank of Zimbabwe owned refinery is reported to have processed 21.4 tonnes of gold in 2016. Fidelity Printers had LBMA accreditation. On 30 June 2008 Fidelity Printers and Refinery was expelled from the LBMA because of failure to produce a minimum of 10 tonnes per year. Mali Refineries – Two refineries exist in Bamako, Mali with a reported combined capacity of 55 tonnes per annum. Reportedly Swiss Bullion Co., owns the 100-kg-per-day Moussa Kankou refinery. The second refinery, owned by Marena Gold, has a capacity of 50-kg per day.

13. Fidelity Printers and Refiners (FPR)- Zimbabwe The Reserve Bank of Zimbabwe owned refinery is reported to have processed 21.4 tonnes of gold in 2016

14. Pers com Jewellery Council of South Africa

15. GFMS Thompson Reuters 'GFMS 2017 Gold Survey' page 45

16. A 2007 estimate of the impact of full mechanisation on platinum mining in SA claimed that the labour force would be halved (about 200k jobs at the time). However, not all mines are amenable to mechanisation and even where applicable it generally needs to be built into the mine design at the outset (difficult to retrofit). In addition, the Chamber of Mines of SA claims the number "job-years" could increase through mechanisation due to increased viability, greater mineable reserves (lower cut-off grades) and extended life-of-mines.

17. Acacia, 17th March 2017, How and why we produce concentrate'. The basic argument that Acacia makes for the export of concentrate rather than gold dore is because the volumes of concentrate are insufficient to justify the construction of a concentrator. http://www.acaciamining.com/~/media/Files/A/Acacia/documents/concentrate/how-why-we-produce-gold-copper-concentrates-english.pdf downloaded November 2017

18. Citizen Sunday, March 26, 2017'260 gold ore containers held at dry port' http://www.thecitizen.co.tz/News/260-gold-ore-containers-held-at-dry-port/1840340-3864994-o7kj4qz/index.html downloaded November 2017.

19. . There was no response to requests for copies of the Report of the Committee.

20. 26 May 2017 Acacia Mining plc 'Further Response to the First Presidential Committee's findings Export of Gold/Copper Concentrates' http://www.acaciamining.com/~/media/Files/A/Acacia/press-release/2017/update-on-presidential-committee-report_20170526.pdf . Downloaded November 2017

21. Mining Weekly. (2017, November 28). Acacia says committee's findings on its Tanzanian gold exports inaccurate. Retrieved from Mining Weekly: http://www.miningweekly.com/article/acacia-says-committees-findings-on-its-tanzanian-gold-exports-inaccurate-2017-05-26

22. Maya Forstater and Alexandra Readhead 6 July 2017A brutal lesson for multinationals: golden tax deals can come back and bite you. The Guardian https://www.theguardian.com/.../2017/.../a-brutal-lesson-for-multinationals-golden-tax... Downloaded November 2017.

23. OpenOil. (2016). Financial analysis of the Acacia Mining tax dispute. OpenOil. Retrieved from: http://openoil.net/wp/wp-content/uploads/2014/09/Acacia-Tax-Dispute-Briefing-160610_v0.2.pdf downloaded November 2017 see also Acacia, (2016)' Payments to Governments Report: Maintaining Open And Transparent Disclosures' www.acaciamining.com/.../Acacia/reports/.../2016%20Payments%20to%20Governme... Downloaded November 2017

24. BarrickGold. (2017, November 27). Barrick Reports Progress on Proposed Framework for Acacia Mining plc Operations in Tanzania. Retrieved from Barrick Gold Corporation: http://www.barrick.com/investors/news/news-details/2017/Barrick-Reports-Progress-on-Proposed-Framework-for-Acacia-Mining-plc-Operations-in-Tanzania/default.aspx see also BarrickGold. (2017, November 27). Barrick Comments on Proposed Framework for Acacia Mining plc Operations in Tanzania. Retrieved from Barrick Gold Corporation:http://www.barrick.com/investors/news/news-details/2017/Barrick-Comments-on-Proposed-Framework-for-Acacia-Mining-plc-Operations-in-Tanzania/default.aspx downloaded November 2017

25. Tanzania cancels Barrick Gold-Glencore mining licence The loss of the retention licence will affect the undeveloped Kabanga nickel project 14 May 2018. https://www.businesslive.co.za/bd/companies/2018-05-14-tanzania-cancels-barrick-gold-glencore-mining-licence/ downloaded May 21st, 2018.

26. UNCTAD. 2016. Trade Misinvoicing in primary commodities in developing countries: The case of Chile, Cote d'Ivoire, Nigeria, South Africa and Zambia. United Nations, New York and Geneva.

27. The UNCTAD study uses a similar methodology to that of recent UNECA study which concluded that US$50 billion was being earned through these sorts of transactions. UN/ECA (2015) ' Illicit Financial Flow. Report of the High-Level Panel' https://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf downloaded November 2017

28. Eunomix research. 2016. A review of the UNCTAD report on trade misinvoicing, with a focus on South Africa's gold export. Eunomix research, Johannesburg

29. UNCTAD. 2016. Trade Misinvoicing in primary commodities in developing countries: The case of Chile, Cote d'Ivoire, Nigeria, South Africa and Zambia. United Nations, New York and Geneva. See pages 12-13

30. See, SARS. 2016. Media Statement On Unctad Report Pretoria. Friday, 29 July 2016 http://iffoadatabase.trustafrica.org/iff/sars-media-statement-on-unctad-report-29-july-2016.pdf. Downloaded November 2017 and the disclaimer from the United Nations Statistical Division from: UNcomtrade. (2016). READ ME FIRST (DISCLAIMER). UNITED NATIONS. Retrieved on the 25th May, 2018 from: https://unstats.un.org/unsd/trade/default.asp#data

31. Global Financial Integrity (Apri l 2017)'Illicit Financial Flows to and from Developing Countries: 2005-2014. http://www.gfintegrity.org/wp-content/uploads/2017/05/GFI-IFF-Report-2017_final.pdf downloaded November 2017, page 45

32. SARS. 2016. MEDIA STATEMENT ON UNCTAD REPORT PRETORIA. FRIDAY, 29 July 2016 http://iffoadatabase.trustafrica.org/iff/sars-media-statement-on-unctad-report-29-july-2016.pdf downloaded November 2017

33. Fin24. 2017. 'UNCTAD chief sets record straight on SA gold mis-invoicing.' 24.com Retrieved 11/16/2017: www.fin24.com/Special-Reports/Mining-Indaba-2017/unctad-chief-sets-record-straight-on-sa-gold-mis-invoicing-20170209

34. See: Frost, S. (1 Mar 2017). Mali revealed as hub for illicit gold. Materials World magazine. Retrieved on the 19th may 2018 from: GOLD%20EXPORT%20TAXES/Mali%20revealed%20as%20hub%20for%20illicit%20gold%20_%20IOM3.htmFor the actual article, see: Martin, A., & Helbig de Balzac, H. (2017). The West African El Dorado: Mapping the Illicit trade of Gold in Côte d'Ivoire, Mali and Burkina Faso. Partnership Africa Canada. Downloaded on 21st May 2018 from: https://www.africaportal.org/documents/16683/PAC_El_Dorado_Jan_2016_EN.pdf

35. Martin, A., & Helbig de Balzac, H. (2017). The West African El Dorado: Mapping the Illicit trade of Gold in Côte d'Ivoire, Mali and Burkina Faso. Partnership Africa Canada. Downloaded on 21st May 2018 from: https://www.africaportal.org/documents/16683/PAC_El_Dorado_Jan_2016_EN.pdf

36. Ibid.

37. See: Sierra Leone. (2017). Trade Policy Review. World Trade Organization. Under – Mining, Page 13.

38. See: http://www.nortonrosefulbright.com/knowledge/publications/99188/amendments-to-the-guinean-mining-code#section14 under - Tax and customs regime

39. Some reports that show how widespread smuggling on the continent include but are not limited to: Blore, S. (2015). Contraband Gold in the Great Lakes Region. In-region Cross-border Gold Flows Versus Out-region Smuggling. Partnership Africa Canada. Downloaded on 21st May 2018 from: https://www.africaportal.org/documents/13422/Contraband_Gold_in_the_Great_Lakes_Region_1_May-2015.pdf. And Martin, A. (Ed.s), & Taylo, B. (Ed.s). (2014). All that Glitters is not Gold: Dubai, Congo and the Illicit Trade of Conflict Minerals. Partnership Africa Canada. Downloaded on 21st May 2018 from: https://www.africaportal.org/documents/11760/All_That_Glitters.pdf

40. HS Codes: '843143 Parts of boring/sinking machinery; '870410 Dump trucks (off-highway); '842952 Shovels & excavators 360°; '842959 Self-propelled excavating machinery; '847490 Parts of concentration machinery; '843041 Boring/sinking machinery, self-propelled; '842911 Bulldozers and angledozers; '847420 Comminution machinery; '730840 Pit-props & similar equipment; '847410 Concentration machinery; '820719 Parts for Rock drilling/earth boring tools; '820713 Rock drilling/earth boring tools; '841710 Furnaces & ovens non-elec for roast, melt/heat-treat of ores, metals; '360300 Detonation fuses, caps, igniters; '732591 Grinding media; '843031 Coal or rock cutters, self-propelled '845530 Rolls for metal rolling mills; '843141 Buckets, shovels, grabs and grips of excavating machinery; '845590 Parts of metal rolling mills & rolls; '360200 Prepared explosives, o/t propellant powders; '845490 Pts of converters/ladles/ingot mould & casting machinery; '845420 Ingot moulds & ladles used in metallurgy; '843039 Coal or rock cutters, not self-propelled; '845522 Cold metal

rolling mills; '845521 Hot or hot & cold metal rolling mills; '845430 Casting machines used in metallurgy; '845410 Converters used in metallurgy; '845510 Tube mills, metal rolling;

41. From 2001 to 2013 capex averaged ~20% of sales (turnover) on SA mines (StatsSA 2015)
42. Seychelles were zeroed (=50% eligibility) due to its outlier GDP/capita ($16k: distorts the range) and its lack a mining sector.
43. The indigenous multiplier would presumably not apply to Mauritius as it was unpopulated when colonised (by the Dutch, French, then British)
44. Variable geometry refers to the differential application of rules and disciplines based upon divergent levels of RMC industrialization, development, HDI, et al
45. E.g. Brazil in Mercosur, the US in Nafta and, to some extent, Germany in the EU.
46. Resource Rent Tax rate reduction in exchange for greater mineral Value Addition (see CMV, 2014).
47. GFI 2014 "Illicit Financial Flows from Developing Countries: 2003-2012", Dev Kar and Joseph Spanjers, Washington

DR PAUL JOURDAN, PROFESSOR ROMAN GRYNBERG AND FWASA SINGOGO

The authors are respectively Consultant on mining and minerals policy in Africa, Professor of Economics at the University of Namibia and Research assistant.

Paul Jourdan (top) has wide experience working on economic growth and development in Africa. He was a major contributor to the African Union's "Africa Mining Vision" (2009) and "Country Mining Vision" (2014). He was ANC's Minerals and Energy Policy Coordinator, the President of Mintek, and Deputy Director-General in the Department of Trade and Industry.

Roman Grynberg (centre) is an economist, specialist in international trade and commodities. A Professor of Economics at the University of Namibia and Senior Research Fellow at Botswana Institute for Development Policy Analysis (BIDPA)

Fwasa Singogo is research assistant in the Economics Department at the University of Namibia. ORCID ID: Fwasa Singogo (0000-0002-7053-9373

The African Continental Free Trade Area - A beacon of free trade?

Francis Mangeni
Director of Trade and Customs, COMESA

Abstract:

The paper discusses the vision to achieve an African Economic Community (AEC) including through increased inter-REC harmonisation and convergence initiatives, such as the COMESA–EAC–SADC tripartite FTA. It argues that the low level of intra-African trade can be increased with the right political leadership. One that harnesses knowledge and skills for innovation in key areas and builds capacities for formulating, sequencing and implementing policy interventions that remove supply-side constraints, strengthen productive capacities especially in agriculture production, infrastructure and information networks that facilitate cross-border trade. At the micro level, it is important to map out SMEs and start-ups for nurturing and incubation within a framework of facilitating regional trade and accessing global markets.

Keywords: African integration, Development, Comesa, Trade.

Introduction

Low intra-Africa trade has been lamented for decades. A key objective for establishing the African Continental Free Trade Area (AfCFTA), launched on 21 March 2018 to cover all the 55 African countries, has therefore been to boost intra-Africa trade, with a target of doubling it to 22 percent of total trade by the year 2022 over a 2010 baseline of 10 per cent. All this has been discussed and agreed by Africa's leaders at the highest political level, and written into decisions taken at their summits since 2010. However, intra-Africa trade has since been rising and reached 18 per cent of total trade in 2017.[1]

With a population of more than a billion people and a median age of 19.3, a combined GDP of $3.4 trillion, 60 per cent of the world's arable land, consumer and business-to-business spending already at US$ 3.9 trillion and projected to reach US$ 5 trillion by 2025, highest returns on investment in the world, and some of the largest deposits of strategic minerals, Africa is a growth pole of the global economy and a player in global peace and security.[2]

The formation of AFTA is a clear message to the whole world that Africa means business. The AFTA will boost intra-Africa trade, creating jobs and incomes and improving welfare. At their recent ordinary summit on January 28, 2018, Africa's presidents launched the Single African Air Transport Market, with 23 countries participating, covering more than 70 per cent of air travel in Africa. They also concluded a protocol to facilitate free movement of people in Africa. Together with the AFTA, these three flagships programmes represent quick progress under Africa's long-term vision, Agenda 2063. It should now be difficult to doubt that Africa is serious about economic integration.

Integrating 55 independent States and disparate polities is the most significant integration project in the history of humankind. It is no mean task. It requires continuous sharpening of technical, diplomatic, mobilisation and organisational skills.[3]

The ethos of developmental integration in Africa

Brexit, now in full remorse, has been a test of the place of regional economic integration in the world. As right-wing populism recedes, following the reign of Trump in the West and the election of the pro-EU Emmanuel Macron in France, the developmental approach taken by the COMESA-EAC-SADC Tripartite Arrangement might well be a best practice for the whole world in pursuing regional economic integration.[4] The approach bases regional

economic integration on at least three simultaneously critical pillars – building of large regional markets to support critical levels of investment, cross-border economic infrastructure including rural infrastructure, and industrialisation, with a focus on small to medium scale enterprises, for social, economic transformation.

Political economists such as Dani Rodrik and happiness economists such as Joseph Stiglitz and Jeffrey Sachs have long called for such an approach though only in sketches traceable in their overall narrative and specific suggestions for addressing inequality and other economic challenges from the current version of globalisation.[5] The upshot of the academic, political and economic turmoil surrounding globalisation for over 20 years, is that creation of decent jobs, economy-wide rather than for a privileged few, remains a core priority for governments and regional economic integration bodies, going to their very legitimacy.

There has been a perceived dichotomy between trade and industrialisation, and between manufacturing or goods and services; with the policy implication of focusing on manufacturing, away from trade or markets and away from services. This approach has been wrong to the extent that without markets, investment and production would not be forthcoming in the first place. Also, estimates are that services inputs make up 60 per cent of the value of manufactured products, many of which derive their efficacy from their services components – think of a mobile phone or an aircraft or a computer, and in the internet of things, practically about all items. This has been explained in the 2015 ECA Economic Report on Africa themed Industrialisation Through Trade, and in the World Bank publication by Grover Goswami and Dihel Carina on The Unexplored Potential of Trade in Services in Africa of 2016. Appropriate trade policies and instruments support industrialisation, and services in Africa will be part of the solution through facilitative policies in critical areas such as movement of skills, and creation of regional markets for financial, energy and transport services that support competitiveness.

In addition, it can no longer be argued that resources should move from the agricultural sector to the industrial sector and then to services, as the pre-ordained development trajectory.

Calestous Juma has over the years argued, for instance in his 2011 book The New Harvest with a second edition in 2015, as well as the joint WTO-World Bank publication of 2015 called The Role of Trade in Ending Poverty, that poverty in the rural areas will only be eradicated through agricultural modernisation and enhancement of agricultural productivity through innovation and the building of rural infrastructure. African Regional Economic Communities have programs in this area, and of course, governments, that include interventions for providing agricultural inputs and rural infrastructure as well as structured trading. The Common Market for Eastern and Southern Africa (COMESA) for instance, has established a specialised agency called the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA), which supports small-scale farmers with inputs and extension services. Such interventions will be a basis for agro-based industrialisation, where agriculture is not equated to just farming, but construed broadly to encompass the regional and global value chains from seeds to final products on shelves in retail outlets.

Preferably, all these elements (trade, innovation, infrastructure, and manufacturing) are part and parcel of the same holistic interventions for industrialisation.

The emphasis on value addition and diversification, while in order, has mostly been implemented upside down without the desired industrialisation results. Interventions have sought to achieve value addition and diversification usually through investment incentives into mainly the natural resources or extractive sector. Yet what should be done first, or at least simultaneously, is building the technological and innovation capabilities at the national and regional levels, through dedicated interventions. It is when such capabilities exist in critical amounts that value addition and diversification will follow.

There are many good practices on how to harness technology, skills, creativity and innovation from around the world, or how to restructure our education systems along the lines of entrepreneurial universities (Strathmore University in Nairobi for

instance), and how to put in place partnerships between universities and researchers, banks and other financing institutions and industry especially SMEs, with a view to identifying ideas that can be commercialised into whole new industries, getting patient or angel capital/ investors for the ideas, and twinning fledgling entrepreneurs with seasoned entrepreneurial or tutoring networks around the world.

Taiwan did not get to be a global producer and exporter of microchips and computer parts that it is now, through adding value to mushrooms.

Another dimension of value addition is that interventions have focused on value addition in the very same extractive sectors, getting trapped into vicious cycles, as Sir Paul Collier explained in his little book called The Bottom Billion. Instead, dedicated interventions to go beyond the existing product range should be prioritised to achieve a repertoire of high value and high technology content products for regional and global export markets. This has usually been called regional or global value chains, an expression that can easily miss the point of the absolute criticality of wholly new product ranges. As an example, Taiwan's major export in the 1960s was mushrooms. However, Taiwan did not get to be a global producer and exporter of microchips and computer parts that it is now, through adding value to mushrooms. Rather, deliberate government policy was put in place to move into a learning economy and innovation-driven mode, beginning with the rehabilitation of four dilapidated research institutes left behind by colonial Japan. Other examples can be drawn from South Korea, and Finland; as well Mauritius in the 1980s and to some limited extent Kenya lately.

Quite some noise has been made about the re-balancing of China and how Africa can strategise to tap the 85 million jobs or so that will move from China with the industries that are being relocated away. Justin Lin has advanced Helen Haiyu, a Chinese entrepreneur who has successfully pursued her African dream in Ethiopia and elsewhere, as an exhibit of how this can happen. Justin, however, has famously downplayed regional integration as quite a waste of resources, recommending instead, the building of colonial style railways and roads to seaports to facilitate exports from Africa to China and some developed countries. This is the model that Ethiopia is following. As alleged proof that regional markets are not that important to support industrialisation (Ethiopia seems to prefer the preferential schemes such as the European Union's Everything-but-Arms Initiative (EBA) and the Africa Growth and Opportunity Act (AGOA) of the United States as channels of export markets, to the immense potential in intra-Africa trade estimated by Mckinsey Global Institute's Lions on the Move 2.0 of October 2016 at about 4$ trillion already in consumer products and business-to-business inputs). Justin Lin and Celestin Monga, the new Chief Economist of the African Development Bank, have published a book entitled Beating the Odds, where this argument is reinforced, that even without the oft-touted pre-requisites like infrastructure, African countries could focus on special economic zones and industrial parks, and building routes, for exportation to global markets.

This, therefore, is a policy area that needs to be looked into carefully. In questioning the worth of regional integration, Justin Lin stabs at the entire architecture of African continental integration and its Agenda 2063, the blueprint and template for the social, economic transformation of Africa. His views can, therefore, be written off as unfortunate, given that much soul searching and exquisite analytical work has gone into the development of these overarching continental development strategies encapsulated in African regional economic integration. However, Justin Lin and his team have operations Africa-wide and have won medals from presidents in recognition of their work and contribution. The mostly false narratives they purvey around need to be addressed, to always have the most appropriate ways forward on strategic and existential issues concerning Africa. Trade for Africa is a developmental tool, and therefore not limited to foreign exchange earnings, but is part of the process of strengthening regional value chains for structural transformation, and creating regional markets to support cross-border economic infrastructure for

regional connectivity that facilitates resource flows and competitiveness.

Political leadership is required and there is a need for a careful selection of the sort of high growth strategic investment to bring back home. The role of the developmental state cannot be over-emphasised.

