

Africa in the New Trade Environment

Market Access in Troubled Times

Souleymane Coulibaly, Woubet Kassa,
and Albert G. Zeufack, Editors



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Foreword

Africa faces a global trade environment that is continuously changing, bringing new challenges and opportunities for increasing growth and the integration of production and

environment, and we look forward to seeing other international institutions rally around this strategy to boost Africa's development prospects in the current global trade environment.

Ousmane Diagana

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Editors

Souleymane Coulibaly

examines the consequences of openness to trade and foreign direct investment for firm-level outcomes such as productivity, innovation, quality upgrading, and more broadly the determinants of firm performance, includ-



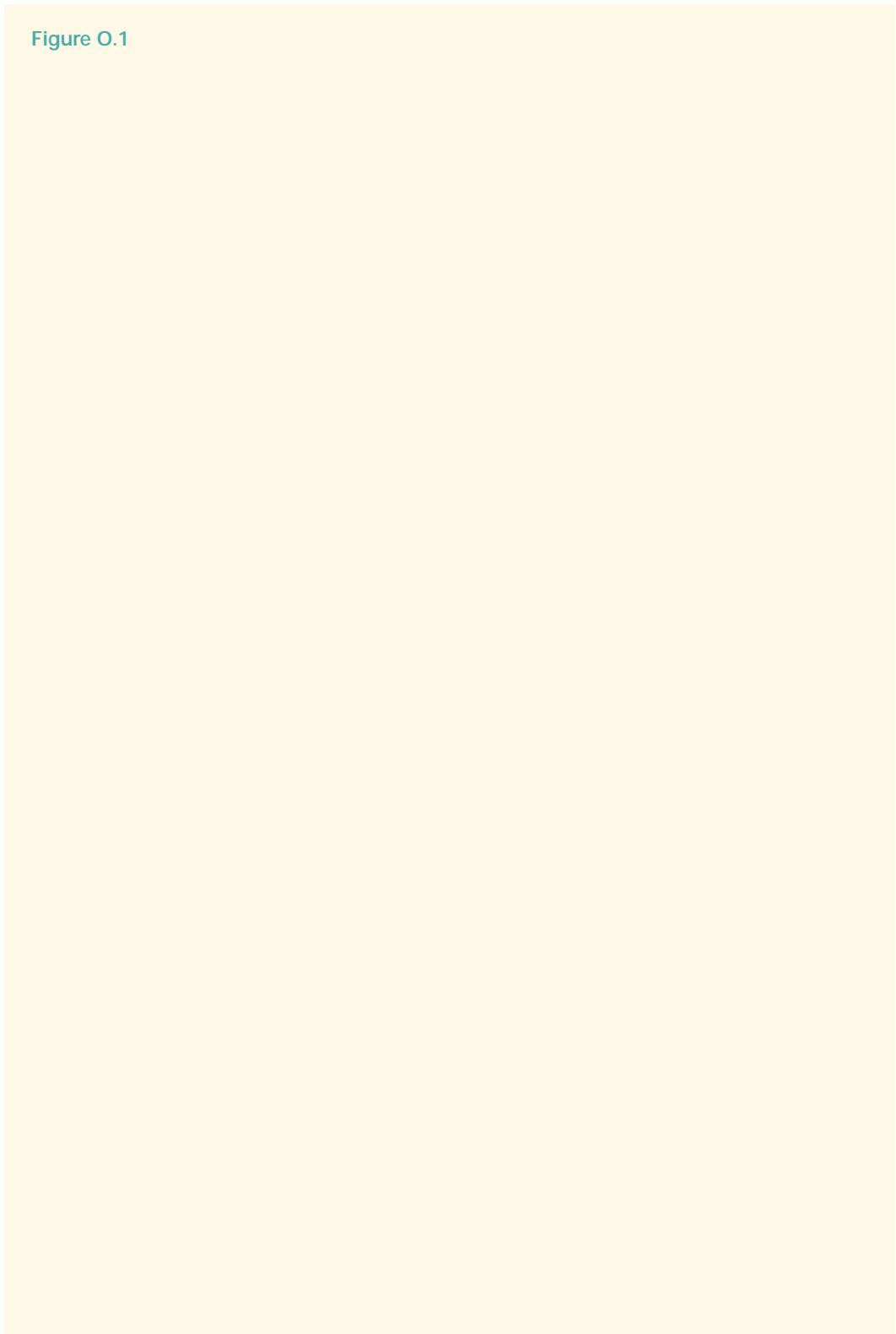
ACP	Organisation of African, Caribbean, and Pacific Group of States
AfCFTA	African Continental Free Trade Area
Africa-5	Ethiopia, Ghana, Kenya, Nigeria, and Tanzania
AGOA	