One point Justin Lin is right about, is that political leadership is required and there is a need for a careful selection of the sort of high growth strategic investment to bring back home. This strategy was successfully followed by the statesman Lee Kuan Yew, the father of Singapore, and is well articulated in his international bestseller called From Third World to First. As a case study, the prime ministers of Ethiopia have not left investment selection and attraction to statute books containing incentives and to market forces. They have physically and aggressively gone out into the world to screen, select and bring home investors that share the national developmental goals and objectives. Lee Kuan Yew was prepared and did go back to school a number of times, and sent cohorts of young civil servants into top-notch schools around the world, to harness knowledge and innovation, for deployment into the national development effort. Such political leadership is indispensable, along with the lines that President Kagame of Rwanda is consistently following.

As a first step but also a regular ongoing exercise, governments and institutions with strategic roles in the national economies and the RECs need to be mapping out SMEs with a view to developing and maintaining inventories of start-ups and new ideas that need nurturing and incubation, and aggressively supporting them with patient capital, entrepreneurial tutoring, and market and investment information, within a framework of facilitating trade into regional and global markets. The entrepreneurial university and other training initiatives, short-term re-tooling and skills development, are required to continuously build business skills in the private sector and improve employability. Also, innovation reports and awards around Africa and the world should be paid close attention to for new ideas that generate whole new economies, and high-value high technology content products.

The role of the developmental state cannot be over-emphasised. Many publications on this abound, recently as part of the backlash against runaway globalisation. Within the mess, a lot of good analytical work has emerged, notably by Dani Rodrik, espousing a political economy that should have provided the development path for developing countries over the years. A number of case studies are available for good practices; such as the Botswana requirement for cutting and polishing of diamonds before exportation, as well as broadly the developmental approach to regional integration in Africa taken by the COMESA-EAC-SADC Tripartite and the African Union at large where the trade-industrialisation-infrastructure nexus provides the joint pillars for integration programs.

When all is said and done, Government has a role as a buyer (government procurement, which is a sizeable market and can assist SMEs, a Kenyan law requiring that 30 percent of government procurement should be from youth, women, and disadvantaged and other marginalised groups has been a huge factor for inclusive growth), as a financier (through development banks and corporations), as a regulator (through putting in place the required policy framework and overseeing the proper functioning of trade and investment markets as well as enforcing investor rights and obligations through appropriately persuasive initiatives, for instance South Africa's guidelines for its investors into Africa), and as facilitator (through sorting out and promoting strategic and high growth investment, especially into high growth but presently risky areas, including public goods – this is supposed to be the secret of China's rapid economic growth and transformation).

Governments are better advised, building on best practices from China, for instance, to embed training components into their large-scale procurement projects such as infrastructure building in transportation, energy, irrigation, and other public utilities and goods. A requirement for service

suppliers to work incredible partnership with local universities, research institutions and staff in government departments, can provide learning opportunities for sustainability and maintenance of these public goods after initial propagation or construction. At the same time, large-scale infrastructure projects are part and parcel of and indeed a motor for industrialisation. The training component should at the same time allow for local ownership of knock-on inventions and innovations, through enabling clauses on the intellectual property in the creative ideas that can emerge.

The fourth industrial revolution is said to be here, and Africa is awash with warnings not to be left behind again as happened in the past. Scenario setting is on – and Africa is being reminded, for instance by a group of 60 researchers in their report on Knowledge and Innovation in Africa – Scenarios for the Future, that it lost out on the industrial revolution mainly because it was marginalised out of the knowledge networks of the time, and due to intellectual property laws that monopolised skills and innovations into a few hands in the UK, and subsequently Europe and the US through these other countries fought the UK laws in openly using initial inventions that spurred the industrial revolution. The report calls for open, collaborative innovation, pointing out that knowledge networks support entrepreneurship and economic growth. The message is that Africa must ensure it is networked into the global knowledge networks and systems in an organic manner that doesn't leave outcomes to chance or blind market forces. The recent G20 summit held on 7-8 July 2017 called for follow up on the World Information Summits that were the in-thing at the beginning of the millennium, seeking to avoid a digital divide between developed and developing countries. Momentum towards this direction will be very much a priority.

Industrialisation requires well-known interventions, according to rich discourses on economic development over the years. However, formulating, sequencing and implementing the interventions needs careful thinking. For instance, should technology and innovation, as well as a national or regional intervention for harnessing knowledge and skills from around the world, be a stand-alone intervention in the plethora of interventions usually written into national and regional industrialisation policies and strategies? Good practice would suggest that acquisition and deployment of technology, building a sound technological base, harnessing innovations together with knowledge and skills from around the world, should be an overarching goal and strategy that informs the entire industrialisation and structural transformation policy; it should be the organising logic that infuses all the interventions, and all sectoral initiatives. This is not quite as simple as building fibre-optic cables to enable internet access for chats and apps. It is prioritising the knowledge economy as a national and regional ethos, on which to anchor human resource development, financial markets, private sector development, systems and institutional strengthening, long and medium-term development strategies, annual planning and budgeting cycles, and all else that supports social, economic transformation, including songs and poems.

The Tripartite and AFTA

The AFTA comes on the heels of yet another African milestone, that is, the COMESA-EAC-SADC Tripartite Free Trade Area, concluded on 10 June 2015 covering 27 countries. It makes up half of the African continent; which has supported the negotiation and conclusion of the AFTA, through inspiration and motivation, experience and documentation. About half of the AFTA negotiators had negotiated the Tripartite FTA, and brought with them text and insights. A number of AFTA Annexes were drawn from the Tripartite instruments and were concluded relatively quickly in the negotiations, especially those on non-tariff barriers, technical and health standards, customs, trade remedies, and dispute settlement.

What had been negotiated in the Tripartite was, however, in some cases, re-opened and modified. This was part of the experimental learning and subsequent improvement as would be expected when something is done a second-time around. This was indeed in keeping with the long-term strategy for gradual African continental integration. Under this strategy, RECs are the building blocs for the

African Economic Community to be achieved by 2028 and provide valuable experience and lessons that are consolidated at the continental level. The implications, though, could be that a lot of money and time can be wasted in negotiating regional and inter-REC instruments, while the continental process lags. Where the continental frameworks begin to take shape, inter-REC frameworks need not be commenced, as they are likely to be reopened and changed.

The challenge though is in the guessing involved about whether and when the African Union would develop useful instruments in given areas. Practical application of regional integration reveals areas for creativity and innovation, which continuously results in new pathways at REC levels. Realism would, therefore, suggest that REC policy formulation and programmes should continue full blast, for it is unlikely that continental frameworks would move as fast as those of smaller coherent RECs.

It is critical to ensure that the AFTA is not designed in a manner that, through too many exceptions and high tariffs on key exports, reduces even further the paltry existing intra-Africa trade, which would be a self-inflicted tragedy.

The AFTA long transition periods of 10 to 15 years and lower thresholds for market opening of around 90 per cent of total product lines, mean that the Tripartite and the RECs, which are more ambitious, have the responsibility of keeping the continental market integration agenda functional; for it will be long before the AFTA regime fully kicks in.

The new grand consolidation at the Tripartite and now the continental levels, however, means that RECs are coalescing and having a positive impact on continental integration.

However, it is critical to ensure that the AFTA is not designed in a manner that, through too many exceptions and high tariffs on key exports, reduces even further the paltry existing intra-Africa trade, which would be a self-inflicted tragedy. A whole raft of exceptions could end up in the Continental FTA Agreement, based on a fear of imports from other African countries.

A standard trade agreement must, of course, be balanced between liberalisation and safety-valves to address possible adverse developments such as destruction of the environment or existing and planned industries, to ensure peace and security, and to recognise the policy space for governmental interventions to assist social, economic transformation. There are therefore standard general and security exceptions as well as trade remedies.

In addition, a number of trade agreements have provision for the protection of the balance of payments and external reserves and infant industries.

Sensitive and excluded products could in some cases cover up to 600 tariff lines, as indeed proposed for the Continental FTA; yet most African countries export to each other on less than 300 tariff lines.

These exceptions should, however, be designed to be used sparingly, so that domestic industries can have access to significant regional and global markets required for their growth.

Large markets that support more trade in goods, services and assets produced by job-creating enterprises, including small-to-medium-scale-enterprises, assist in employment and income generation, thus meeting the public policy objectives of jobs- and wealth-creation.

Large open markets support value chains, specialisation and efficiency through sharing of tasks in modern production lines and processes. This calls for creating a large, open Continental FTA as a rule of thumb in the negotiations.

On the basis that the bulk of imports into Africa, upwards of 88 per cent of the total, are from outside Africa, the fear of an avalanche of imports from other African countries needs to be adequately assessed.

A starting point is that with respect to the sources of those imports, which are from outside Africa, as may be deemed appropriate should be addressed under

other frameworks such as the World Trade Organisation but not the Continental FTA.

However, should there be an increase in imports from other African countries resulting from the Continental FTA, then that should be a welcome development as the objective of boosting intra-Africa trade would be seeing the light of day.

The fear should not be of imports from other African countries. The issue to focus on is how to boost exports through scaling up production, especially of goods that can find niche markets through product differentiation or wholly new products and industries, within the overall framework of industrialisation, agricultural productivity, and infrastructure development.

There are more specific interventions to focus on in the negotiations. Regarding trade policy instruments, while tariff protection can be considered but bearing in mind that high tariffs negate the very idea of building a Continental FTA, the more appropriate interventions should seek to grow industries. These include market intelligence, elimination of non-tariff barriers and subsidies, quality infrastructure and capacity building for familiarity with the AFTA trade rules. But the more core interventions must seek to grow the domestic industries through addressing the well-known constraints faced by small and medium enterprises.

High tariffs and protected markets are a development fallacy, for without sizeable markets one can hardly expect critical levels of investment that generate industries and infrastructure. Instead, the Continental FTA should seek to be a substantial regional open market.

Implementation steps

"The best is the enemy of the good" is an expression associated with Voltaire. It just might have critical relevance for the relation between the African Continental Free Trade Area (AfCFTA), the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) and the regional economic communities (RECs) in Africa. However, on 8 June 2018, Kenya deposited with COMESA Secretariat in Lusaka, the instrument of ratification of the TFTA, having ratified AAFTA as well and deposited the instrument with the African Union Commission. Both South Africa and Uganda were also taking the same approach of ratifying both.

Just a year ago, it all looked impossible to many around the world that Africa could have a Continental Free Trade Area. But for some, this was deja vu, for it was the same trepidation in 2015 just before the TFTA was launched on 10 June in Egypt. The TFTA was an African revelation, for it demonstrated the obvious possibility of and spurred strategists towards a continental equivalent.

Having missed the deadline of December 2017, AFTA was duly launched a mere three months later on 21 March 2018 in Kigali, with 44 out of the 55 African countries signing the Agreement on the spot. World history was made, despite entrenched scepticism rooted in pessimistic narratives about Africa but delighting and vindicating optimists around the world. By July 2018, the number of signatories had increased to 49, with six ratifications.

There was some pending work though. Precise time frames were duly set. Annexes (with detailed regulations) to the Protocol on Trade in Goods were to be cleaned up by lawyers (scrubbed) and adopted at the July 2018 summit in Mauritania. This was accomplished a month before the summit. The African Trade Ministers meeting in Dakar in Senegal, in the first week of June 2018, adopted the Annexes, which the African Union Summit endorsed in July in Mauritania.

The African Ministers went further and agreed on five sectors for trade in services, namely, transport, communication and banking as well as tourism and business services. The next step was to negotiate and agree on the levels of market opening in those services sectors, which meant Africa could have an integrated services market covering those areas. This was a priority for Africa because services contributed on average to over 50 per cent of national outputs and more than 60 per cent of value addition on raw materials, created three other jobs for every one job, constituted essential social services, and equipped enterprises and economies to benefit from the fourth industrial revolution.

Having put in place a robust continent-wide trade regime through the AFTA, it is now time for

implementation. Fortunately, tested national and regional institutions and instruments can now be mobilised for the effort.

National Tariff Books will now require an additional column indicating the rates of customs duties to be charged on imports from other countries in AAFTA. Customs experts can quickly accomplish this once policy ministries provide the liberalisation program. Countries in existing regional FTAs such as EAC, COMESA, SADC and ECOWAS have sufficient experience in this.

Once tariff books are brought up to date, the bread and butter of a functioning FTA are identifying or reporting and addressing non-tariff barriers (NTBs). Experience in existing FTAs shows that NTBs will keep appearing in various areas such lengthy customs procedures, technical and health standards unsupported by science or risk assessment, claims that this product doesn't meet rules of origin requirements, multiple inspections and documentation, introduction of permits and licensing requirements, or even mundane issues such as traffic flows and border gate opening hours.

The online system for reporting and addressing NTBs in the COMESA, EAC, and SADC region (at www.tradebarriers.org) has been particularly useful. As of July 2018, out of 609 NTBs reported since 2008 in the three RECs, 531 have been resolved, leaving a total of 78 as outstanding at the moment. For COMESA, out of 204 reported over that period, 199 have been resolved, with only five remaining. This mechanism can be replicated across Africa.

At a systemic level, technical committees of the regional economic communities can now be seized with matters that arise under AAFTA. If this is not done to facilitate coherence between AAFTA and the existing regimes of the regional economic communities, the apparent multiplicity will be daunting.

The more significant point though is that the technical committees at the regional level have tested experience through which the implementation and functioning of AAFTA can be channelled. In addition to AAFTA, regional technical committees made up of regional FTA member states will continue to operationalise the much higher levels of integration achieved at the regional level.

The EAC, for instance, will continue trail-blazing on its single customs territory and common market; COMESA on its Digital FTA, electronic trade facilitation instruments and research and innovation programs; and ECOWAS with its advanced free movement for traders and other persons.

…… instruments currently used for trade in regional bodies can now be converted into continental instruments, especially customs, trade facilitation and standards documents.

COMESA and the EAC will press on with the Simplified Trade Regime, designed to facilitate small-scale trade for the poorest of the poor and border communities, especially women, as a tangible empowerment tool. Small Scale Trade is significant, amounting to 40 per cent of total trade, and SMEs account for over 90 per cent of businesses and provide more than 50 per cent of employment in Africa, generating incomes, and assisting in regional value chains including in agro-industry and extractive sectors.

Another systemic point is that instruments currently used for trade in regional bodies can now be converted into continental instruments, especially customs, trade facilitation and standards documents. There can be room for adjustments and improvements with a view, for instance, to further simplification and digitisation. The COMESA Single Administrative Document for instance already collapsed 27 separate documents and 13 regimes into one document.

The contribution of the Tripartite

Just fresh from Dakar where they adopted the complete AFTA instruments on trade in goods, trade ministers headed to Cape Town in South Africa for a COMESA-EAC-SADC Tripartite meeting on 18 June 2018.

The Tripartite as the tipping point for the recent high momentum in continental integration is not adequately recognised in some circles. What is more,

is that negotiating the Tripartite for three years and a half imbued a large number of the very same negotiators with practical experience and insight on issues that came up for AAFTA. Most of the AAFTA instruments, notably the annexes, were derived from the Tripartite versions; the similarities are there for everyone to see.

This backdrop meant that the COMESA-EAC-SADC Tripartite Ministers envisaged the Tripartite as a fast-track for the AAFTA. The Tripartite has started formulating tools and instruments for trading under the FTA and continues to use existing mechanisms on addressing NTBs. The Tripartite RECs have already negotiated four priority services sectors, namely, transport, communication, finance and tourism, which could be early harvest for them . And the robust technical committees and trade facilitation instruments of the Tripartite RECs could provide institutional frameworks for implementing at the regional levels.

The trade regime in Africa has changed beyond recognition for the better regarding regional seamless regulatory frameworks, which will ease the doing of business and create jobs through investment and growth. A prudent thing now is to harness existing regional practices, tools and institutions, and fully deploy them to support the implementation and utilisation of the AFTA.

To slightly modify Voltaire, there is no need for making AFTA, which is the good, the enemy of the best, that is, the tested regional institutions and tools for running FTAs. By proceeding to ratify both AFTA and TFTA, Kenya, South Africa and Uganda have shown the clear way forward.

The political will to establish AFTA was never in doubt, as the presidents reiterated literally at every summit the determination to meet the December 2017 timeframe. Optimism kept rising at the deadline came closer. The apparent grounds for this optimism were that modalities for negotiating goods and services were agreed and adopted, and a draft text for the AFTA Agreement produced and put on the table for negotiation. With these modalities and draft text, some believed the job was more or less done, and with two or three negotiation sessions, the AFTA could be launched.

Stakes were high. If the AFTA was not launched, Africa would be the laughing stock of the world, for failing to meet the deadline of 2017 set in 2012. There is a sense of pride and duty. This self-imposed burden was quite heavy but not insurmountable. The challenge seemed to be that the pride and duty required some brains and strategy as well. It was this quad that could deliver the AFTA.

For starters, an FTA should have an Agreement covering the essential elements, namely, establishment, principles and objectives, non-discrimination, tariff elimination, customs and trade facilitation, standards, transparency and notification, institutions, disputes, and the usual final provisions. Outstanding work if any, details of trade remedies, for instance, could be put into a built-in agenda for continuing work afterwards. It was in this sense possible to have a AFTA Agreement. A good strategy for quick progress was to construct the AFTA Agreement using the provisions already available in the Agreements of the African regional economic communities (RECs), which African countries had already been using over the years. A provision-by-provision comparison in a matrix would assist, to graphically demonstrate that the text or at least the essence was the same, or at least a clear and convincing presentation on sources of, and process of producing, the draft text for the AFTA Agreement.

To supplement this, instruments on customs and trade facilitation, and health and technical standards could be constructed on good practices from the World Customs Organisation and international standards-setting bodies, respectively, as African administrations and regulatory agencies, as well as the RECs, happily use instruments and documents from these organisations.

There were areas of difference among RECs; settlement of trade disputes, for instance. This was a critical area where rules were required for peaceful and speedy settlement, so trade was not unnecessarily impeded due to confusion, lack of clarity, or drawn-out procedures. A simple provision for consultations and binding arbitration could start off the Agreement, but with a built-in agenda for elaborating a comprehensive trade-dedicated court or panel process that was suitable for Africa and

eschewed the pitfalls of the World Trade Organisation dispute settlement system. In the end, though, the Tripartite Annex on Dispute Settlement Mechanism was used as the working document for the negotiations, which were then concluded in a two-week session.

Best practices from the RECs demonstrated that an easy digital system for addressing non-tariff barriers could be handy and appropriate for trade disputes. The COMESA-EAC-SADC Tripartite Online System for Reporting Monitoring and Eliminating Non-Tariff Barriers, at www.tradebarriers.org, is a best practice par excellence. Trade problems can be reported through the system using the internet or SMS on mobile phones. Since 2008 when the system was established, 581 NTBs have been reported, out of which 506 have been eliminated using the system, leaving 75 currently outstanding. In COMESA, this system is supplemented with bilateral consultations and a standing agenda item on NTBs at the technical and ministerial-level meetings. Out of 204 NTBs reported among COMESA countries since 2008, only five remain unresolved today, showing a very high level of success. The EAC supplements the online tripartite system with its own action plan called a time-bound matrix for eliminating specific reported NTBs. Moreover, a few years ago, the EAC Parliament adopted a law providing for penalties for imposing NTBs.

On trade disputes then, the AFTA could build on the tripartite online system, putting it together with the ECOWAS one, to agree on and operationalise a continent-wide digital system, to start off with. Also, in the meantime, the African Union Trade Ministers' meetings can regularly look into any matters requiring attention.

A free trade area must have rules of origin, that is, criteria for sorting out which products are actually produced within the region and should, therefore, be given FTA treatment such as not paying customs duties. It was feasible to have AFTA rules of origin by December 2017 if the negotiations took the approach of across-the-board thresholds or general rules for conferring origin. In COMESA, EAC, West Africa and Central Africa, for instance, any good can qualify for FTA treatment if the value of inputs from within the region reaches a set percentage of the total value of the good – 35 percent in COMESA; or the value of inputs from outside the region does not exceed a set percentage of the total value of the good – 60 percent in COMESA.

Goods considered wholly obtained are fairly standard, mostly agricultural products and minerals in chapters 1 to 25 of the Harmonised System for Commodity Coding and Description. It is possible as well for goods to qualify for FTA treatment if processing it results in a change in its classification at the heading or sub-heading level in the Tariff Book. In COMESA, there is another criterion for qualifying for FTA treatment – if a product has been placed on the agreed list of goods that are considered to be of particular economic importance, then the value addition required is only 25 per cent.