Introduction

Sub-Saharan Africa faces an international trade environment that is ever changing, bringing new challenges and opportunities for increasing growth and reducing poverty. Among the latest developments, the COVID-19 (coronavirus) pandemic since January 2020 has crippled economies around the world—including in Africa—through the direct health shock, the effects of pandemic containment measures on domestic economies, and the conse-

3 percent of global trade in goods and for about 3 percent of the world's trade in services. These numbers put Sub-Saharan African yboabous

Figure O.1



A closer look at disaggregated trade with the region's trading partners from 2005 through 2018 supports the observation above about the rising share of East Asia in Africa's exports and imports. Europe and North

distribution networks in leading world markets such as China, the EU, and the United States.

Furthermore, the Fourth Industrial Revolution is increasingly affecting firms' location and production fragmentation decisions (Abeliansky, Martínez-Zarzoso, and Prettner 2015). What it will take for Sub-Saharan Africa to continue to attract offshoring or outsourcing of manufacturing in the new technology environment is a topic to be explored. Part of the discussion in chapter 7 examines the important role of nontariff measures in agriculture and other sectors in Africa's participation in global and regional value chains.

Deepening Intra-regional Trade and Integration in a Highly Fragmented Continent

The classical theoretical framework for analyzing the impact of a free trade area (FTA) or customs union suggests that the welfare impact is ambiguous because of the contrasting impacts of trade creation and trade diversion (Viner 1950). By allowing competition between its members d (en-Uyuceand)-10()JTJEMC /Span /Lang (e



fully use the preferences offered by the agreement. The positive trade impacts were largely associated with improvements in ICT infrastructure; integrity in the legal and property rights institutions; ease of labor market regulations; and sound macroeconomic environments, including stable exchange rates and low inflation. By developing such institutions and infrastructure, Sub-Saharan African countries can also minimize undue exposure to a single market or few export commodities and can maximize the gains from trade.

Implement Tariff Liberalization and Other Domestic Reforms

The second answer comes from research conducted by the World Bank's Trade and Integration Research Group. Preferential access to foreign markets has been used as a mechanism to stimulate export growth in Africa, but

upsurge in trading partnerships with Sub-Saharan Africa on investment and





In exchange for these cross-country actions, bilateral and multilateral development partners could commit to the following:

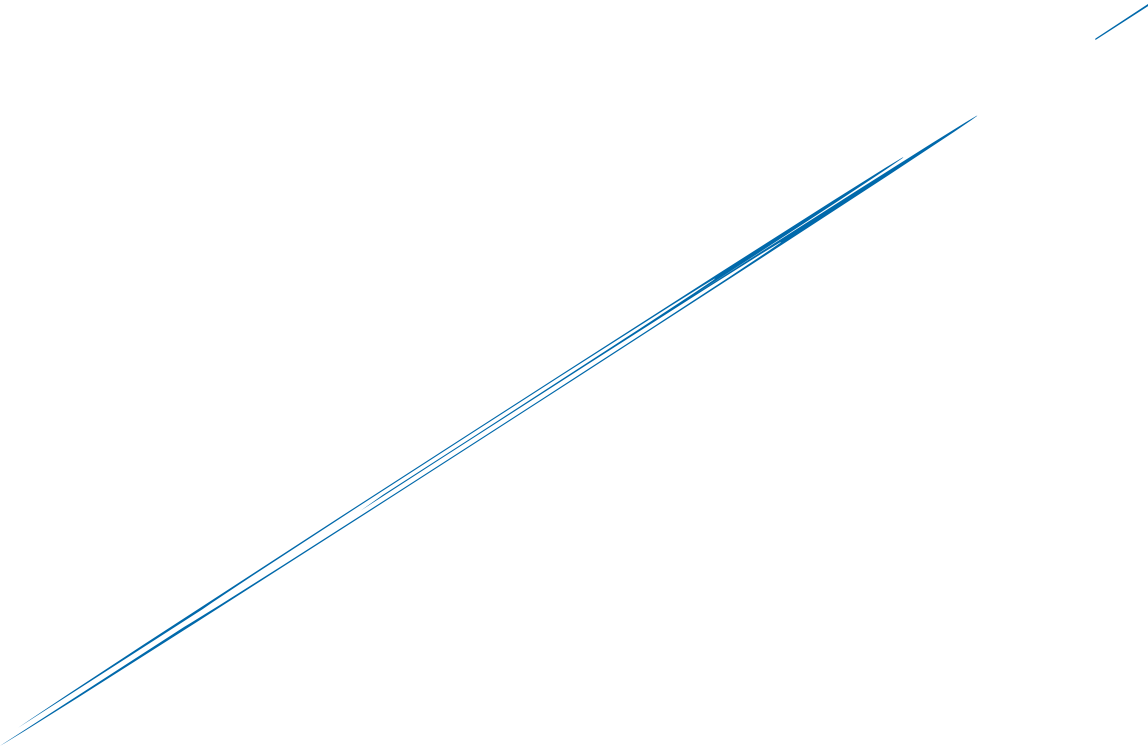


7. The MFA governed world trade in textiles and apparel from 1974 through 2004, with throat869 BDC ()TjiBDC ()TjEMC /Sp9(impos4Lang (en-US)





The US African Growth and Opportunity Act (AGOA) and the European Union's Everything but Arms (EBA) preference program have been operational for nearly two decades. Yet few studies have investigated the impacts of preferential market access on creating jobs as well as the subsequent economic and social benefits through