However, the rules of origin negotiations took the approach of producing product-specific or list rules, that is, specifying a working and processing required for every single product for it to qualify for FTA treatment. The sheer scale of the task, covering more than 6000 products, was monumental and could only be done over an extended period. In the tripartite negotiations, after five years including a year or so of trying to agree on the approach, only about 60 per cent to total tariff lines or products have been done. In COMESA, it took 11 years to complete the change in tariff heading exercise, but fortunately, trade could happen under the other criteria for qualifying for FTA treatment, such as wholly obtained, material content or value addition. A decision on approach to rules of origin was therefore fundamental, and Africa would be best advised to have flexible rules. There is a substantial body of analysis on the restrictiveness of different systems of rules of origin.

A related issue was that there had been cases where rules of origin for intra-Africa trade had been more restrictive than those for trade with third countries, for instance, those under AGOA or trade schemes with the European Union. This bizarre lapse was to be watched and avoided.

Another related matter was that provisions on the administration of rules of origin have over the years become relatively standard in the context of

facilitating trade and customs. The digitisation of customs operations including the certificate of origin itself deserves some close attention.

Corruption costs Africa at least $100 billion a year, and illicit financial flows amount to over $50 billion a year.

The AFTA will require every African country to eliminate customs duties on at least 90 per cent of its total products lines, leaving out 10 per cent. On the 10 per cent, every country may designate some as sensitive, meaning that customs duties can be only reduced and over a more extended period; and may designate others as excluded products, on which no tariff reductions are expected.

It was possible to have tariff schedules for the AFTA by December 2017 at least from a critical and sufficient number of countries, especially those that have embedded trade liberalisation and export strategies in their national development programs, if the tariff negotiations were done in plenary meetings in terms of every country presenting its tariff schedule for comment, requests for improvement, and finalisation as an initial package or outcome from this first round of negotiations, subject to subsequent regular rounds in future.
However, if tariff negotiations were conducted on a bilateral basis, it would be impossible to complete the tariff negotiations by December 2017 or even December 2018. The permutations or groups of bilateral negotiations to be conducted among close to 55 countries or customs territories would be multifarious and overwhelming.

A much better approach would be to adopt a simple continent-wide schedule of tariff elimination, setting out percentages for annual reductions over a five-year period. Each country would then be required to start undertaking annual reductions to reach zero per cent duty on 90 per cent of its tariff lines. There would then be annual reporting and assessment of the reductions. Countries with sensitive products would produce an additional tariff reduction schedule covering those products. For excluded products, anti-concentration clauses would set out the criteria, using which countries would be required to notify their schedules of excluded products, subject to consultations and regular review.

What would even be better was if those countries in REC FTAs maintained that FTA treatment among themselves, in the context of AFTA; and then extended that FTA treatment to the rest of Africa but on condition of reciprocity to avoid free riding.

Actual intra-Africa trade happens on only a few tariff lines. The idea would be to focus on these tariff lines and get a commercially meaningful AFTA. Less attention for the time being need to be given to idle tariff lines, many of which due to geographical or cultural or economic conditions might never have products traded among African countries in the foreseeable future.

In addition, tariff lines with applied MFN rates currently at zero per cent could be harvested reasonably quickly if agreed upfront as a principle, on the understanding that applied tariff rates are the starting point for elimination and reduction in FTAs, according to some WTO rules.
However, what was agreed to elaborate product-specific rules, while endeavouring to have chapter-level rules where agreeable. On tariff elimination, it was agreed to adopt a linear approach for the 90 per cent of the tariff lines, while negotiations would be on the 10 per cent comprising sensitive and excluded. This is where the crux of the matter is, as most trade is on the few tariff lines likely to be covered by the 10 per cent.

Towards ownership of Africa's integration goals

Agenda 2063 seeks to achieve 'The Africa We Want' that is integrated, prosperous and peaceful, and also democratic and efficacious in international relations. But we will not get this Africa we want until we have 'The Africans We Want' who can create and achieve it. Targeted social-political processes need to be deployed to generate a critical mass of the Africans we want in order to quickly reach a tipping point for transformation into the Africa we want. Role models will help to inspire young people to grow up to be like them. Such role models should be forthcoming and widely known. There already is a good catchment area, but which needs refinement of criteria to avoid ridiculous cases, namely, Nobel

laureates and lists of innovators, game-changers and most influential Africans.

Laudable initiatives by the likes of Tony Elumelu to instil entrepreneurship in young people and Chief Obasanjo on leadership training could also support this process. However, coherent continental and regional systems for achieving "The Africans We Want" as an evidence-based strategic objective are still lacking.

We need, but must go beyond, curriculum reforms designed to put our youths and mid-career professionals through growth and preparatory phases that build and equip them with intellectual and social faculties. This will help them to thrive in the fourth industrial revolution that has earnestly arrived, and to be proactive citizens of the world without the apathy and sloth that kills life. We need but must go beyond, moral exhortations for good character built on courage, motivation, prudence, fair play, moderation, and care for the lot of humankind. We know that what is ingrained in children up to the age of 12 years by parents can be permanent, but that dramatic conversion can happen and overhaul lifestyles, belief systems and life values. The one thing that is much missed is a coherent philosophy and world outlook that provides a bedrock for the social-political fabric that produces the African we want – young, middle-aged and old.

Designing such a system would take a multi-disciplinary approach. Agenda 2063 is implemented progressively through 10-year action plans and flagship projects. The Sustainable Development Goals under the United Nations Agenda 2030 reflect a new pact between humankind and nature, and what humankind has learnt over the millennia as documented in philosophy and science. Namely, humankind is family through similarity, enlightened self-interest and regional and global interconnectivity; that we care for one another as inherently wired in our DNA and as a matter of right and wrong, and that our planet is a unique phenomenon and for now is our beautiful and only viable home.

Through effective diplomatic agency, Africa proactively assisted the formulation of the SDGs, based on Agenda 2063. The African missions in New York deserve a pat on the back for defending humankind. Threats to Agenda 2063 and Agenda 2030 include corruption as well as a host of other matters such as climate change, wars and conflict, non-implementation of instruments and programmes, and inadequate financial and human resources – all of which need priority attention. Africa has rightly identified corruption as a priority area that deserves urgent and targeted attention – and adopted it as the African theme for 2018. Corruption costs Africa at least $100 billion a year, and illicit financial flows amount to over $50 billion a year.

Cape Verde, Namibia and Rwanda have undertaken effective reforms and measures that also provide lessons and ethical practices. These countries are now less corrupt than Hungary, Greece and Italy.

In light of resource gaps, such as $45 billion annually for infrastructure, tackling corruption is critical. We know what works in fighting corruption. Botswana and Seychelles, which are less corrupt than Spain, have some good practices. Cape Verde, Namibia and Rwanda have undertaken effective reforms and measures that also provide lessons and ethical practices.

These countries are now less corrupt than Hungary, Greece and Italy. Critical success factors include determined political leadership, anti-corruption laws and dedicated institutions, dedicated courts, due implementation of laws and policies, compliance with international instruments such as the Extractives Industry Transparency Initiative, enforcement of leadership codes and mainstreaming anti-corruption across the public sector. However, the actual implementation of such good practices and lessons remains a considerable challenge. However, it is already possible, with some due diligence, to identify persons of integrity who could fittingly hold certain public offices. Surveys by the Common Market for Eastern and Southern Africa have established that governments face some of the following constraints in their efforts to implement their obligations and agreed programmes: limited political leadership and ownership, human and financial resource constraints, incoherence and

disconnects between relevant government ministries and departments, limited ownership and understanding by relevant stakeholders and users, ad hoc and on-and-off approaches that undermine continuity and momentum required for sustainability, and so on. These factors require attention.

Government, industry, academia and grass-roots and civil society organisations should equally own these programmes, through continuous education and mobilisation.

Africa is not short of visions and understands what it wants. The existential question is: how come we do not do that which we know we ought to do for our own good? For instance, we know of the malaise of corruption, yet it is prevalent in our midst. Let there be specific methods, tools and institutions for generating 'The African We Want.'

Conclusion

The last decade in Africa has been full of excitement and ups and downs; but with the upshot that the Tripartite and Continental FTAs were concluded, changing the economic geography of Africa. What has been achieved was unthinkable, but it demonstrated what Africa was capable of achieving. It should be an inspiration to carry forward the economic integration programs, with a view to addressing critical public policy challenges including those relating to wealth creation and poverty reduction, and to achieving Agenda 2063 and the Sustainable Development Goals by 2030.

References:

1. UNCTADstat at unctadstat.unctad.org
2. Mackinsey Global Institute, Lions on the Move ii: Realising the Potential of Africa's Economies, September 2016
3. Francis Mangeni and Juma Calestous, Emergent Africa – evolution of economic integration in Africa, Headline Printers (forthcoming)
4. Francis Mangeni, The Case for the COMESA-EAC-SADC Tripartite Arrangement, COMESA, 2012
5. Juma, C. (2011). New Harvest: Agricultural Innovation in Africa. Oxford University Press
6. For instance, Joseph Stiglitz, The Price of Inequality – How Today's Divided Society Endangers our Future, Norton & Co, 2012
7. "Dihel, Nora; Goswami, Arti Grover. 2016. The Unexplored Potential of Trade in Services in Africa : From Hair Stylists and Teachers to Accountants and Doctors. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/24968 License: CC BY 3.0 IGO."

DR FRANCIS MANGENI

Director of Trade, Customs and Monetary Affairs, Common Market for Eastern and Southern Africa

Dr. Mangeni has taught on postgraduate and under graduate programmes in Uganda at the Law Development Centre, Makerere University, and at the London School of Economics. He has worked and consulted extensively on the multilateral trade system and African economic integration. He was Advisor to the Minister of Commerce and Industry of the Government of Malawi; the Senior Economist at the Permanent Delegation of the African Union to the United Nations and other International Organisation based at Geneva, Switzerland; and from 2005 o 2007 was the Regional Trade Policy Advisor at the Commission of the African Union.

Special Products and the Safeguard Mechanism: Options for AfCFTA Trade in Agriculture

Constantine Obura Bartel
Center for Corporate Responsibility and Sustainability (CCRS)
at the University of Zurich, Switzerland

Abstract

Among the outstanding details that remain to be addressed by AfCFTA member countries is submitting which products they consider "sensitive", or special products to be exempted from deeper tariff cuts. The heterogeneous levels of development, economic structures, and geographical, social and environmental conditions mean that the benefits of far-reaching integration might not be equally divided and that there can be no “one size fits all” solution that could be applied by all the African countries. This paper seeks to contribute to the ongoing integration process by providing some empirically based Special Products (SP) Special Safeguard Mechanism (SSM) concepts from a sustainable development perspective, along with some strategic options to be considered by policymakers. It proposes a possible methodology that governments could follow when developing their national lists of SPs. It proposes indicators that connect local realities – such as food insecurity, the composition of the traditional diet, rural employment structures, and market conditions – with trade disciplines.[1]

Keywords: AfCFTA, special products, agriculture trade

1. Introduction

African Heads of States signed a free trade covering more than 1.2 billion people with a combined GDP of around $3.4 trillion across Africa deal to replace current regional and bilateral trade agreements and to eventually be extended to create shared policies on investment, competition and intellectual property. While it is a good idea to integrate eventually, many experts doubt the continent is ready for such a far-reaching agreement.

While AfCFTA member countries would benefit from freer agricultural trade, some fear that only a few middle-income countries and large multinational companies and food exporters capture the new opportunities that the AfCFTA would bring. Lower-income African countries would gain only little and might even lose from out to liberalisation. Many of these countries still have large rural populations composed of small and resource-poor farmers with limited access to infrastructure and few employment alternatives. Thus, these countries are concerned that domestic rural populations employed in import-competing sectors might be negatively affected by further trade integration, becoming increasingly vulnerable to market instability and import surges with the removal of tariff barriers.

Many African countries still depend on the export of a few commodities, the prices of which show high volatility and long-term decline. Commodity dependence, the expected erosion of preferences that some countries depend on for their export earnings, as well as increased food import prices due to the elimination of export subsidies, make it difficult for these countries to guarantee their growing populations the food they need.

On the other hand, agricultural trade imports have increased faster than exports in the majority of developing countries. In several instances, this has contributed to the displacement of domestic production. According to FAO, there have been increasing reports of food import surges in developing countries since the mid-1990s, particularly among low-income food-insecure countries (FAO 2003.) In this context, safeguarding domestic food production capacity has become an essential component of food security strategies in an increasing number of countries.

The competitiveness of Africa’s economies ultimately depends on the level of productivity of individual nations, regions, and cities to facilitate trade and

investment into opportunities for firms, farms, and social and physical infrastructure.

Some countries including Nigeria are cautious about the prospects for success, as no one knows with certainty what the CFTA means in the long term for economic growth and prosperity. Some fear it may have limited benefits or even negative impacts.

Special Products and (SPs) and Special Safeguard Mechanism (SSM) are two policy instruments that could mitigate the negative impacts of the AfCFTA. Is adequately identified and implemented, SPs should provide targeted protection for products that are important for food security, livelihood security and rural development, but which would not survive under competitive conditions.

Subsidised exports from industrialised countries, has made it more cost effective for people in towns and cities to source their food from the world market than from domestic production. Liberalisation has also contributed to farm concentration. This has led to increased productivity in some cases but has also increased inequalities and the marginalisation of small producers who are unable to take advantage of new trading opportunities.

2. Identifying Special Products

UNECA is hopeful that African countries can move "very quickly" to identify their “special” or "sensitive" products. However, many details are still not addressed. Before countries could submit the products, they consider special products or "sensitive", to be exempted them from tariff cuts, much needs to be done.

In 2005 WTO Members agreed that developing countries would have the flexibility to self-designate ‘an appropriate number’ of tariff lines as Special Products, doing so “guided by indicators based on the criteria of food security, livelihood security and rural development”. These products would be eligible for ‘more flexible’ treatment.[2]

Discussions focused on three main areas: (i) how the proposed flexibilities might affect developing country exports; (ii) the number of tariff lines, and; (iii) the related issue of the number and kind of indicators used to guide SP selection.

At most, to entirely exempt SPs from tariff reduction could slow down the increase of South-South trade. At the same time, it has also been argued that these flexibilities would, in fact, contribute to increasing South-South trade in the longer term, as they would allow developing countries to make investments in their agricultural sectors and readjust their production structure to become more competitive, or to diversify into other sectors of the economy.

3. Rationale Behind The Concepts Of Special Products (SP) And The Special Safeguard Mechanism (SSM)

Developing countries have justified the need for provisions on SPs and the SSM because further liberalisation might affect food and livelihood security and rural development. In this respect, it is useful to review the impacts of past liberalisation in developing countries. This is a subject of considerable controversy, with limited and inconclusive empirical evidence. While it is clear that removing trade distortions might contribute to employment and poverty alleviation by providing increased trade opportunities, it is widely recognised that indiscriminate liberalisation might also generate negative impacts (Bernal, L.2004)

Firstly, trade liberalisation is often accompanied by broader economic reforms, which usually entail the reduction of state intervention in the economy and the withdrawal of government support from some social and other services.

In many countries, this process has also been characterised by a conscious decision by governments to reorient agricultural production towards exports, sometimes by focusing their agricultural support on the promotion of non-traditional export-oriented sectors.

It brought benefits to the rural poor, through increased employment and by allowing some independent farms to produce for the export-oriented sector, thus enabling them to command higher prices. However, the concomitant effect of this reorientation of agricultural production towards exports has been the neglect of domestic food production.

This, combined with high transport costs in rural areas and low world prices resulting in part from subsidised exports from industrialised countries, has made it more cost-effective for urban areas to source their food from the world market than from domestic production. Liberalisation has also contributed to farm concentration. This has led to increased productivity in some cases but has also increased inequalities and the marginalisation of small producers who are unable to take advantage of new trading opportunities.

SPs and the SSM are two different instruments, addressing two different problems associated with trade liberalisation. The idea behind the SPs is to provide targeted protection for the rural populations of developing countries from the possible negative impacts of trade liberalisation. This protection is likely to take the form of tariff reduction exemptions or minimal tariff cuts over a more extended transition period for products that are deemed necessary for food security, livelihood security or rural development, but which would not survive under so-called competitive conditions. Mostly smallholder subsistence farmers, who represent a significant proportion of developing countries' rural population, cultivate these products

By contrast, the SSM would allow countries to raise tariffs above their bound levels for a limited duration to protect import-competing sectors against price depression and import surges. This tool could be useful for products that are 'competitive' – or which because of SP flexibility could 'compete' with imports – but which are still vulnerable to price fluctuation and revenue-related risks. The SSM allows countries to raise tariffs above their bound levels for a limited duration to protect import-competing sectors from import surges and price depression.

3.1 How AfCFTA members can identify their SPs?

Each country can undertake an internal and inclusive process of discussion and consultations to identify its SPs and products eligible for the SSM. It is a pre-condition for an informed and active participation in the negotiations. The primary challenge is to genuinely build on the three objectives when designating SPs, instead of being driven by narrowly defined commercial considerations.

3.2 The importance of a multi-stakeholder approach

A multi-stakeholder methodology is required to structure the internal discussion process (Figure 1). The process aims to place the analysis for the identification of SPs within the broader national strategy for sustainable agricultural development and poverty alleviation. It also includes a range of stakeholder groups such as farmers' associations, consumers, industry representatives and civil society in the conversation about SPs, along with government officials and trade negotiators. These groups, which are directly affected by trade integration, bring new and often overlooked insights to the table regarding the criteria for selection of SPs.

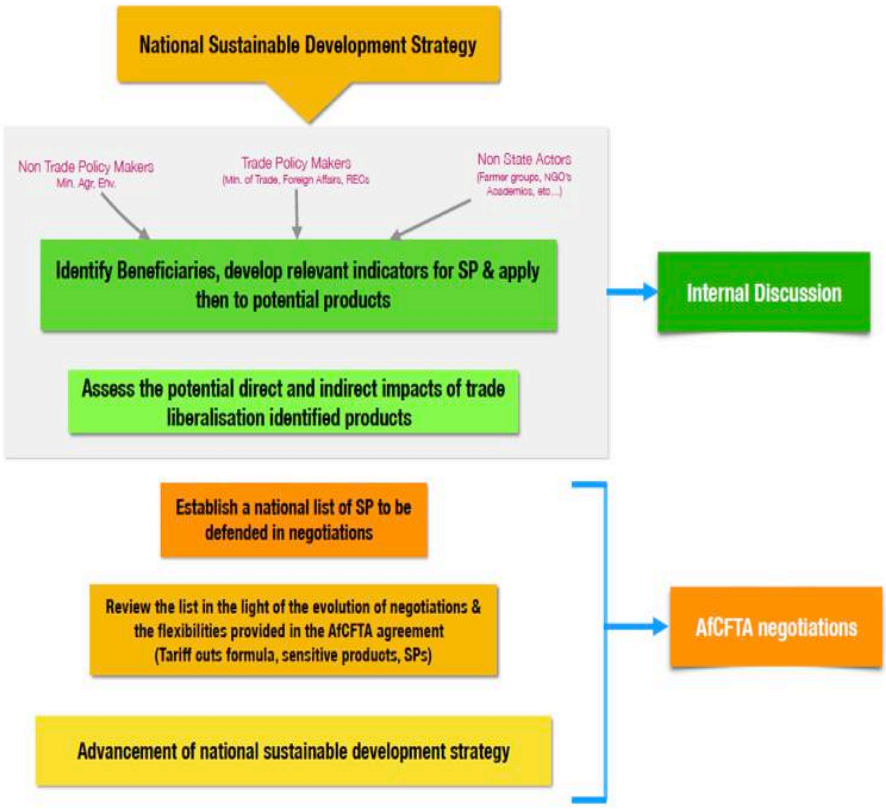
Multi-stakeholder participation has been critical in the process of facilitating the identification of SPs and products with access to the SSM. While government officials and policymakers are responsible for the final selection of products to be designated on the basis of specific criteria, the decisions will also need to be informed by consultation between stakeholder groups such as farmers' associations, consumers, industry and exporter representatives and civil society with customs, agricultural and central bank officials and trade negotiators.

Such a consultation process ensures that any empirical research is subjected to scrutiny and refinement by groups such as farmers' groups, which are affected by the decision taken at the national level. This process also enables policy-makers to complement empirical research with new insights and perspectives on the selection criteria for SPs that may have been ignored or overlooked during the research process.

The methodology also attempts to operationalise the three concepts entailed in the WTO July Framework Agreement through an illustrative list of indicators, both quantitative and qualitative, applied at the national and sub-national levels. These indicators identify both the intended beneficiaries of the SP-SSM flexibilities and to assess the importance of specific products from a food/livelihood security and rural development perspective.

The methodology provides guidelines to assess the potential direct or indirect impact of further liberalisation on the products identified. In particular, it highlights the need for policymakers to take into considerations issues such as substitute products, vulnerability to imports or current levels of protection when finalising lists and ranking the identified products.

Figure 1 A Conceptual Framework for the Identification of Special Products in Developing Countries



Source: adapted from Bartel, C. et al. (ICTSD)

The methodology was tested in studies selected by geographic distribution, the presence of domestic research capacity, political willingness to support the process, and their various statuses as Net Food-Importing Developing Countries (NFIDC), Low-Income Food-Deficit Countries (LIFDC), and Small Island Developing States (SIDS). Kenya, Tanzania and Nigeria were among the 20 selected countries.

To assess the economic and social importance of particular products for specific high-poverty sub-regions within a country, the analysis should apply indicators that go beyond the national level, to understand circumstances at the sub-national or provincial level. Furthermore, in addition to the identification of products most relevant from the perspective of food security at the national and/or sub-national levels, there is a need to identify the vulnerable groups that are the intended beneficiaries of SP-SSM flexibilities – the rural poor and small farmers – and the specific products on which their livelihoods depend.

To identify the intended beneficiaries – subsistence and smallholder farmers but also small commercial farmers who might be affected by further liberalisation and become subsistence farmers – proposed indicators were based on income, or more precisely the lack thereof; the geographical distribution of poverty; and measures regarding production capacity, such as agricultural productivity and the size of landholdings.

An illustrative list of indicators to identify subsistence and smallholder farmers – the intended beneficiaries of SP-SSM flexibilities:

3.4 Identification of the intended beneficiaries

The intended beneficiaries of the SP provisions and flexibilities are those segments of the population whose livelihoods is at risk from the effects of liberalisation. These are the rural poor, often small farmers with no other source of income, and population groups where women usually are the primary source of labour in the production process. To address the needs of these groups, three categories of indicators are proposed.

4. Indicators

4.1 Indicators Related to the Income Level

The determination of these indicators depends on the availability of data in each country. Nationally established poverty indicators, including parameters on urban and rural poverty, can be used since they respond best to the reality of each country and its particular circumstances. The following Indicators can be used:

Income

- The number of households/persons below the national poverty line;
- The number of people with incomes below the necessary to cover basic needs (i.e. food, shelter, health, clothes, education, etc);
- The measurement of household expenditures; or,
- The use international standards of poverty such as the World Bank's poverty line of US$ 1 per person a day.

Geographical distribution of poverty

- The analysis of the geographical distribution of poverty on the basis of the administrative/political organisation of each country;
- An assessment based on the agro-ecological conditions of various regions.

Production capacity

- Very country-specific, but could include size of landholding, number of livestock, productivity.

The number of households or persons below the national poverty line;

The number of people with incomes insufficient to cover basic needs (i.e. food, shelter, health, clothes, education);

The measurement of household expenditures; or,

The use of international measures of poverty, such as the World Bank's poverty line of US$ 1 per person per day.

4.2 Indicators related to the geographical distribution of poverty

Several studies suggest that poverty can be particularly severe in specific areas, so-called 'pockets of poverty', something which is often explained by the lack of an adequate resource base, for example, scarcity of fertile land and a lack of water resources, or isolation due to a lack of adequate infrastructure. The population's livelihoods in poorly endowed regions usually depend on a single activity put at risk by liberalising trade in the few crops usually grown in those areas.

To address these issues, indicators must be based on: the analysis of the geographical distribution of poverty by the administrative/political organisation of each developing country; and an assessment based on the agro-ecological conditions of various regions.

4.3 Indicators regarding production capacity

The definition of subsistence and small-scale farmers depends on the particular circumstances of each country and its agricultural sector. No internationally agreed parameters exist for identifying such farmers, even though improving their livelihoods is fundamental to improving the living standards in rural areas. In this context, the indicators used would need to relate to the size of the production unit – for instance, the number of hectares for cultivation in the case of crops and number of heads for livestock – and its productivity; for instance, metric tons of produce per hectare and head of livestock.

Identification of relevant products from the perspective of livelihood security and rural development needs

In addition to identifying the beneficiaries, it is also necessary to identify the products on which their livelihoods depend. Livelihood security and rural development needs are linked to the resource base, economic activities and social networks on which rural populations depend. It follows then that specific products are particularly relevant for the well-being of large segments of a country's population.

The two sets of indicators suggested below attempt to capture the relative contribution of specific products to the economy and employment generation, using these two variables as proxies for the broad concepts of livelihood security and rural development needs.

Measuring the economic importance of agricultural products

The following primary indicators can help capture the relative economic importance of a particular agricultural sector:

- The contribution of the product to the national agricultural GDP;

- The contribution of the product to a particular region's GDP;
- The area of land dedicated to the production of a particular product at the national or regional levels;
- The number of heads of livestock in the country or region;
- The share of per capita income derived from a particular sector at the national or regional level.

Qualitative analysis may also be necessary to address other variables such as the links between a particular sector and the rest of the economy, or the potential for value addition. Indicators of the potential for value addition and linkages of a product include the extent to which it can be locally processed; the share of domestic agricultural intermediate inputs used in non-agricultural sectors, and the value of goods and services used as inputs in the production of the sector.

Indicators related to the sustainability of agricultural sectors

Developing countries may also want to look at indicators related to the sustainability of their agricultural sectors. For example, the environmental impact or agro-ecological role of some farming practices might be included in the considerations to designate a particular product as an SP. Although these additional concerns may not fit neatly into criteria based on food security, livelihood security and rural development needs, they are nonetheless crucial to the development concerns of developing countries.

5. Measuring the contribution of agricultural products to employment

5.1. Measuring the contribution to employment

Indicators related to employment should reflect the importance of a particular sector as a source of income and livelihood for the population. Indicators such as the following can assess the contribution to employment of a particular product:

Total (absolute size of) workforce engaged in the sector at the national level or in a region;

The proportion of the national or regional agricultural population engaged in the production of a specific product;

5.2 Labour requirement.

It is often difficult to obtain data on agricultural employment broken down by product or sector. In most cases, countries have to develop formulas to calculate the labour requirement of particular sectors, or for the production of a particular product. One option would be to use ratios that developed for use in other contexts that closely resemble the production conditions for the product in question.[9]

5.3 Identification of relevant products from the perspective of food security

Food security can be assessed on different scales, from the national to the household and individual levels. The indicators developed should, therefore, reflect the relative importance of particular products to the consumption profile of the population at these different levels. When collecting data on consumption patterns, it is worth noting that national statutes or regulations may already identify some critical staple products and a basket of basic foods reflecting local preferences and circumstances.

Indicators related to food security could look at parameters such as:

The share of a particular product in total national or regional consumption, as reflected by its contribution to the calorie intake of the population;

The share of income spent on a particular product at the national or regional levels;

Self-sufficiency and import penetration, especially on products prominent in the consumption profile of the population;

The overall capacity of the country to finance food security programs, including its capacity to import food

5.4 Supplementary elements for the analysis

The categories of indicators proposed above are considered directly relevant for purposes of identifying potential SPs, based on the criteria of food security, livelihood security and rural development needs. There are, however, additional

considerations that developing countries may want to incorporate in their internal evaluations to facilitate the process of prioritisation.

5.5 Substitutes for existing products

In identifying SPs, developing countries should analyse situations where imports displace local production or substitutes that are not locally produced. Recent examples of such displacements have included imports of wheat to Africa displacing the consumption of cassava or millet in the region, and imports of powdered milk in the Caribbean displacing the local production of fresh milk as an input to the local dairy industry. The analysis is a two-step process. Firstly, it could look at the extent to which potential SPs are exposed to substitutes. Next, examine the import penetration of directly competing products and how this has changed over time vis-à- vis the local production. It is also essential to take into consideration how substitutes evolve in the future. The negotiated provisions for SPs should then aim to enable countries to maintain some protection against imports that are directly relacing substitutes and could lead to permanent changes in the consumption patterns of the population.

5.6 Unfair competition

When applying the indicators, developing countries should bear in mind that third parties can export imported products with substantial levels of subsidies. The list of highly-subsidised products is long and covers many developing countries' staple foods, such as rice and corn. This problem is compound by the fact that the Doha Round is unlikely to change the situation seriously and high levels of subsidies by industrialised countries will most probably continue to be allowed under future agriculture disciplines in the WTO. Negotiators should keep these trade distortions in mind when establishing their list of SPs and consider whether a potential SP or its substitute are particularly vulnerable to such distortions.

5.7 The current level of protection

The current level of protection provided to a potential SP, as reflected in the level of tariff overhang, may also be worth taking into account in the national identification process, and in the designation of SPs.

This allows countries to target those products where the designation as SP would be most useful, in light of other special and differential treatments (S&DT) provisions available to developing countries. In this case, the designation of SPs should include an analysis of the likely effect on each product of the commitments to be undertaken by developing countries.

5.8 Vulnerability to import displacement

Analysis of the extent to which imports could displace local production would need to include an assessment of both the competitiveness of the sector and the likelihood that imports would pose a threat to local production. Factors such as consumer preferences and transport-related considerations may reduce the threat of imports competing in the local market.

Studies showed that imports of potatoes in Peru, where the high cost of transporting the product relative to its value, and the particular consumer preference for local varieties, make it unlikely that imports increase significantly as a result of reduced border protection. This analysis may be necessary to decide on the actual designation of SPs to the extent that the freedom of members to select such products is constrained.

6. SOME EMPIRICAL EVIDENCE

6.1 Will SPs Affect Intra Africa Trade?

Several agriculture-exporting developing countries have argued that the selection and treatment of SPs should not undermine the food- and livelihood security or rural development of their many poor and vulnerable farmers, whose welfare depends on improved market access for a few export products. The question is instead whether such flexibilities affect the overall balance of gains and losses for developing country exporters.

6.2 Strategic products of export interest to developing countries show similar trends.

In contrast, the SP flexibilities might play a critical role in addressing the food and livelihood security

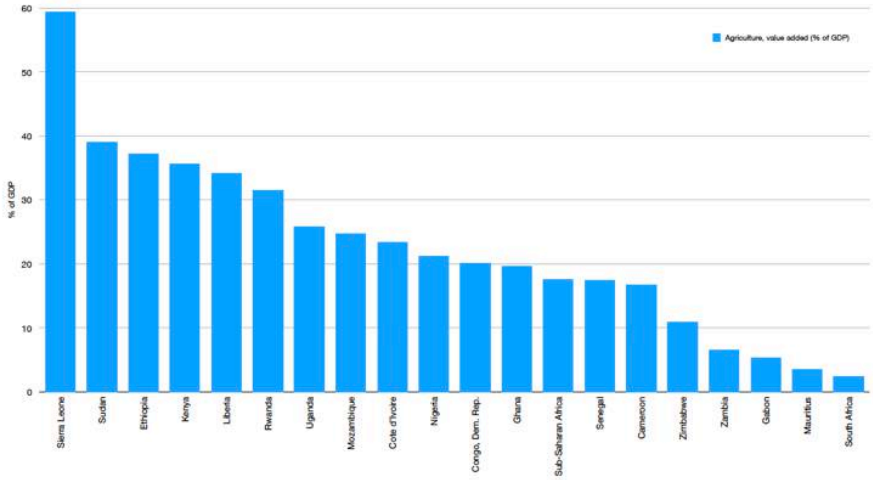
needs of importing countries and attenuate possible negative impacts resulting from further liberalisation. That said, some products are more controversial than others and developing countries relying on exports of those products might have a hard time justifying domestically an absence of any new market access opportunities. Instead of entirely excluding such products from SP flexibilities, it might be easier to find ad hoc solutions for specific cases. For example, Malaysia is primarily concerned about access to the Indian market. An indication from India that it would not designate palm oil as an SP could alleviate many of those misgivings. The case of Thailand was more complicated as most countries are likely to designate rice as a 'special product'. However, here again, instead of entirely excluding rice, a compromise could be found if the three or four countries where Thailand has specific export interests agreed to provide a minimum level of market access improvements.

6.3 The Appropriate Number of Tariff Lines ….

Proposals put forward by WTO members range from five individual tariff lines to 20 per cent of all agricultural tariff lines. Under the harmonised system (HS), however, the five tariff lines proposed by the US would not even allow countries to designate one product. Take milk, for example. Many countries are likely to designate milk and other dairy products as SPs, given the importance of these products as a source of livelihood for households. At the 6-digit HS level, most countries have eight tariff lines for milk and cream alone, and nearly 20 if dairy products such as butter, cheese and yoghurt are also included. If selected at the 8-digit level, as some WTO Members suggest, the number for milk and dairy products can go up to 37 tariff lines.

A series of independent country studies carried out in collaboration with local researchers in eleven developing countries suggest that an 'appropriate' number of products would probably range from six to twenty. These studies used a set of food security, livelihood security and rural development indicators similar to those proposed by the G-33. The studies also took into account variables such as current levels of protection, including the difference between bound and applied rates, as well as import vulnerability.

The summary of the main findings is in Table 2. On average, the products identified as SPs represent 10 per cent of agricultural tariff lines. The most common products are rice, beef, corn, chicken, milk and dairy products, onions, potatoes, pork, tomatoes and some vegetable oils – often the same products that receive most domestic support in OECD countries.



Source: World Bank national accounts data, and OECD National Accounts data files.

6.4 The Share of Total Value of Agricultural Imports

The share of trade represented by SPs has also been a controversial issue. The WTO Secretariat calculated that designating 20 per cent of tariff lines as SPs could allow two unnamed developing countries to shield as much as 98.4 and 94 per cent of the total value of their respective farm imports from Doha Round tariff cuts. In practice, if the selection of SPs is genuinely based on food security, livelihood security and rural development indicators, the percentage of market share represented by SPs would undoubtedly be lower than the Secretariat figure. While applying these three criteria would not wholly exclude products that compete with imports, the selection of SPs is most likely to focus on domestically produced goods, and in which the country is relatively self-sufficient – as opposed to products for which it relies heavily on imports to meet domestic needs.

Studies found that, on average, the SPs selected only accounted for less than one-fifth of the value of total agricultural imports. Therefore, while some countries have expressed concern that SP flexibilities could exempt a considerable percentage of the agricultural trade from reform, available empirical evidence suggests these fears are unfounded. The area of 'sensitive' products may be a more significant cause for concern, as, in the absence of any objective selection criteria, the only way for Members to avoid abuse of this mechanism is to reduce the number of eligible products, or by agreeing to treat these products in a way that contributes to adequate market access improvements.

6.5 … Guided by Indicators of Food Security, Livelihood Security and Rural Development

It is essential for countries to use relevant indicators to guide the self-designation process. This ensures that vested interests do not capture SP flexibilities, or influenced by short-term mercantilist considerations. One option would be to select SPs from a fixed number of agreed indicators with specific thresholds. One proposal is that a product can qualify as an SP if it meets more than [x%] of domestic consumption through domestic production or when the product contributes at least [y%] of the total nutritional value (dietary and calorific requirement) of the population. Another option, proposed by the G-33, established a non-exhaustive and non-cumulative list of indicators of the three criteria. While these indicators would not automatically determine which product qualifies as an SP, they would guide countries in the self-designation process.

From a sustainable development perspective, a 'one-size-fits-all' approach based on a small and fixed number of indicators with uniform thresholds is unlikely to deal adequately with food and livelihood security and rural development, given the diversity of situations between African countries.

The Sri Lankan example is a relevant one. Sri Lanka potatoes are not a critical source of livelihood at a national level; however, in the Uva province, they represent the primary source of agricultural employment. In this region, 86 per cent of the population works in smallholder agriculture, and immediate alternative employment opportunities are scarce. The domestic production might not survive increased competition resulting from further trade liberalisation. However, if uniform thresholds are established – such as the requirement that a product must account for at least x per cent of agricultural employment to qualify as an SP – potatoes are likely to be excluded because this product does not represent a significant source of employment at the national level.

Table 10 Summary of possible indicators identified for the selection of potential SPs

Identification of beneficiaries		Identification of relevant products		
Indicators of income level	• Number of persons/ households below the national poverty line, including distinctions between rural and urban poverty; • Number of persons/ households with income insufficient to cover basic needs (i.e. food, shelter, health, clothes, education, etc); • Measures of household expenditures; • International measures of poverty such as the World Bank's poverty line of 1 US$ per person per day.	Products for livelihood security and rural development	Measuring the economic importance of a particular product	• The contribution of the product to the national agricultural GDP; • The contribution of the product to a particular region's GDP; • The extension of land dedicated to the production of a particular product at the national or regional levels; • The number of heads of livestock in the country or region; • The share of per capita income derived from a particular sector in a specific region or at the national level; • Potential for value addition and linkages generated by a particular product; • Environmental impact and externalities of a particular product.
			Measuring the contribution to employment of a particular product	• Total (absolute size of) workforce engaged in a particular sector at the national level or in a region; • The share of the agricultural population at the national or regional level engaged in the production of aspecific product; • The labour requirement in a particular agricultural sector (no. of workers/day or year necessary to cultivate one ha. of land or to produce one ton of livestock product, multiplied by the total land extension dedicated to the product concerned or the total tonnage production of the livestock product in question.
Indicators relating to the geographical distribution of	Consideration of regional-specific data, particularly of areas poorly endowed with infrastructure (e.g. irrigation facilities, transportation) and/ or natural resources (e.g. fertile land, water, etc), and disadvantaged regions.	Products for food security		• National basket of basic foods reflecting local preferences; • The share of a particular product in total national or regional consumption as reflected by its contribution to the calorie intake of the population (the contribution of particular products to the protein and fat requirements can also be taken into account); • The share of income spent on a particular product; • Ratio of self-sufficiency on particular products; • Import penetration; import revenue derived from a particular product (indicates the capacity of a country to finance food security and development programmes), etc.
Indicators relating to production capacity	• Size of holdings; • Number of ha. dedicated to a particular crop or head of livestock available at the national or regional levels; • kg/ton of produce per ha. and head of livestock.	Additional considerations	Substitutes	Imports that displace local production of substitutes.
			Unfair competition	Products highly subsidised though domestic as well as export subsidies.
			Current level of protection	Assessment of the level of tariffs and the existence of other measures currently available to a particular product, and how those may be affected in the negotiation of international commitments.
			Vulnerability to import displacement	Assessment of the extent to which extent to which the local production could withstand competition from low-cost imports.

Source: Based on the ICTSD country case studies

In this context, an illustrative list of indicators – combined with the numerical limit discussed above – establishes a reasonable middle ground between flexibility and predictability. After the modality stage, once countries have agreed on the maximum

number of products designated as SPs and the treatment applied to them, CFTA countries can present their national lists of SPs for recognition as part of their schedules of commitments. This way, countries can justify the inclusion of particular products in their SP lists by showing that they comply with one or more of the indicators provided on the illustrative list. It is reassuring their trading partners that the selection process is not an arbitrary one, but rather that it genuinely builds on the concept of food security, livelihood security and rural development.

7. Conclusion

While necessary, SPs and SSM are just one part of the equation to mitigate adverse impacts. Governments must improve knowledge, innovation and produce the skilled workforce, adaptable to the demands of an integrated African continent and the fast pace of globalisation while at the same time utilising social policies for those who lose their jobs to increased competition.

8. References and Endnotes

1. Bartel et al. (2005) Special Products and the Special Safeguard Mechanism strategic Options for Developing Countries Issue Paper no. 6
2. Luisa E. Bernal (2004) guidelines for approaching the designation of special products and SSM
3. Malaysia Trade Policy Review, available at http://www.wto.org/
4. Indicators for the Selection of Agricultural Special https://www.ictsd.org/sites/default/files/downloads/2008/05/ictsd_fao_final.pdf
5. The methodology used for the 11 country studies is available at http://www.ictsd.org
6. Committee on Agriculture, Special Session 4 May 2006 .... https://www.wto.org/english/tratop_e/agric_e/ref_paper_sp_e.pdf
7. Bartel, C., Bellmann, C., Jonathan Hepburn J., wrote the article in their personal capacity.
8. See Sandra Polaski, Winners and Losers, Impact of the Doha Round on Developing Countries, Carnegie Endowment for International Peace, Washington, 2006.
9. If an imported product can be a direct substitute for a domestically produced good, such as wheat flour replacing cassava in West Africa, or maize in Central America, countries might want to designate the direct substitute as an SP.

CONSTANTINE O. BARTEL

Constantine Obura Bartel is an economist involved in research on embeddedness of Swiss MNC in developing countries and guest lecturer on Sustainability, Innovation and Development. He is founder of the African Technology Development Forum (ATDF). The scope of past research and publications cover agriculture, trade, business development, science technology and innovation, environment and development. He has both private and public sector experience having held senior management positions in multilateral institutions and consulting firms. He consulted for the Governments of Canada, Finland, Costa Rica and implemented projects for international and multilateral institutions.

Global Business in Local Culture: The Impact of Emdedded MNEs

Philipp Aerni
Director, Center for Corporate Responsibility and Sustainability (CCRS)
at the University of Zurich, Switzerland

Summary

In his book 'The Great Transformation,' published in 1944, Karl Polanyi warned about the dangers of unbridled market forces for locally embedded economic systems and democratic institutions. Many contemporary political scientists and economists concerned with human rights and social inequality in the age of globalisation regard this warning as visionary. They argue that the expansion of global trade has mainly benefited multinational enterprises (MNEs) at the expense of the local economy, culture and the environment.

The present book challenges the distinction between the 'desirable' local versus the 'undesirable' global. It draws on insights from economic sociology to illustrate how global business that is locally embedded can contribute to local economic empowerment and cultural renewal.

MNEs are free to choose where to invest, and they tend to pick locations where production costs are low. However, many of them are also aware that their investments do not take place in a vacuum. If MNEs only feel accountable to stakeholders abroad, they may eventually face a local legitimacy problem. In this context, a commitment to 'principled embeddedness' may help address external concerns about compliance with international sustainability standards as well as local concerns about inclusive growth. An MNE generates inclusive growth by embedding itself into the local economy and culture. This local engagement enables the company to gain trust in the form of social capital, which also serves its the long-term.

However, embedding a global company in local business is fraught with cultural misunderstandings as well as economic risk and uncertainty, especially in low income countries. It may also require a significant amount of investment in the upgrading of local skills, capacities, and infrastructure, as well as efforts to reconcile local cultural habits with the necessity to comply with the formal rules of global business. If the venture ultimately succeeds, foreign direct investment (FDI) does not just generate private profits, but also a considerable amount of external social benefits.

After all, embedded FDI does not just bring material goods into the country of destination but also knowledge and know-how as well as access to global networks and capital. These non-tangible resources are not just crucial for catch-up growth, but also an essential condition inclusive and sustainable change, a central objective of the Sustainable Development Goals (SDGs) of the United Nations (UN). Governments that are committed to the SDGs must therefore not just be regulators but also facilitators of change involving responsible and long-term oriented FDI in a national partnership for sustainable development.

A major obstacle to more sustainable economic integration is the defensive framing of sustainability in postmaterialist societies. It is expressed in the popular view that global economic growth undermines local sustainability. The UN Guiding Principles on Business and Human Rights (UNGP) implicitly embrace this view with its 'do no harm' requirement for MNEs. The result is a global compliance and due diligence bureaucracy that tends to discourage investments in local entrepreneurship and innovation in the Global South. This is however of little concern to anti-globalization activists who envision the restoration of something better that must have existed before capitalism. As media savvy 'epistemic brokers' their globally coordinated protest actions provide meaning and orientation by converting complex local stories of resistance into simplified and dramatic mythical accounts of 'big business' versus 'the people'. By doing so, they often misrepresent the demand for inclusive growth that has mobilized local people in the first place.

The arguments and policy recommendations in this book are based on insights from interdisciplinary social science and selected business case studies of MNEs operating in developing countries. They illustrate the contribution of embedded global business to the SDGs if supported by institutions in government and civil society that recognise the need to embark on a global partnership.

1. Introduction

Karl Polanyi calls the expansion of formal global markets in his seminal book 'The Great Transformation' (1944) a 'satanic mill'. This mill would feed upon local communities and their informal economies and eventually result in great social disruption. Polanyi's framing of economic

history as a struggle of 'profit versus people' has gained renewed attention in the 21st century.

Robert Kuttner, an American journalist and social policy expert, argues in a recent essay in the New York Review of Books (Kuttner 2017) that austerity policies in Europe and the renewed push for deregulation in the United States would reaffirm what Polanyi criticised as "the utopian endeavour of economic liberalism to set up a self-regulating market system". This endeavour would crowd out local culture and citizenship; lead to extreme inequality, and eventually trigger a political counter-movement to restore human rights to ordinary people.

This book does not defend European austerity policies or the Trump administration fondness for deregulation of the domestic economy – while simultaneously rejecting multilateralism in the governance of the world trade system. It does also not deny the countless corporate scandals before and after the global financial crisis of 2007-2008 that ruined the lives of many ordinary people. Yet, it challenges the popular narrative of global business as a sort of zero-sum game that merely thrives at the expense of society and the environment. In a world characterised by a high degree of economic interdependence, social and geographical mobility and transboundary environmental and social challenges, global business cannot be regarded anymore as something external and alien that is unrelated to our personal lives and social networks. We are all directly or indirectly dependent on and also benefit from its products, services and innovations as local producers as well as local consumers. The global sustainability challenge of the 21st century is therefore not to get rid of global business but to better harness its potential to contribute to local sustainable development and inclusive growth.

Multinational Enterprises (MNEs) are the main players in global business and probably the most scrutinized ones. The belief that their global operations are completely detached from local cultural and social activities contradicts the fact that all economic relations, whether global or local, are always based on prior social relations. In other words, the local cultural dimension should not be pitched against the global economic dimension but must instead be seen as its foundation. There is, of course, corporate culture and there is local culture. However, these are not terms that describe a steady state but represent dynamic processes that thrive on exchange. Embedded foreign investments may contribute to a fruitful exchange by responding to local concerns and by creating new local economic opportunities through economic integration. If MNEs with a commitment to principled embeddedness succeed in becoming an accepted and respected player in the local economy and culture, these companies gain the necessary social capital to secure their long-term license to operate. In other words, corporate social responsibility (CSR) is built into the long-term interest of such firms. CSR thus ceases to be a separate section with a separate agenda within the MNE. Instead, it becomes an integral part of the business strategy.

The potential contribution of such MNEs to sustainable change in developing economies is seldom appreciated because it runs against the stereotype that MNEs merely privatise profits while socialising the costs in the regions where they invest.

The general view that companies do business at the expense of local cultural and economic activities remains firmly entrenched in the sustainability debate in affluent societies – often with the unintended consequence of encouraging cultural segregation rather than economic integration. Yet, the bipolar view of the 'bad' global and the 'good' local that underpins this static and defensive view of sustainability runs counter to the Sustainable Development Goals (SDGs) who call for inclusive growth (SDG 8) and a global partnership (SDG 17) to develop hybrid and tailor-made local solutions to the significant global challenges of the 21st century.

2. Karl Polanyi's influence in the globalization debate of the 21st century

Economic globalization is primarily associated with the growth of multinational enterprises (MNEs). They have their headquarters primarily in prosperous economies in North America, Europe, and Asia and focus increasingly on investing in

developing countries where land and labor are still relatively cheap.

Economists and political scientists who represent the school of 'Embedded Liberalism' (Ruggie 1982, Hays 2009, Rodrik 2011) and scholars in the field of 'Corporate Social Responsibility' (CSR) (Scherer et al. 2006, Wettstein 2010) regard this trend as potentially disruptive for traditional communities and their locally embedded economic systems. Weak law enforcement capabilities in developing countries would be unable to ensure the protection of human rights of such communities and therefore public and private initiatives are required to compensate affected communities through a generous welfare state or global CSR initiatives respectively.

The view that the primary task of governments is to tame unfettered market forces is not necessarily wrong but incomplete and often accompanied by an ideological agenda and vested interests in preserving the status quo. On the left wing of the political spectrum, anti-globalisation activists demand additional regulation designed to minimise the social and environmental risks of global corporate investment. On the other side of the political spectrum, right-wing nationalists frame global economic integration and migration as threats to cultural identity and national sovereignty. The recent political successes of the far right in North America and Europe have been made possible because of the support of the 'distributional losers' of globalization and the sedentary middle class that is concerned about cultural and economic decline. These losers feel increasingly decoupled from global economic change and no more represented by the left wing politicians that have shifted their concerns from the domestic worker to 'vulnerable minorities' (Hopkin 2017, Pepinski 2017, Reckwitz 2018). They ask for simple explanations to complex problems and political entrepreneurs, who play the role of epistemic brokers, provide such explanations by using popular narratives of 'good' and 'evil' forces and by identifying plausible scapegoats (Aerni and Bernauer 2006).

Yet, the claim that an unfettered global economy is disrupting the local economies in an unprecedented way does not correspond to today's reality of mixed economies with their subsidies and policy interventions to protect the domestic economy from world trade (Rogers 2017). Such protectionist policies, especially when combined with non-tariff trade barriers, are often justified by the almost unquestioned chauvinistic assumption that everything produced domestically is automatically more sustainable and of better quality than substitutes produced abroad. Such protectionist policies based on non-tariff trade barriers often favour potent incumbents in domestic business. These incumbents primarily aim at preserving the status quo by arguing in favour of protecting the 'embedded' national economy, understood as a highly regulated economic system that protects the local business against disruptive economic change driven by entrepreneurship and innovation. For outsiders, within and without the domestic economy, who do not benefit from the social network and the political connections of the resulting corporatist system, such an 'embedded' economy is primarily characterised by nepotism (Schluep and Aerni 2016). It stifles their economic opportunities. Therefore, entrepreneurial outsiders see economic globalisation not just as a threat but also an opportunity to weaken the dominant position of incumbents in domestic economies and make space for more economic freedom. The chances of such outsiders to find ways around established networks and create new and scalable markets has increased with the digital revolution and the rise of the global knowledge economy (Naam 2013). Public resentment against such agents of change persists, especially when they become successful and grow big.

3. The bipolar mindset in academia, civil society and government

The changing context in the global knowledge economy of the 21st century requires a critical re-evaluation of Polanyi's dualist worldview that guided his interpretation of economic history in the first half of the 20th century.

The re-evaluation of Polanyi takes place in the second, third and fourth chapter, as well as chapter 7.3 of the present book. It builds upon existing research in economic history (Braudel 1982, North 1977, Stehr 2008, Romer 2010, Bang 2016), economic sociology (Granovetter 1985, Zafirovski 2002, Beckert 2007), and industrial policy (Uzzi 1996,

Meyer et l. 2011). This empirical research challenges the implicit baseline assumption of the school of 'embedded liberalism' based on Polanyi's argument that the global expansion of the formal market system poses an exclusive threat to locally embedded economic systems and human rights. The claim of Polanyi's contemporary disciples that the World Trade Organisation (WTO) merely represents the interests of the global actors at the expense of local interests is shown to be misguided in Chapter 2. After all, the WTO is a product of compromise. It reflects the wish of its member states to participate in a rule-based economy with ample policy space to take into account local concerns other than rent seeking protectionism. This policy space, incorporated in the different WTO Agreements, is especially significant for member states that belong to the category of Least Developed Countries. Some global activists would object by pointing out that many interests groups were underrepresented in the negotiations of the WTO Agreements. Indigenous people, for example, would feel threatened in their cultural identity by the expansion of global business encouraged by the WTO. Chapter 4.3 contradicts this view by pointing out that the local interests of indigenous people are often misrepresented by the global civil society organisations that claim to represent them on the global stage. After all, Article 21 of United Nations Declaration on the Rights of Indigenous Peoples from 2007 clearly demands respect for the economic rights of indigenous people (right to ownership, right to self-determination and economic development, equality before justice, freedom from discrimination). It indicates that indigenous people are as much interested in fair economic and cultural exchange as they are in cultural preservation. They are aware that their indigenous culture only remains attractive to the next generation if there is cultural renewal supported by selective economic integration.

Despite the lack of empirical evidence, the belief that the expansion of the formal global economy goes at the expense of local people who defend their local culture and natural environment has become very popular in contemporary affluent societies because it chimes well with postmaterial values. Even though mythical accounts of 'local people versus global profit' spread via social media by well-known anti-globalisation activists, such as Vandana Shiva, sound simple, plausible and therefore meaningful, they are highly misleading. After all, no real economy activity (profit) is detached from individuals (people) and their social networks (communities), as economic sociologists point out.

The embeddedness in social networks is especially crucial when a company invests abroad. It must gain social capital in the region of investment by contributing to the resolution of three major coordination problems: the problem of value, the problem of competition and the problem of cooperation. Chapter 5 points out that such a foreign investor may only be able to secure its long-term license to operate in the host country if these coordination problems are adequately addressed in collaboration with the local stakeholders.

Chapter 6 looks at contemporary economic and development policies that are still guided by the social science theories developed during the Cold War. Structuralist and neomarxist theories, that were very popular in Human Geography and Postcolonial Studies, implied for example that international trade must be a zero-sum game that benefits the rich at the expense of the poor. In turn, neoclassical economics, also a theory developed during the Cold War period, only focuses on the relatively modest efficiency gains from global trade while ignoring the welfare effects generated through the introduction of new goods and services (Romer 1994). As a result, welfare economics, a branch of neoclassical economics, has an exclusive focus on internalising the negative externalities caused by private sector activities. The positive external effects on society resulting from private sector investment in innovation are largely ignored.

The expansion of the global economy after the Cold War has however significantly benefited previously developing nations, such as China, that have undergone institutional reforms to embark on catch-up growth. In this context, China was not focused on merely capturing efficiency gains from trade but on taking full advantage of the economic opportunities resulting from the rise of the global knowledge economy.

The global knowledge economy is strongly linked to the ongoing digital revolution that made the non-

rival resource 'knowledge' more widely available. Yet, access to codified knowledge on the internet is only one part. The more important part is investment in human capital to create the necessary tacit knowledge (know-how) to make commercial use of codified knowledge. It is Foreign Direct Investment (FDI) that combines knowledge with know-how transfer into the local economy. These essential ingredients of endogenous development increase the likelihood that imported physical goods will eventually be substituted by locally produced goods. Being a non-tangible resource, knowledge in the form of instructions, recipes, protocols makes it possible to create a local good that is otherwise too costly to import - provided that the country has invested in the business infrastructure and the human skills and know-how of its people to take advantage of the new opportunities.

In this context, the effectiveness of Official Development Assistance (DA), which was also invented during the Cold War to win over non-aligned developing countries, is increasingly questioned because it is stuck in the classic view that development aid must protect rather than economically empower the poor (Easterly 2007, Deaton 2015). As such, it tends to preserve unsustainable local structures in low income countries rather than enable the highly needed structural change to create new economic opportunities for the large and increasingly educated younger generations in the developing world.

4. Acknowledging the value of companies committed to 'principled embeddedness'

Chapter 7 and 8 argue that effective DA needs to build upon the principle of cooperation, especially with the private sector, if its goal is to enable sustainable change that reduces poverty through more economic opportunities and, simultaneously, improves the environment through sustainable intensification. Producing more with less by making effective use of new platform technologies such as information technology, nanotechnology, and biotechnology, is vital given population growth and increasing affluence in the 21st century. In this context, the focus in public policy and CSR needs to shift from merely regulating and avoiding the risks of FDI to harnessing its benefits for the poor and the environment. It must be based on the insight that investments of MNEs do not just cause external costs for the local environment and society but may also generate external social and environmental benefits, especially if the MNE is committed to 'principled embeddedness'. An MNE that abides by its internal code of conduct while taking an effort to locally embed its economic activities so that it contributes to the upgrading and expansion of the local economy has a substantial potential to contribute to inclusive growth while improving its environmental stewardship in collaboration with local stakeholders.

In this context, Chapter 7 points out that the UN Guiding Principles on Business and Human Rights (UNGP) as well as various other international CSR guidelines developed by the Organisation for Economic Cooperation and Development (OECD) and the International Organisation for Standardisation (ISO), should recognise that corporate responsibility cannot be merely limited to the requirement of doing 'no harm'. After all, companies do not create value by merely avoiding risks but taking the risk to invest in a new market. MNEs that benefit the region in which they operate should also be rewarded for doing 'good,' not because they want to be good corporate citizens but because doing so is in their long-term interest.

A possible reason for the omission of the importance of corporate embeddedness in current CSR strategies may be the influence of global retailers on the design of sustainability standards in the food and agricultural sectors. Rather than informing consumers about the efforts of the supplying global agribusiness companies to make agriculture in developing countries more sustainable, they prefer to portray themselves as the most sustainable companies in the global food value chain. They do so by informing consumers about their collaboration with reputation-enhancing environmental organisations, such as WWF. In their marketing campaigns, they primarily aim at making consumers feel good about themselves by feeling confident that their retailer is a selfless defender of nature and small-scale farming against the forces of industrial agriculture (Miller 2012, Aerni 2013a). The essential pillars of this wellness sustainability are 'organic' or 'fair trade' premium products portrayed as natural, healthy and fair and therefore as the more ethical alternative to industrial agriculture.

These claims are increasingly questioned based on insights gained from empirical research (Makita and Tsuruta 2017, Huybrechts et al. 2017, Dragusanu et al. 2017, Laufer 2014, Lott 2015, Ramone 2013, Gilbert 2012, Henderson 2008). Even from an ethical point of view, it is unclear whether these wellness premium products are the best choice for consumers. There is increasing evidence from field research, that 'fair trade' and 'organic' production in developing countries may help increase the income of the immediate beneficiaries (e.g., members of the respective farm cooperative) but discourage local entrepreneurship and innovation, the key ingredients for homegrown development. Moreover, 'fair trade' and 'organic' cooperatives in developing countries are controlled by retailers in developed countries. As such, they have become capital-intensive tropical food production sites subsidized by foreign consumers and states, but in most cases, utterly disembedded from local economic activities. As such, these niche markets for affluent consumers contribute very little to structural change.

Finally, it is unclear whether ethical concerns indeed motivate the consumer's decision to buy organic or fair trade, or whether it is instead about treating oneself to a premium product (Miller 2012). No one would probably be puzzled if the marketing slogan for these 'sustainable' products would be 'because I am worth it'.

5. When MNEs become part of the solution rather than part of the problem

Whether FDI is indeed capable of generating profits by empowering rather than exploiting people does not just depend on the awareness of the MNE that it does not operate in a vacuum but also on the respective domestic institutional setting. Governments that want to force foreign investors to comply with local content requirements may not be effective in achieving the desired outcome if they fail to "do their homework." This homework comprises domestic reforms and investments not just in the domestic human capital stock and an institutional environment that enables economic and technological change, but also in the physical and digital infrastructure (UNCTAD 2017a).

Creating these favourable framework conditions helps reduce the uncertainty for subsidiaries of MNEs to invest in the domestic economy.

The commitment in practice to 'principled embeddedness' is illustrated in this book using selected MNE case studies in chapter 7.4. Also, Chapter 8 uses concrete case studies in Africa to highlight the importance of state and non-state actors as intermediaries and catalysts who render local institutions and businesses more responsive to MNEs that are prepared to become more embedded in the local economy.

These case studies are not meant to praise the selected MNEs for their local business practices, but instead to point out that the long-term profit-motive may not necessarily conflict with social and environmental objectives. The potential for opportunism in large companies may be widespread despite increasing expenses on compliance and due diligence processes (Chen and Soltes 2018). However, the examples clearly show that globally active corporations may contribute to economic empowerment and sustainable change in the regions of investment through a strategy of principled embeddedness. This is particularly true for their presence in many developing countries where they often offer an alternative to a repressive traditional economic system in which social status and not individual merits determine one's chances to obtain a decent job in the formal economy (Martin 2012).

The ambitious young and educated majority in developing countries who are stuck in persistent feudalist structures tend to become outsiders in their society, especially if they are not connected to the country's political and economic elite. Lacking the necessary social connections to enter the formal economy as entrepreneurs, they often decide to migrate elsewhere in search for economic opportunities. In this context, the growing number of economic refugees is a symptom of failed domestic policies as well as misguided development assistance (DA) that avoids productive collaboration with the private sector to create economic opportunities for entrepreneurs in the formal domestic economy. The grievance of the neglected young entrepreneurs is identified as one of the main triggers of the Arab spring (Martin 2012).

It is not surprising that Karl Polanyi never addressed this downside of traditional economies in which land-owning insiders may officially portray themselves as custodians of the natural environment, traditional society, and local culture to strengthen the legitimacy of their privileged economic and political position in society. It would have conflicted with his binary thinking of the 'bad' global and the 'good' local. This binary thinking is however persistent because it offers a reduction of complexity in an ever more complex society (Luhmann 1993). As a result, the binary thinking continues to influence the funding priorities in development cooperation, academic research and CSR strategies, despite the growing empirical evidence that it aggravates rather than resolves the social and environmental sustainability challenges of the 21st century. After all, focusing only on the 'vulnerable', the presumably passive victims of change, and portraying the agents of change, understood as foreign direct investors and local entrepreneurs who strive to become their suppliers, as mere perpetrators, supports the incumbent elite. They benefit from the status quo at the expense of economic empowerment and inclusive growth.

The concept of vulnerability treats the target population as passive victims who need to be saved by 'therapeutic entrepreneurs' supported by DA (Ecclestone 2017). These therapeutic entrepreneurs are assumed to be better educated and therefore to know better what the vulnerable need. In most cases, these external stakeholders are not aware that their interpretation of the local circumstances is in most cases not informed by the local people and their concerns, but somewhat static stereotypes and mythical stories that prevail in donor countries about the situation of the poor in recipient countries. An issue that is extensively discussed in Chapter 4 as well as the concluding remarks in Chapter 9.

The view that entrepreneurs who try to take advantage of economic opportunities are mere perpetrators who do not need any assistance proves to be one of the most widespread myths in affluent societies. Why? Because, worldwide, the self-employed, in most cases survival entrepreneurs, live in a much more precarious state than those with formal employment. Moreover, this is not just true for daily laborers without any formal education or training but also university graduates in developing countries that do not have the opportunity to enter into a family business and failed to obtain a well-paid job with a foreign NGO, an MNE or the government after graduation (Aerni 2015b).

Since the human rights movement emerged from the labour rights movement, the grievances of these entrepreneurs are just not on the radar screen of human rights activists (Aerni 2015b). Yet, survival entrepreneurs, especially if endowed with a good education and business training, may be of great interest to foreign companies which care about motivated and qualified local partners and employees. More than anyone else, these companies give entrepreneurs in precarious situations a chance by investing in their skills or the upgrade of their business. As such, MNEs may significantly contribute to social mobility in traditional societies and the economic empowerment of outsiders.

MNEs in affluent societies are however hardly ever associated with economic empowerment in developing economies. Instead, they are perceived as selfish actors that care about shareholder value, competitive off-shore employment, tax evasion schemes and monopoly power. This may be true for MNEs involved in corporate crimes and malpractices. Hollywood movies and the media widely cover these cases. However, empirical research indicates that the vast majority of MNEs do not correspond to the negative stereotype of 'Big Business'. The claim, for example, that small businesses would account for a higher share of decent employment, be more innovative and contribute more to the tax base of society has mostly be rebutted (WTO 2016, Atkinson and Lind 2018).

Moreover, even though 'big business' may spend more on political lobbying, they seem to be less effective in achieving their goals than small businesses, who generally pay less taxes and obtain much more government assistance (Atkinson and Lind 2018). The reason for this outcome is that public opinion loves 'small' and hates 'big' business, and politicians who care about re-elections are careful about not being associated with the 'hated'

ones. Alas, by asking for more regulation of innovation-driven industries, the same politicians may inadvertently strengthen the market position of large firms that, unlike start-up companies, have the means to comply with additional costly regulation (Aerni 2015b). The rather artificial divide between small 'good' firms and bad 'large' firms leads to short-termism in politics that is unable to address the long-term challenges of sustainable development in a collaborative way. After all, small companies must become part of a business ecosystem that also involves large companies if they want to succeed. Moreover, big companies are probably the largest investors in innovative small companies (Atkinson and Lind 2018).

Given the urgency to move away from the unproductive binary mindset in academia, civil society, and politics and to learn from the past when addressing the global sustainability challenges of the 21st century, chapter 9 concludes by calling for a paradigm shift in the theory and practice of international sustainable development. This paradigm shift is reflected in SDG 8 on 'Decent work and Economic Growth' of the United Nations Sustainable Development Goals. The United Nations Development Program (UNDP) considers this goal key for achieving the remaining 16 Sustainable Development Goals because improved incomes lift people out of poverty and automatically improve access to essential human rights (e.g., the right to food, right to water, right to decent shelter, gender equality). As such, SDG 8 represents the priority of poor people in developing countries who have not obtained formal employment in the private sector and are therefore forced to make a living as survival entrepreneurs. To understand why the poor people value foreign direct investment if embedded in the local economy, one has to listen directly to the poor in these countries rather than to the anti-globalisation activists who claim to talk on behalf of their interests. The concluding illustrate using a concrete example of good investigative journalism, how the voice of the locals can be heard and induce a change in thinking about sustainable development in the particular local context. The example shows that, for the poor, it is obvious, that poverty has no cause. It is merely the absence of prosperity. People in affluent societies, see prosperity as the cause of poverty elsewhere. It is important they realize that economic exchange, unlike war, is not a zero-sum game.

References

Aerni, P. (2013a). Resistance to agricultural biotechnology: the importance of distinguishing between weak and strong public attitudes. Biotechnology Journal 8 (10): 1129–1132.

Aerni, P. (2015b). Entrepreneurial Rights as Human Rights. Banson, Cambridge (available online: http://www.ourplanet.com/rights/index.php

Aerni, P. and Bernauer, T. (2006). Stakeholder attitudes toward GMOs in the Philippines, Mexico, and South Africa: The issue of public trust. World Development, 34(3), 557-575.

Atkinson, R. D. an Lind, M. (2918). Is Big Business Really That Bad? The Atlantic, April 2018 Issue (available online: https://www.theatlantic.com/magazine/archive/2018/04/learning-to-love-big- business/554096/

Bang, P. F. (2016). Beyond capitalism–conceptualising ancient trade through friction, world historical context and bazaars. In Dynamics of Production in the Ancient Near East. In J. C. M. Garcia (ed) Dynamics of Production in the Ancient Near East. Oxbow Books, 75-89

Beckert, J. (2007). The great transformation of embeddedness: Karl Polanyi and the new economic sociology. MPIfG Discussion Paper 01/7. Max Planck Institut für Gesellschaftsforschung, Köln

Braudel, F. (1982). The Wheels of Commerce. Civilization and Capitalism 15th-18th, Volume II. Phoenix Press, London.

Chen, H., and Soltes, E. (2018). Why Compliance Programs Fail And how to fix them. Harvard Business Review, 96(2), 115-125.

Dragusanu, R., and Nunn, N. (2018). The Effects of Fair Trade Certification: Evidence from Coffee Producers in Costa Rica (No. w24260). National Bureau of Economic Research.

Easterly, W. (2007) The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good. Penguin Books Deaton 2015).

Ecclestone, K. (2017). Behaviour change policy agendas for 'vulnerable' subjectivities: the dangers of therapeutic governance and its new entrepreneurs. Journal of Education Policy, 32(1), 48-62.

Gilbert, N. (2012). African agriculture: Dirt poor. Nature, 483: 525-527.

Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. American journal of sociology, 91(3): 481-510.

Hays, J. C. (2009). Globalization and the new politics of embedded liberalism. Oxford University Press.

Henderson, D. R. (2008). Fair trade is counterproductive–and unfair. Economic Affairs, 28(3): 62-64.

Hopkin, J. (2017). When Polanyi met Farage: Market fundamentalism, economic nationalism, and Britain's exit from the European Union. The British Journal of Politics and International Relations, 19(3), 465-478.

Huybrechts, B., Nicholls, A., and Edinger, K. (2017). Sacred alliance or pact with the devil? How and why social enterprises collaborate with mainstream businesses in the fair trade sector.

Kuttner, R. (2017). The Man from Red Vienna. The New York Review of Books. December 2017 Issue: 55-57.

Laufer, P. (2014). Organic: A Journalist's Quest to Discover the Truth behind Food Labeling. Lyons press.

Lott, J. (2015). Natural Deception: A Sobering Look at the Truth Behind the Organic Food Industry. Create Space publishing.

Luhmann, N. (1993). Communication and social order: risk: a sociological theory. Transaction Publishers.

Makita, R., and Tsuruta, T. (2017). Fair Trade and Organic Initiatives in Asian Agriculture: The Hidden Realities. Routledge.

Martin, E. (2012). On One Forgotten Cause of the Arab Spring: The Lack of Economic Freedom. Economic Affairs, 32(3): 94-96.

Meyer, K. E., Mudambi, R., and Narula, R. (2011). Multinational enterprises and local contexts: The opportunities and challenges of multiple embeddedness. Journal of Management Studies, 48(2): 235- 252.

Miller, D. (2012). Consumption and its consequences. Polity Press, Malden MA.

Naam, R. (2013). The infinite resource: the power of ideas on a finite planet. University of England Press.

Pepinsky, T. B. (2017). Dis-embedding Liberal Internationalism. Available at SSRN: https://ssrn.com/abstract=3054001

Polanyi, K. (1978, first published in 1944). The Great Transformation: Politische und ökonomische Ursprünge von Gesellschaften und Wirtschaftssystemen (Übers. von Heinrich Jelinek). Suhrkamp, Frankfurt/Main.

Polanyi, K. (2001, first published in 1944). The great zransformation: The Political and Economic Origins of Our Times. With a foreword by Joseph Stiglitz. Beacon Press

Ramone, J. (2013). Tastes of Paradise: The 'Fair' Trade Myth. In Pete Bennett and Julian McDougall (eds) Barthes' Mythologies Today. Routledge, 24-26

Reckwitz, A. (2018). Das Band zerreist. Die Mittelschicht driftet auseinander. Feuilleton, die Zeit, February 22, 2018, 43

Rodrik, D. (2011). The Globalization Paradox. W. W. Norton and Company.

Rogers, J. R. (2017). Karl Polanyi's Irrelevance to Today's Policy Debates. 'Law and Liberty', September 18, 2017 (Available online: http://www.libertylawsite.org/2017/09/18/karl-polanyis- irrelevance-to-todays-policy-debates/)

Romer, P. M. (2010). What parts of globalization matter for catch-up growth?. American Economic Review, 100(2), 94-98.

Ruggie, J. G. (1982). International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order. International Organisation 36(2): 379-415.

Scherer, A. G., Palazzo, G., and Baumann, D. (2006). Global rules and private actors: Toward a new role of the transnational corporation in global governance. Business Ethics Quarterly, 16(4): 505-532.

Schluep, I. and Aerni, P (2016) When corporatism leads to corporate governance failure: the case of the Swiss watch industry. Cambridge Banson. Available online: http://www.ourplanet.com/swisswatches/index.php

Stehr, N. (2008). Moral Markets: How Knowledge and Affluence Change Consumers and Products. Routledge.

United Nations Conference on Trade and Development (UNCTAD) (2017a). World Investment Report 2017: Investment and the Digital Economy. UNCTAD Publication UNCTAD/WIR/2017. UNCTAD Geneva (available online: http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1782

Uzzi, B. (1996). The sources and consequences of embeddedness for the economic performance of organizations: The network effect. American sociological review: 674-698.

Wettstein, F. (2010). The duty to protect: Corporate complicity, political responsibility, and human rights advocacy. Journal of Business Ethics, 96(1): 33-47.

World Trade Organisation (WTO) (2016) World Trade Report: Levelling the trading field for SMEs. WTO, Geneva (available online: https://www.wto.org/english/res_e/publications_e/wtr16_e.htm)

Zafirovski, M. (2002). A Primer on Economic Sociology: The Duality of Structure in Markets. Nova Science Publishers Inc.

PHILIPP AERNI

Dr Philipp Aerni is Director of the Center for Corporate Responsibility and Sustainability (CCRS). He is an interdisciplinary social scientist with a particular interest in the role of science, technology, and innovation for sustainable development. In this context, he examines public-private partnerships and their potential as driving forces of sustainable change, provided that the institutional environment is conducive to change through innovation. Prior to his position at CCRS, Dr. Aerni worked at Harvard University, ETH Zurich, the University of Berne, as well as the Food and Agriculture Organisation of the United Nations (FAO).

Non-tariff Measures: Unintentional Restrictions on EAC Growth

Constantine Bartel
Center for Corporate Responsibility and Sustainability (CCRS)
at the University of Zurich, Switzerland

Abstract

The best policy intentions to protect the general public have a downside. They also can create barriers to trade. NTMs in agriculture and food are a primary factor behind the decreasing export growth to the European Union (EU) despite African countries enjoying considerable EU preferential market treatment. The by surveys performed in five EAC countries of Uganda, Tanzania, Kenya, Rwanda and Burundi barriers showed the NTMs that most restrain trade within and between these countries. In a continent where having access to essential services is a challenge, these too become barriers to productive enterprises and trade. The paper, therefore, argues that the successful implementation of the AfCFTA depends on many non-trade policies and programmes – such as conflict resolution, fighting corruption and, developing transport corridors and telecommunication networks, liberalisation of the movement of people, improvement of trade logistics, and governance reforms. It also depends on making regional integration work for SMEs.[4][4]

1. Introduction

There are two distinct categories of NTMs 1) technical measures and 2) non-technical measures. Technical measures are product-specific properties such as characteristics, technical specifications and production process of a product. They are meant to ensure quality and food safety, environmental protection and national security, and protecting animal and plant health. Methods to assess and to conform to compliance of a product fall in the same category. Non-technical measures refer to trade requirements, such as shipping requirements, customs formalities, trade rules, taxation policies. Other problems that companies face are procedural obstacles (POs) or challenges related to the implementation of NTMs and TBEs or the trade-related business environment. These are problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licences. These can range from delays and costs of poor infrastructure or the behaviour of customs officials.

The frequency and complexity of the measures, which include SPS and TBT, can negatively affect the trade flows especially in poorer countries. Quality requirements and controls imposed in Uganda and partner countries are necessary as long as they do not add cost and delays putting products at a competitive disadvantage in international markets. These Non-tariff Measures are mandatory requirements, rules or regulations legally set by the government of the exporting, importing or transit country (ITC 2018). NTMs become an obstacle to trade for exporters and importers when they are perceived to be ''burdensome'' by the latter. Usually, partner countries apply 70 per cent of NTMs, and 30 per cent occur at home. That is why it is a challenge to design non-tariff measures (NTM) that not only protects consumers and supports national development and growth, but also facilitates the process of regional integration (Poonam Mohun 2014). An efficient NTM regime on imported inputs used in domestic processing and export drives competitiveness. Some methodologies (UNCTAD, ITC) evaluate the potential economic benefits from realising NTM-related integration. If a country gets it right, it could increase its GDP by up to 3 per cent. Gains in employment are estimated to go up by 2-5

per cent (UNCTAD NTM data). In addition to government policies and requirements, African exporters also face standards imposed by private firms as well as NGO's that promote Fair Trade certificates for European clients and consumers. African producers and exporters are expected to cover the costs associated with training and packaging to get the certificates. NTMs in the case of agro-food goods are a leading factor behind decreasing export growth to the European Union (EU). This is even though African countries have considerable preferential market treatment (CITE).

1.1 The growing role of NTMs in trade

With the implementation of open trade policies since the 1980s, African countries have benefited from effective integration in the world economy. Significantly improved market access through the reduction of barriers to trade has yielded fast growth in trade flows, Multilateral, bilateral and regional integration efforts are widely recognised to have played an essential role in this trend,

Yet the liberalising trend has not been even. As tariffs have fallen in most markets, non-tariff measures have come to loom ever more significant as impediments to effective market access, particularly for developing countries. For example, Intra-African trade is currently 15 per cent of its total trade, compared with 19 per cent intra-regional trade in Latin America, 51 per cent in Asia, 54 per cent in North America and 70 per cent in Europe.

Trade negotiators have long recognised that non-tariff measures are progressively replacing tariff measures regarding trade restrictiveness, At the launch of the Doha Development round in 2001, WTO Ministers agreed to "reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries".[3]

The concept of a "non-tariff measure" is contested. In principle, all trade policies other than tariff duties can be considered non-tariff measures. That includes technical measures such as technical requirements and conformity assessments, but also non-technical measures such as quantity control measures, price control measures, government procurement restrictions or rules of origin, In many cases, domestic policies not explicitly intended to affect trade have unexpected trade-restricting effects. For example, policies conceived to protect human or animal health or the environment can often act as non-tariff measures, and such policies have at times been used as alternatives to explicitly protectionist measures in efforts aimed at protecting domestic markets. Following the financial crisis in 2008, many countries applied non-tariff measures of this kind for protectionist purposes.

In developing countries, and especially in Africa, non-tariff measures are a significant concern for exporting and importing firms. Also because according to Deardorff (1987) non-tariff measures are more solicited since their effects are more direct than tariffs.

Compliance with complex requirements that often vary across products and markets can be costly, and weak trade-related infrastructure and burdensome administrative procedures can lay waste to business plans predicated on timely delivery. Moreover, the impact of non-tariff barriers is magnified in Sub-Saharan Africa, where countries often rely on one or two export products for the bulk of trade-related foreign exchange inflows (Mold, 2005).

1.2 NTMs, their classification and other obstacles to trade

Unlike tariffs, non-tariff measures are not necessarily comparable across countries and products. Several attempts to identify and classify non-tariff measures have been undertaken, UNCTAD, for instance, launched an initiative on the definition, classification, collection and quantification of non-tariff barriers. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) define non-tariff measures as a wide range of trade policy measures, other than customs tariffs, exerting an economic impact on international trade in goods, services, and factors of production. These measures can take a great many forms of regulations and restrictions, mainly in the form of regulations legally imposed by either the home country or the partner country affecting and distorting trade by

increasing transactions costs or by prohibiting the transaction outright,

UNCTAD's Multi-Agency Support Team (MAST) developed a widely used classification system for non-tariff measures to provide a concise definition of NTMs, a classification system of NTMs to facilitate data collection process and analysis and ways to collect information on NTMs. It also provides guidelines for the use of data and their quantification methodology,

1.3 Understanding the company perspective on NTMs and POs

Despite such efforts, non-tariff measures and their effects on trade remain difficult to quantify. Again, different approaches have been proposed to assess non-tariff measures' impact on trade (Deardorff and Stern 1997).

One such approach is based on a large-scale company survey. It is an approach that ITC used to gauge business perspective on burdensome non-tariff measures, procedural obstacles and other technical barriers to trade faced in trading with partner countries. The survey allows identifying where obstacles occur and the institutions involved, whether in the originating country or the country of destination, It captures the day-to-day reality faced by exporters and importers. This approach can yield novel and valuable information on non-tariff measures that policymakers and trade support institutions can use to identify the specific needs of the different business sector.

The principal obstacles faced by companies in developing countries according to the OECD are technical measures, additional charges and burdensome customs procedures (OECD 2005). Technical regulations, standards and conformity assessment measures, and sanitary and phytosanitary measures (SPS) often hit African exporters to the developed world disproportionately hard, since many specialise on agricultural exports to the North (Wilson 2000, et al., In south-south trade, companies are mostly stymied by costly customs and administrative procedures due to the lack of trade-related infrastructure and unusual behaviour on the part of officials, and by non-tariff measures such as import charges and other additional costs.

Other surveys have focused on non-tariff measures at the regional level. In 2008, the World Bank's report on NTMs in the East African Community identified several non-tariff barriers to intra-EAC trade, highlighting restrictive practices, technical barriers to trade, and sanitary and phytosanitary measures as critical restrictions. The study asked government officials, companies (producers/exporters/importers/transporters) to identify NTMs constraining intra-regional trade between EAC members (2008b).

Other surveys break down non-tariff measures by sector, product and country. In the EAC region, trade in maize and beef is often limited by high duties, unusual payments at customs, licensing requirements, lack of road infrastructure, discriminatory behaviour by customs agents and burdensome administrative procedures and documentation requirements (Karugia et, al, 2009). In the dairy sector, intra-EAC trade remains limited, with only 1 Per cent of the regional production crossing borders due to lack of infrastructure for production, transport and storage (Jensen, Keyser and Strychacz, 2010).

According to a survey on Kenya's exports in the EAC-COMESA region, the significant non-tariff barriers take the form of quality standards inspection procedures and sanitary and phytosanitary measures given the structure of Kenya's export in these markets, These types of non-tariff barrier arise due to the slow harmonization of trade policies among the EAC countries (Ihiga, 2007).

The East African Business council referred to Kenya as the "worst offender regarding non-tariff barriers" in the EAC. The progress of the East African Customs Union, the establishment of the Common Market in 2010 and the implementation of the East African Monetary Union Protocol are boosting to the regional integration process.[7] However, Okute M, (2017) finds that technical Barriers to Trade regarding technical requirements, voluntary standards and conformity assessment procedures still negatively affect trade. Kenyan exporters face institutional barriers to trade in the EAC citing difficulties with application procedures of numerous certification and conformity assessments, and the procedure for obtaining the certificate of origin

being cumbersome, lengthy, and amounting to a barrier to trade.

In Uganda, burdensome non-tariff measures include documentation requirements at customs for export, use of clearing agents, lack of standards harmonisation among EAC countries, vehicle registration and licensing, taxes and subsidies. Procedural obstacles include delays in clearance, roadblocks, numerous stops along the Northern corridor, poor infrastructure and trade-related facilities for testing and cooling, power shortages, language barriers, discriminatory behaviour by customs officials and immigration procedures (Okumu, 2010).

Being landlocked, Uganda depends on the neighbouring countries to access the sea and for trade-related infrastructure such as rail, road, sea freight, clearing and forwarding services. For imports, critical non-tariff measures include administrative procedures at customs on matters such as documentation, transiting procedures, quality inspection and certification procedures (Tumuhimbise and Ihiga, 2007).

2. Economic and social structure of EAC countries

The imported goods that make up the structure of African imports are metal products, machinery, equipment, chemical products and other industrial goods, and means of transportation. The majority of imported goods come from the EU, China, India and the US.

The EAC adopted its 2016 roadmap to optimise the utilisation of its resources to accelerate productivity and the social wellbeing; Vision 2050 is about transforming the EAC region into an upper middle-income region based on the principles of inclusiveness and accountability (EAC Vision 2050). The TFTA is instrumental in achieving the transformation, hence preparing the ground towards a continent-wide integration.

2.1 Gross domestic product and human development

With a population of 150 million in 2017 and a surface of 1,82 million square kilometres, EAC countries vary widely regarding income, industrial structures, and social indicators, despite historical ties. Compared to regional integration schemes in Sub-Saharan Africa, the East African Community is making noticeable economic progress and achieving real development gains, with combined Gross Domestic Product of US$ 146 billion (EAC Statistics for 2016). Accounting for 41 per cent of that total, Kenya is the largest economy in the region, with a real GDP of US$79,511 billion in 2017, followed by Tanzania and Uganda at US$ 51,725 billion and US$ 26,349 billion, respectively, Rwanda and Burundi lagged behind with real GDPs of US$ 9,137billion and US$ 3,396 billion in 2017 (Table 1), respectively.

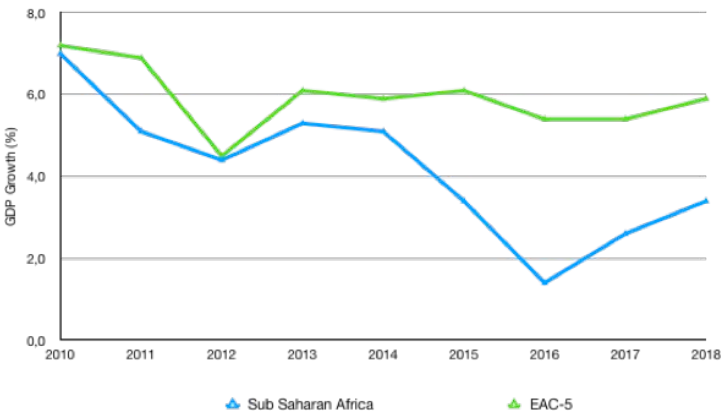
Table1: EAC real GDP (US$ billion) current prices

	2010	2011	2012	2013	2014	2015	2016	2017
Burundi	2,032	2,236	2,333	2,575	2,934	3,005	3,138	3,396
Kenya	40,000	41,672	50,422	55,126	61,544	63,995	70,527	79,511
Rwanda	5,774	6,492	7,316	7,623	8,010	8,294	8,475	9,137
Tanzania	31,086	33,583	39,088	44,414	48,256	45,634	47,653	51,725
Uganda	20,212	21,108	24,505	25,808	27,949	25,208	25,307	26,349
Total EAC	99,104	105,091	123,664	135,546	148,693	146,136	155,100	170,118

Source: International Monetary Fund, World Economic Outlook Database, April 2018

Since the turn of the century, the EAC member countries have experienced rapid growth and now rank among the fastest growing economies in sub-Saharan Africa and the developing world, Annual GDP growth rates have neared 6 per cent in the last decade in the EAC countries, compared to 5,4 per cent in other Sub-Saharan countries (Figure 1).

Figure1: EAC real GDP Growth (%)

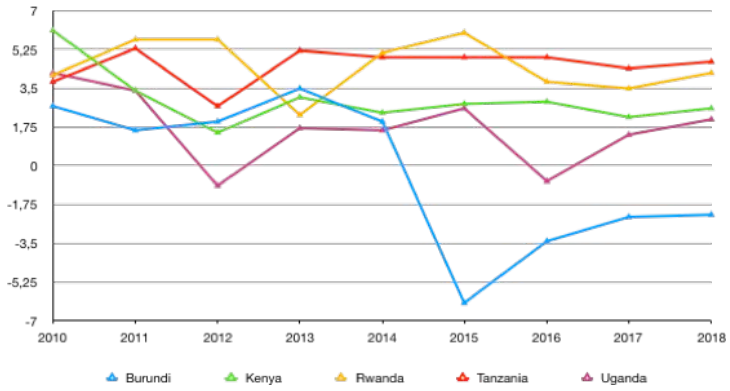


Sources: International Monetary Fund, Regional Economic Outlook Database, October 2017

Despite significant heterogeneity, growth rates remain active in all EAC members, According to the

IMF 2018 regional economic outlook, Rwanda, Tanzania, and Uganda are among the fastest growing economies coming in at 4,2 per cent, 4,7 per cent and 2,1 per cent in 2018, Burundi's economy at -2,2 per cent in 2018, after growing by 2,7 Per cent in 2010 (Figure 2).

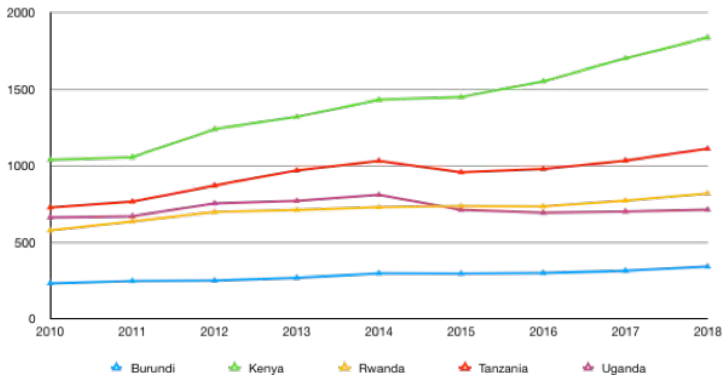
Figure 2: EAC countries Real Per Capita GDP Growth (%)



Sources: International Monetary Fund, World Economic Outlook Database, October 2018

in the context of sound economic growth, the EAC countries are experiencing rising average real per capita GDP, more than doubling to US$518 from US$252 in 2000, However, significant disparities remain among the EAC countries with real per capita GDP in 2018 ranging from US$ 339,894 in Burundi to US$ 1,837,710 in Kenya (Figure 3), Moreover, compared to other sub-Saharan countries, the EAC countries seem to be lagging behind. To sustain the regional GDP growth, EAC countries need to improve domestic resource mobilisation and expand the fiscal space to support public investment this would strengthen overall macroeconomic stability.

Figure 3: Real GDP per capita (US$)



Source: International Monetary Fund, World Economic Outlook Database, April 2018

2.2 Sector contributions to GDP

Structural transformation (Structural change, productivity, and employment) is far more vital for reducing poverty than per capita economic growth. The AfDB finds that between 1981 and 2008 in Sub-Saharan Africa, poverty declined only by four Percentage points. Despite more than a decade's robust growth, the lack of structural transformation is revealed by the small contribution industrial sector's to GDP of about 18 per cent (see table 2). Following Uganda's path-breaking pro-market reforms of the 1980's, other EAC member countries implemented a wide range of trade and trade-related policies including as part of the Structural Adjustment Programmes (SAP). The programme aimed to liberalise productive sectors and open the financial sector to international competition while reducing governments' involvement in the economy, EAC countries have pursued a trade liberalisation agenda through both multilateral agreements and regional integration schemes,

Table 2 Structural change and growth

	Agriculture (% of GDP)	Industry (% of GDP)	Services (% of GDP)	Manufacturing (% of GDP)
Burundi	39.5	15.1	45.3	22.2
Kenya	24.0	22.0	54.0	36.9
Rwanda	34.6	15.1	50.3	15.4
Tanzania	31.5	25.0	43.5	26.1
Uganda	27.0	21.9	51.1	24.6
East Africa average)	**27.6**	**18.0**	**54.5**	**19.9**

Source: value added are computed based on AfDB, statistics department 2017: Average includes: Comoros, Djibouti, Ethiopia, Sudan, Seychelles

The economic structure of the East African Community has shifted from the primary sector (mainly agriculture) to industrial and service sectors in the past three decades. The agriculture sector used to account for 28 per cent of Kenya's GDP; 41 per cent of Tanzania's, and 38 Per cent of Uganda's in the late 1990's. By 2009 it accounted for 23,2 per cent in Kenya; 28,8 per cent in Tanzania; 24,8 per cent in Uganda; 36,1 per cent in Rwanda and 43,9 per cent in Burundi. In recent years, the EAC countries' GDP growth shifted towards the service sector, which is increasingly the backbone of the Kenyan economy at 64 per cent of GDP, Uganda's service sector accounted for almost half of GDP since 2001, and 63 per cent in 2010, The key sub-sectors

driving the Ugandan economy are financial services, telecommunications and transport (African Economic Outlook, 2011).

Among the EAC countries, the services sector accounted for a significant share of the GDP, except Burundi where the services and the primary sector both account for 44 per cent of GDP. At the same time, the manufacturing sector seems to be playing a declining role in the economy, particularly for Rwanda where it accounts for just 7,5 per cent (AfDB, 2011). However, the drivers of economic growth show considerable variation from one EAC country to another, Tanzania experienced a significant shift in GDP composition over the past few years. The service sector amounted to 55,8 Per cent along with the primary sector with 28, 8 Per cent in 2010. The share of the manufacturing sector accounts for 15, 5 per cent in 2010, mainly due to the construction sector. In 2017, the service sector in Tanzania stood at 43,5 per cent along with the primary with 31,5 per cent in 2017; the share of the manufacturing sector accounts went up over 10 per cent to 25 per cent.

Rwanda's primary economic drivers in 2010 were services and manufactured sector with respectively 9,6 and 8,4 per cent increase (World Bank, 2011). In 2010, the services and primary sector were the leading sectors in terms of GDP with respectively 56, 5 and 36,1 per cent meanwhile the manufacturing sector accounts for 7, 3 per cent of GDP in Rwanda in 2010. In 2017, the services and primary sectors are the leading sectors regarding GDP with respectively 50,3 and 34,6 per cent meanwhile the manufacturing sector accounts for 15 per cent of GDP in Rwanda in 2017. Burundi's GDP is driven by the primary and services sector up to 44 and 44,3 per cent while the manufacturing sector accounts for 11,8 per cent of GDP. With a growth rate increasing from 1,8 per cent to 4,6 per cent in 2010, the primary sector was the principal driver of the economic growth, mainly due to an increase in coffee exports in 2010, compared to the drop recorded in the manufactures and services sector. In 2017, the primary sectors in Burundi were slightly low at 39,5 per cent, services a Percentage higher at 45,3 per cent while the manufacturing sector also grew to 15,1 per cent of GDP.

In Kenya, the services sector accounts for 64,1 per cent of GDP while the manufactured and primary sector amounts respectively 23,2 and 12,6 per cent in 2010. The primary and manufacturing sector accounting for 23,2 and 12,6 per cent is the primary component of the economic growth in 2010. With 7,8 per cent growth in 2010, the manufacturing contributed to Kenya's growth mainly due to the increase in food, beverages and tobacco industries by 12 per cent. In 2017, Kenya's services sector dropped to 54, per cent of GDP while the manufacture registered remained at 22 per cent and primary sector at 24 per cent in 2017.

Uganda's economic growth is mainly accountable for the growth in the manufacturing sector accounting for 12, 8 per cent of GDP increasing to 8,9 per cent in 2010 compared to 5,8 per cent in 2009, While accounting respectively to 62,4 and 24,8 per cent, the services and primary sector registered a slow growth with 5,8 and 2,1 per cent in 2010 (African Economic Outlook, 2011). In 2016, coffee, cocoa beans, cement and solid cane, beet sugar were led the country's agriculture export products to the East Africa region. In 2017, Uganda's manufacturing sector dropped to 54, per cent of GDP while the manufacture registered strong growth accounting for 36.9 per cent and primary sector 24 per cent in 2017.

2.3 The composition of EAC Trade

Below are highlights of on the composition of trade commodities, the leading trade partners and diversification in the EAC. Intra-regional imports constitute Mineral fuels, oils, distillation products with 10,4 per cent, salt, sulphur with 9,74 per cent, iron and steel with 6,2 per cent, machinery, with 5,17 per cent and cereals with 4,32 per cent of total imports from the region.

Kenya, Uganda and Tanzania are the leading trade actors in the EAC region; Kenya and Uganda have met with more success than Tanzania in diversifying their trade structure. As EACs largest exporter, Kenya's main export products to its EAC partners are mineral products, which account for 17 per cent of Kenya's total exports in 2010. Alongside were iron and steel products (7,1 per cent), animal and vegetable fats (6,7 per cent), plastics and articles

thereof (6,3 per cent) and vehicles other than railway and tramway (4,6 per cent).

In contrast, Kenya's trade structure with the rest of the world remains mainly concentrated in primary products and traditional markets (European countries and new emerging partner countries such as UAE, Sudan, and Egypt). Kenya's main exports to the rest of the world are fresh food (40 Per cent) and minerals (7 Per cent). The deepening and expansion of regional integration have widened trade opportunities for Kenyan firms. It was able to diversify its export structure and emerge as a significant exporter of manufacturing products in the Eastern African region. Although relatively low, Kenya's main import lines include fresh food products and manufactured products. Imports of cereals amount to 10,8 per cent of Kenya's total imports from the EAC region, paper imports account for 9,4 per cent, textiles articles for 7,9 per cent, tobacco product for 7,7 per cent, edible vegetables for 6,5 per cent and grain, seed, fruit for 6,0 per cent of Kenya's total imports from the EAC region in 2010.

Tanzania and Uganda remain the largest destination for Kenya's exports within the EAC, accounting for more than 48,8 per cent and 35,6 per cent of total exports and 48,8 and 48,1 per cent of total imports in 2010. Burundi and Rwanda do not constitute a significant export market for Kenya with only 10 per cent and 6 per cent of Kenya's total exports in the EAC region.

Intra-regional trade accounts for a significant share in Uganda's overall trade, In Uganda, agro-based products remain the main export products to the EAC region with coffee, tea, mate and spices accounting for 16,6 Per cent of total exports to the region, animal and vegetable fat equivalent to 8,1 Per cent and cereals products up to 7,0 Per cent. Nevertheless, certification of agriculture products and meeting the essential technical requirements is a significant challenge in Uganda. Improving export-quality management within Uganda – including laboratories for testing, certification and standards development – would improve the competitiveness of micro, small and medium-sized enterprises (MSMEs). The share of manufactured products in Uganda's export structure is increasing, In 2010, manufactured products including machinery, boilers, represent 6,6 per cent of Uganda's exports to the EAC region, followed by iron and steel product at 6,4 Per cent and tobacco products at 4,5 Per cent.

The main category of imports from the EAC region to Uganda was mineral products (such as salt, sulphur and mineral oils) at 28,5 per cent of imports, followed by iron and steel products (6,5 Per cent), beverages and spirits (5,9 Per cent) with plastics and articles thereof accounting for 4,7 Per cent in imports from its EAC partners. Although Kenya is Uganda's second largest import partner (contributing to 11 Per cent to Uganda's total imports), Uganda is mainly exporting to Kenya and Rwanda with 44,5 per cent and 35,7 per cent of Uganda's EAC exports in 2010 going to those countries, respectively. Trade between Uganda, Tanzania and Burundi is much smaller, Uganda's exports to Tanzania and Burundi represent 7,5 Per cent and 12,3 Per cent of Uganda's total share of exports, Uganda imports from Kenya up to 90 Per cent of its imports from the EAC region.

Rwanda exports mainly to Kenya among the EAC countries, up to 72,6 Per cent of Rwanda's total exports within the region, With 47,3 Per cent, Uganda is Rwanda's largest import country, followed by Kenya and Tanzania with 29,7 Per cent and 22,2 Per cent of Uganda's total import within the region in 2010.

Tanzania's exports to EAC countries are mainly of manufactured goods: fertilisers (14,2 Per cent), mineral fuels and oils (12,2 Per cent), plastics and articles thereof (10,9 Per cent) and other made textile articles (7,0 Per cent). The major products imported by Tanzania from its EAC partners were mineral fuels, vehicles other than railway, tramway, machinery. The increase in trade among the EAC countries plays a significant role in improving Tanzania's exports. The level of diversification is relatively high in Tanzania with trade structure mainly dominated by manufactured goods.

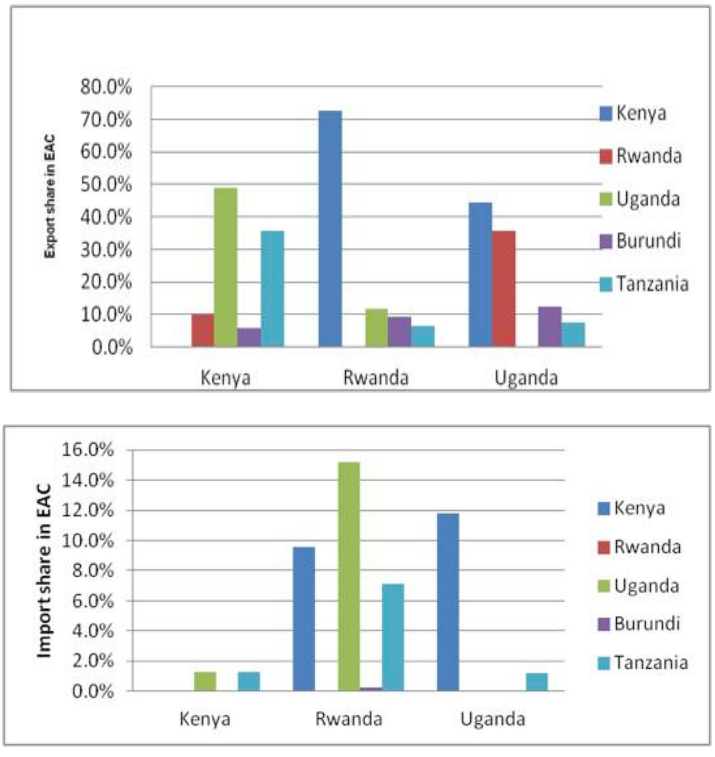
In Rwanda, imports from the EAC region have increased more rapidly than exports to it. A net importer from the EAC, Rwandan imports from the block concentrate on minerals like salt, sulphur and mineral oils (20,6 per cent), animal and vegetable fats (8,6 Per cent), iron and steel (6,9 Per cent) and cereal (6,5 Per cent). Whereas exports to the EAC countries are concentrated on traditional commodities such as coffee, tea, mate and spices,

which account for 65 per cent of Rwanda's exports to the EAC region. Kenya is a significant trade partner for Rwanda and Uganda. It is worth noting that trade figures among these countries include re-exports, given that Uganda and Rwanda are landlocked countries, Trade with Kenya accounts for the lion's share of Rwanda's EAC trade.

Burundi's share of EAC trade rose to 4.2 per cent in 2012 has grown from the share of 2.6 per cent recorded in 2010. Total intra-EAC trade increased by 20.5 per cent reaching the highest value of $ 4.4 billion. Its export performance depends heavily on fresh food products and specifically tea, which, accounts for 95 Per cent of agricultural exports and 55 Per cent of exports in the EAC countries. Its other exports include raw hides and skins, iron and steel, Imports play a significant role in Burundi (IGIHE 2013)

The country imports a wide variety of goods. Minerals and manufactured goods represent 18 and 30 Per cent of imports from the EAC region, respectively. Burundi's import structure reflects its weak manufacturing base and its modest domestic market.

Figure 4: Share of export in the EAC



Sources: Calculations based on Trade Map data, 2011

According to the trade competitiveness index, the EAC countries have a relative level of complementarity and competitiveness with an average index for the region of 23,2. The competitiveness index, ranging from 0 to 100, measures the similarity between the export structure of a country and the import structure of another country. The higher the index between two countries, the higher the product complementary between the two countries. The exceptions are Rwanda and Burundi with an average index of 8,2 because efforts to diversify both their trade partner and goods beyond traditional products (such as coffee and tea) have not yielded strong enough results, Kenya and Uganda's structure corresponds to that of their EAC partner countries, with an average index of 23,5 and 22,6, respectively, in 2010.

3. Survey Results

3.1 Companies' perceptions of NTMs within the EAC

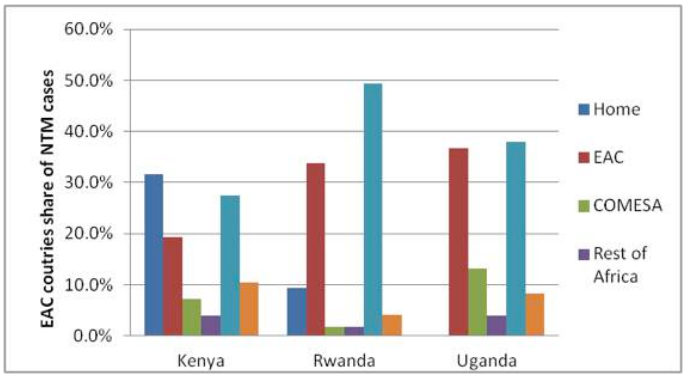
The following summarises the cases of burdensome NTMs and POs affecting the EAC exports of Kenya, Rwanda and Uganda. The surveyed EAC countries report burdensome NTM mainly while trading with their central export destination market, except for Kenya (Figure 4). To enter the OECD market, EAC exporters must meet many international standards to ensure consumer health, environmental protection or national security. These trade requirements tend to be more stringent, particularly with the growing awareness about climate change or fair trade issues among the OECD countries. It is a challenge for any EAC countries to meet these requirements since it requires essential investment in trade-related infrastructure such as storages facilities, testing laboratories.

Of the 764 Kenyan exporting and importing companies interviewed, 563 said they face or have faced difficulties complying with NTMs in the past one year. The NTMs cases that Kenyan firms report as prohibitive and caused by Kenyan rules, regulations, and procedures is higher than the ones reported in partner countries. 31,7 per cent of the NTM cases Kenyan firms reported originate from Kenya. 27,4 per cent of NTMs reported by Kenyan firms arises from OECD countries and a further 19,3 per cent from East African Community partners.

In Uganda and Rwanda, trade restrictions arising in the home country were less relevant - just 0,2 per cent in Uganda and 9,3 per cent in Rwanda. In these countries, the perception is that of burdensome NTMs come from the OECD and EAC region. The survey finds the share of reported NTM cases considered damaging in the OECD is unusually high for Rwandan companies, amounting to 49,4 per cent of NTMs reported in our survey. The OECD's share of difficult cases reported by Ugandan exporters is also relatively high, at 37,9 per cent, comparing to Kenya where reported NTM cases in the OECD countries account for just 27,4 per cent of cases.

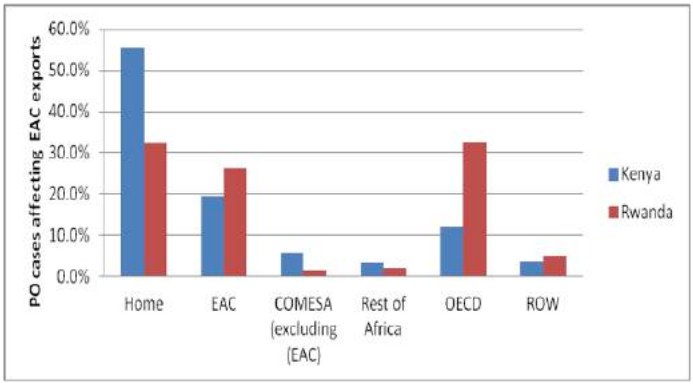
The three EAC countries survey face relatively fewer trade barriers when trading with partners in the COMESA region and the rest of Africa than in trading within the EAC itself. The reason appears to be that relatively few EAC companies exports to the broader COMESA and rest of Africa markets, giving fewer chances for the perception of burdensome NTM to arise than in the exports destination countries within the EAC itself.

Figure 4: Share of NTM cases faced by exporting companies in Kenya, Rwanda and Uganda by region



Sources: ITC survey on NTMs

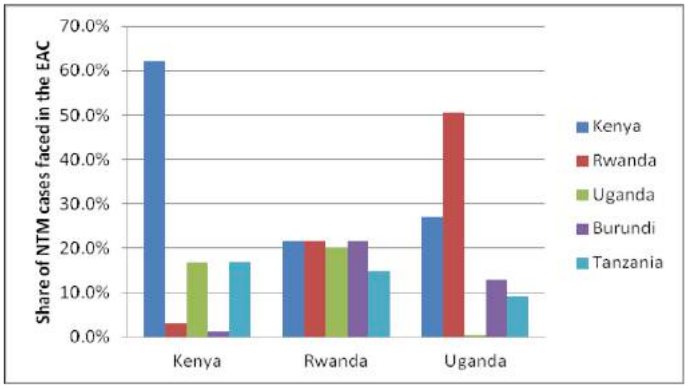
For Kenyan firms, NTMs encountered in Uganda and Tanzania account for the highest share of reported cases, at 8,5 and 8,6 per cent respectively. This is not surprising since Uganda and Tanzania are Kenyan firms' main export destination in total trade, Compared to the total reported NTMs, Kenyan firms' perception of burdensome NTM is more significant in Uganda and Tanzania with 16,6 per cent, and 16,9 per cent of total reported NTM within the EAC region. Of the reported NTM cases within the EAC region, the share of Ugandan and Rwanda companies facing barriers in Kenya is significant with



21,6, and 27,6 per cent of total EAC reported NTM cases.

Whether a firm resides in the home or host country, it cannot escape procedural obstacles linked to obligations encountered by exporting companies in their efforts to satisfy the conditions to meet non-tariff measures. The procedural obstacles that raise the cost of trade in the region also limit the modest scale of trade within the EAC.

Figure 5: Share of NTM cases faced by exporting companies in Kenya, Rwanda and Uganda in the EAC



Sources: ITC survey on NTMs

For Kenyan and Rwandan firms, procedural obstacles are a significant impediment to exports. For Kenyan exporters, 55,4 per cent of barriers happens within Kenya. Kenyan exporting companies face further procedural obstacles in the EAC region (19,6 per cent of reported cases, and with the OECD countries (12,3 per cent), Procedural obstacles affecting Kenya's imports from the OECD accounted for 12,5 per cent (Figure 6).

In Rwanda, procedural obstacles are mainly faced in the country with 32,3 per cent of total procedural obstacles faced by the country and in the OECD region with 32,7 per cent of total procedural obstacles faced by the country whereas domestic cases of procedural obstacles are mainly affecting

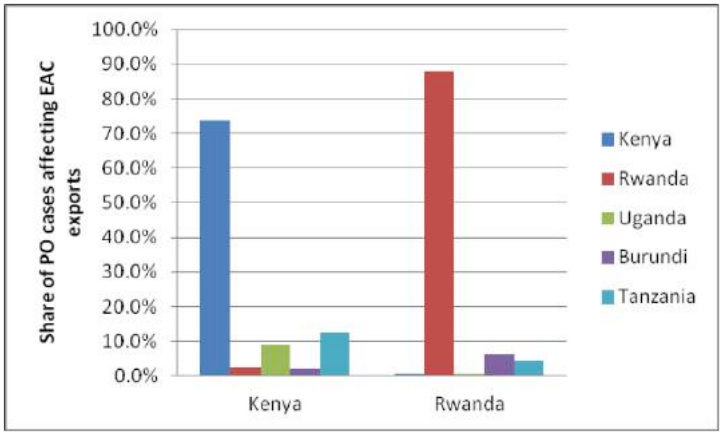
Rwanda's l imports with 51,7 per cent. Of the 530 Rwandan exporting and importing companies interviewed, 393 said they face or have faced difficulties complying with NTMs in the past one year.

Figure 6: Share of PO cases affecting Kenya, Rwanda and Uganda exports by region
Sources: ITC survey on NTMs

Domestic procedural obstacles affecting Kenyan exports target exports to the EAC (73,9 per cent). In Rwanda, the concentration is even higher. 88% of procedural obstacles arising in Rwanda affect exports intended for its EAC partners.

Far fewer obstacles affecting Kenya's companies involved NTMs imposed by their foreign partners: 9,1 per cent related to Ugandan measures and 12,5% to Tanzanian NTMs. Of the 504 Tanzanian exporting and importing companies interviewed, 373 said they face or have faced difficulties complying with NTMs in the past one year.

Figure 7: Share of PO cases affecting Kenya, Rwanda and Uganda exports within the EAC region



Source: ITC survey

3.2 Cases of burdensome NTMs and POs affecting Kenya, Rwanda and Uganda imports

Much like on the exporting side, most reported NTMs on imports occur in the domestic country rather than arising from trading partners' rules and regulations. The share of NTM cases with regards to imports arising from the home country is unusually high in Kenya, at 93,7 per cent, followed by Rwanda, where the figure is 65,2 per cent.

Very few cases of NTMs reported by Kenyan importing companies originate from its EAC trade partners (0,3%) and few again (3,4 per cent) originate from the OECD region. Kenya imports more from the OECD region than from the EAC region, so companies have more interactions liable to give rise to burdensome NTM on imports from the OECD region than the EAC region. 31,8 per cent of the NTMs reported by Rwandan companies originates in their EAC partners, notably Tanzania (17,9 per cent) and Kenya (9,2 per cent).

4. Discussion

A primary aim of Africa's ambitious effort is the expansion of intra-African trade by lowering the trade barriers to goods and services while encouraging the movement of people throughout the continent. But in the current In a global context of looming trade wars, expected increases in tariffs and welfare losses, Milasoa Chérel-Robson (ATDF 2018) contemplates that Africa's tiny share of global manufacturing production and trade is likely to raise further questions on what the signature of the African Continental Free Trade Area (AfCFTA) is and means for the continent's future. One pertinent question is whether the AfCFTA can deliver on Africa-wide industrial development? These include the need for a greater understanding of how the provisions of the AfCFTA could support the diverse range of African countries in their efforts to set on a sustainable path for industrial development.

Notwithstanding the historical significance of the confidence shown by African leaders in the benefits that it brings, the AfCFTA comes with burning questions:

1. What is at stake in the AfCFTA?
2. How reliable is the AfCFTA to deliver?
3. The governance and effectiveness of the institutions.

Challenges in translating the AfCFTA into industrial development also depend on the institutional capacity to implement it as well as on progress on good governance across the continent. These would inform on the likelihood of the AfCFTA's ability to be more than a mere political intent as stated in its companion document.

Trade allows more efficient allocation of national resources. But the optimal extent of trade is to be determined by decisions about costs and benefits of production and consumption at the margin. From the1960', Africa's approach to regional integration was informed by development strategies of the 'deterioration of terms of trade' (Singer, 1950), industrialisation through 'import substitution' and trade as a development engine (Prebish, 1950).

The proliferation of non-tariff barriers in the EAC risks nullifying any increases in regional trade resulting from the phasing out of tariffs and quota reductions. A concern raised by a business representative in Kenya is that the implementation of the EAC customs union would have little impact on export opportunities in Tanzania since exports are 'always subjected to suspended duties'.

Transformative is the word most commonly used when people refer to the African Continental Free Trade Area (Chaytor, B., ATDF 2018) However, many including the World Bank are left wondering how come leaders publicly and, by and large, genuinely pledge support for integration, but real barriers to trade remain in place? (World Bank 2012). For example, all believe that the free movement or mobility of business people is essential to trade freely. Still, disagreements among the same leaders and their national governments are hindering the EAC and the SADC to adopt a regional labour mobility agreement (Bruegel 2018).

As the EAC countries make efforts to industrialise, at the same time member countries are prone to adopting protectionist measures when they feel that their efforts are being undermined. The reason could be rooted in the approach and strategies that countries adopt to embark on integration. Integration as a tool within regional development strategy has been applied using approaches such as a) integration by the market, b) complex integration, c) the functional approach, and d) the structural approach.

Africa's approach to integration is remarkably different from the functionalism and neo-functionalism approach adopted by European countries. Functionalism is where nations maximise their interest assisted by international organisations based on functional rather than territorial principles.

In the functionalist approach, economic integration is the first step towards a political union to guarantee peace and Neo-functionalism emphasises the role of institutions in furthering integration.

Also, Africa's integration is different from integration between developed countries, which is built on existing growth, and interdependence of high technological levels of production. It is why the most critical obstacles to south-south integration for African countries, are the lack of growth opportunities. This and the absence of large developed economies in the neighbourhood show that effective regional integration is more than merely signing agreements and removing tariffs. By creating a Continental Free Trade Zone, Africa hopes to achieve its long-standing goals of integration (Benefits of AfCFTA-UNECA). However, it will come down to addressing on-the-ground constraints that paralyse the daily operations of ordinary producers and traders. Contentious violations of customs rules have shown how domestic interests can stall integration efforts as has happened in 2012, the potential for trade wars between Kenya, Tanzania and Uganda is a challenge for the East African Community's economic integration agenda. For example, when Kenya accused Ugandan traders of repackaging sugar bought cheaply from outside the region and selling it in Kenya as Ugandan products. In retaliation, Kampala banned Kenyan beef and beef products. Allegations that Tanzanian traders had repackaged and relabelled rice bought cheaply from Asia, Uganda added an 18% value-added tax (VAT) on rice imports from Tanzania.

Sustaining the integration process between African countries would also require fundamental structural changes necessary for boosting economic growth. These include effective regulatory mechanisms to capitalise on economic potential, strengthening institutions to enforce existing regulations and prevent traders from circumventing the system.**[15]**

The EAC made significant steps towards economic integration when it removed internal customs tariffs in 2010, and established a common external tariff (CET) for imports into the member countries in 2015 making it the best regional performer based on the forecast of average annual GDP growth of 6 per cent over the 2016-18. North Africa follows with 3.8 per cent, Central Africa forecast to expand by an average

of 2.9 per cent, West Africa with an average annual growth of 1.9 per cent and Southern Africa with an average yearly growth of only 1.6 per cent over the same period (IMF 2016).[16] However, there are still challenges. Boosting economic growth in the long term will require enterprises that grow. One such area is in the services sector. Trade in services presents opportunities for growth and job creation in Africa.

Domestic regulatory hurdles and trade barriers continue to fragment the services markets, and the cost of trading in services is high. Uniform standards in services trade can improve the quality, completeness, and comparability of information.[17] However, when common international standards are applied equally to large and small firms, SMEs could find it costly to use auditing and accounting services. There is a need to support SMEs actively.

Making Regional Integration Work for SMEs

Deeper regional integration is considered a powerful tool to build markets, generate new opportunities for growth, job creation and improved living standards. However, for many developing countries, SME's are the "missing link" that is preventing them from embarking on the path to inclusive and sustainable economic growth and development[18] and linking to regional and international markets. Romer (1987, 1990) offers an array of policy tools to policymakers in developing countries to restore the missing link and spur structural transformation and stimulate growth.[19] The prospect of capturing positive externalities (Idem) and spillover effects from innovative enterprises is an essential aspect of the model (Romer 1986).

Leveraging the benefits of regional integration remains a critical part of any enterprise development strategy. As the Doha round of multilateral trade talks continues to struggle to advance, negotiations at the bilateral and regional level continue to proliferate. Nonetheless, the proliferation of economic integration initiatives has proven that regional integration can continue apace independently of the slow pace of multilateral trade negotiations.

The central role of the nation-state as an economic unit is slowly giving way to strategic alliances that harness knowledge and resources through integration.

Regional economic integration is a powerful tool in efforts to improve the efficiency of resource allocation, speeding technology transfer and enhancing local standards of living. Also, yet the realisation has slowly dawned on policymakers that national borders present considerably more significant impediments to regional integration than had previously been imagined.

Among the common objectives and tangible outcomes that regional integration can accomplish is encouraging economic transformation by:

1. Facilitating regional trade, such as by simplifying and expediting border procedures;
2. Putting in place customs unions;
3. Working towards common markets and economic union[21]
4. Facilitate market entry.

A global and regional economic integration strategy must incorporate the creation of trade and investment relations with the construction of active (regional) markets by enhancing the productive capacities of developing countries in Africa and beyond. For example, central to South Africa's trade policy has been its support for a coherent industrial development policy that involves systematic and continued technological upgrading of the productive sector and helps move South African firms towards producing higher value-added and more knowledge-intensive products and services. In this respect, Rules of Origin, standard setting and work on trade facilitation are critical components of an integration strategy targeting development outcomes.

The regional integration process is a critical part of efforts to reduce transport and energy costs, exploit economies of scale, develop viable service industries, promote foreign direct investment, encouraging labour mobility and expand markets for trade. These processes expand the opportunities open to local entrepreneurs, making regional integration a vital piece of the broader Enterprise Development Agenda.

When such policies fail, it is generally due to the absence of demand awareness, with state planners

pushing producers including through preferential agreements into areas that do not support the sustainable transformation of the economy or international buyers are not interested.

References :

Deardorff and Stern (1997), Beghin and Bureau (2001), Bora et al, (2002), Dean et al, (2003), Andriamananjara et al, (2004) and Ferrantino (2006),

East African Community, EAC Vision 2050 (Arusha, Tanzania, 2016).

Ihiga, S., (2007a), A Survey of Non-Tariff Barriers that Affect Kenyan Imports and Exports Within EAC and COMESA Countries.

IMF Regional Economic Outlook: Sub-Saharan Africa, October 2016

ITC's (2015) SME Competitiveness Outlook

Karugia, J., Wanjiku, J., Nzuma, J., Gbegbelegbe, S., Macharia, E., Massawe, S., Freeman, A., Waithaka, M., and Kaitibie, S. 2009. The impact of non-tariff barriers on maize and beef trade in East Africa. ReSAKSS Working Paper #29. International Food Policy Research Institute (IFPRI).

Karugia, J., Wanjiku, J., Nzuma, J., Gbegbelegbe, S., Macharia, E., Massawe, S., Freeman, A., Waithaka, M., and Kaitibie, S. 2009. The impact of non-tariff barriers on maize and beef trade in East Africa. ReSAKSS Working Paper #29. International Food Policy Research Institute (IFPRI).

Michael F. Jensen, John Keyser, and Nicholas Strychacz (2010) Non-Tariff Barriers and Regional Standards in the EAC Dairy Sector 1 June, 2010

Michael F. Jensen, John Keyser, and Nicholas Strychacz (2010) Non-Tariff Barriers and Regional Standards in the EAC Dairy Sector 1 June, 2010

OECD (2005): Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade, Paris, France: OECD Publishing

Okute M, (2017). Non-Tariff Barriers to Trade in East Africa Community: A Case of Exporters in Kenya MSc in Business Administration, United States International University - Africa Spring 2017

Poonam Mohun (2014) Beyond tariff walls: Non-tariff hurdles in sub-Saharan Africa. Bridges Africa | ICTSD https://www.ictsd.org/bridges-news/bridges-africa/news/beyond-tariff-walls-non-tariff-hurdles-in-sub-saharan-africa

Prebish, R. (1950): "The Economic Development of Latin America and its Principal Problems," Economic Bulletin for Latin America (reprinted in 1962), 7(1), 1–22.

Romer, P.M. (1986). "Increasing returns and long-run growth." Journal of Political Economy 94, 1002–1037.

Romer, P.M. (1990). "Endogenous technological change." Journal of Political Economy 98, S71–S102.

Singer, H. W. (1950): "The Distribution of Gains between Investing and Borrowing Countries," The American Economic Review, 40, 473–485.

TC (2018) Addressing Non-tariff measures can help Ugandan companies boost their competitiveness. http://www.intracen.org/news/Addressing-Non-tariff-measures-can-help-Ugandan-companies-boost-their-competitiveness/

The primary objectives of regional economic integration mentioned by Balassa and DeRosa

Tumuhimbise, C. and S. Ihiga. 2007. "A survey of non-tariff barriers that affect Ugandan imports and exports within EAC and COMESA countries." Accessed March 2009. http://ntb.africonnect.com/media/uganda.pdf.

Wafula Okumu (2010) Resources and border disputes in Eastern Africa, Journal of Eastern African Studies, 4:2, 279-297, DOI: 10.1080/17531055.2010.487338

Wilson (2000), Stephenson (1997) , Michalopoulos (1999) and Otsuki,Wilson and Sewadeh(2001)

World Bank. 2012. De-fragmenting Africa: deepening regional trade integration in goods and services (English). Washington, DC: World Bank. pp142

Notes

Economic integration in East Africa will prove challenging https://globalriskinsights.com/2015/10/economic-integration-in-east-africa-will-prove-challenging/

https://www.uneca.org/stories/whole-continent-will-benefit-african-continental-free-trade-area

Overview – Ministry of East African Community Affairs .... https://www.meaca.go.ug/meaca-overview/

Non-Tariff Barriers To Trade in East Africa Community: A .... http://erepo.usiu.ac.ke/bitstream/handle/11732/3265/ANYAL%20MICHAEL%20OKUTE%20MBA%202017.pdf?sequence=1&isAllowed=y

Bruegel (2018Free trade in Africa: An important goal but not easy to http://bruegel.org/2018/04/free-trade-in-africa-an-important-goal-but-not-easy-to-achieve/

According to Deardorff (1987) non-tariff measures are more solicited since their effects are more direct than tariffs.

The MAST is composed of the Food and Agriculture Organization of the United Nations (FAO), International Monetary Fund (IMF), International Trade Centre UNCTAD/WTO (ITC), Organisation for Economic Co-operation and Development (OECD), United Nations Industrial Development Organization (UNIDO), World Bank and World Trade Organization (WTO), It was also represented by observers from the United States Department of Agriculture (USDA), the United States International Trade Commission (USITC) and the European Commission. The GNTB is composed by Deardorff, Krueger, Mitra, De Paiva Abreu, Winters and Yerxa,

Africa's Unexplored Potential of Trade in Services. http://www.worldbank.org/en/news/feature/2016/08/04/africas-unexplored-potential-of-trade-in-services.print

ATDF – Entrepreneurship, Technology & Innovation. https://atdforum.org/

CONSTANTINE BARTEL

Constantine Obura Bartel is researching embeddedness of Swiss MNC in developing countries and guest lecturer on Sustainability, Innovation and Development. He is founder of the African Technology Development Forum (ATDF). The scope of past research and publications cover agriculture, trade, business development, science technology and innovation, environment and development. He has both private and public sector experience having held senior management positions in multilateral institutions and consulting firms. He consulted for the Governments of Canada, Finland, Costa Rica and implemented projects for international and multilateral institutions.