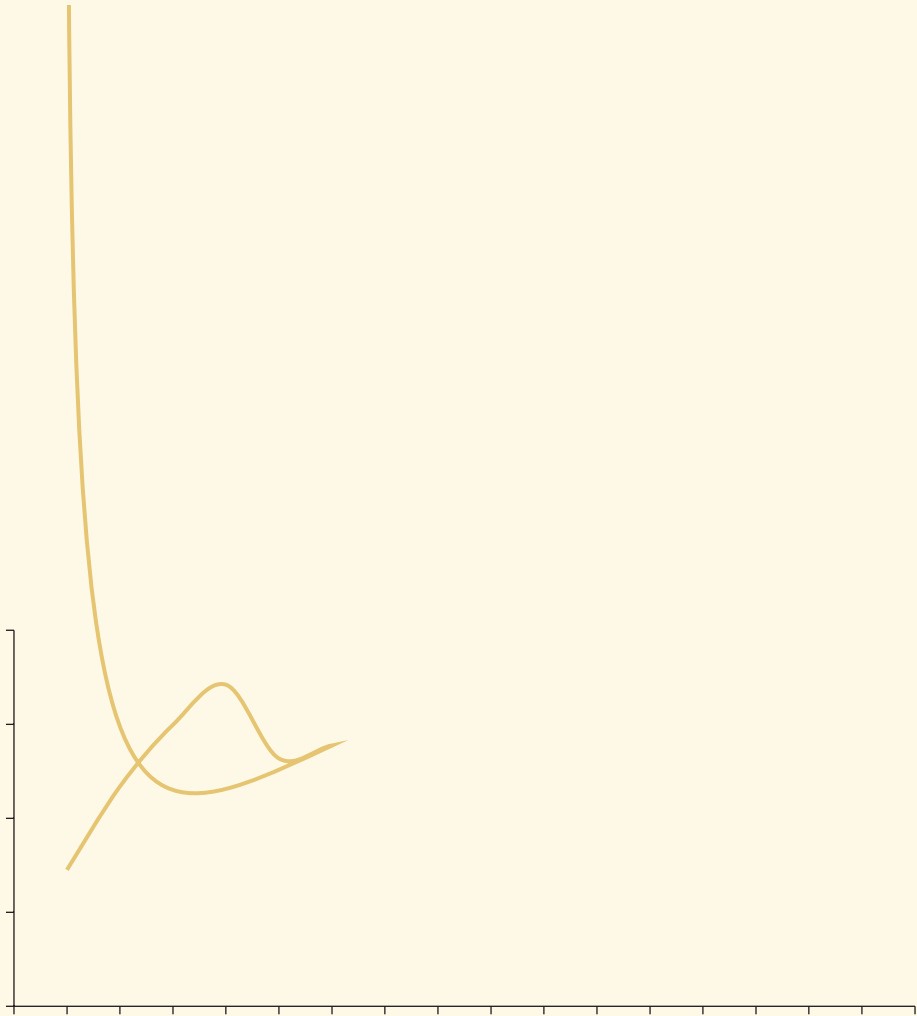


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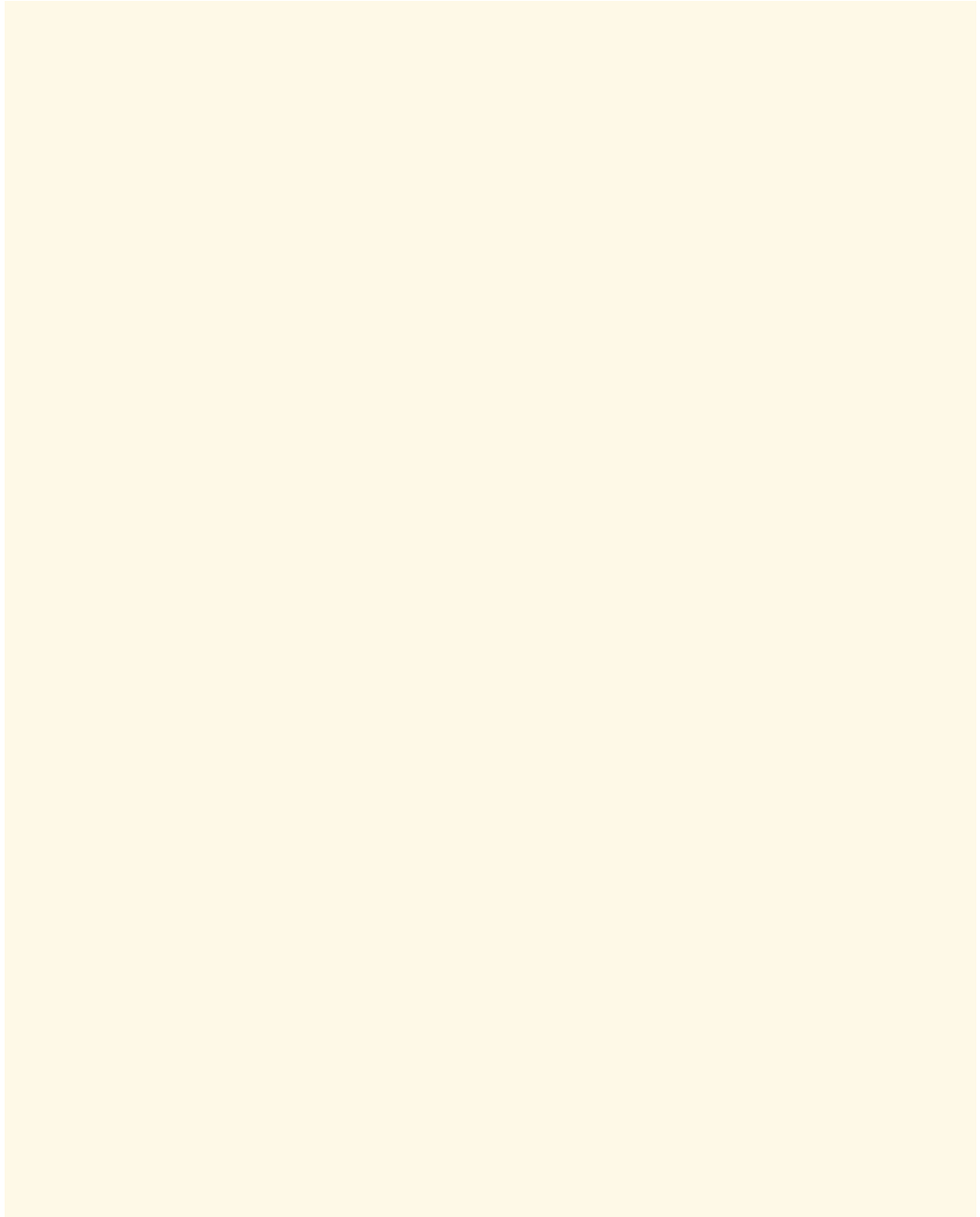
US market for a selected group of products from eligible countries in Sub-Saharan Africa. The objectives of the chapter are twofold: First, we evaluate the total trade effect of the AGOA using the synthetic control method (SCM), a quasi-experimental approach that addresses some of the limitations in existing empirical approaches to examining the impacts of PTAs (a method further discussed in annex 1A). Second, we explore possible



Figure 1.1 Sub-Saharan Africa's Exports to the United States, by Type, 2000-17









commodity prices—both of which are reflected in the disappointing growth performance of most of the economies.

Variations by Country and Product Category

The few success stories that registered relatively large increases in aggregate exports also registered expansions in exports of a diverse set of commodi-

Figure 1.4 Trajectories of Nonfuel Exports from Leading East African Countries to the United States, 1970-2015





primary exports are textiles. This has raised concerns about the prospects of industrialization based on FDI-seeking preferential access rather than other comparative advantages. With the erosion of the preferences, as shown by the expiry of the MFA, there is a greater risk of losing a large part of the manufacturing sector because of the footloose nature of such manufacturing FDI.

Countries that have not seen gains in trade from preferential market access include Benin, Cameroon, Guinea, Mozambique, and Zambia. For example, US imports of goods from Cameroon declined by about 16 percent between 2005 and 2013. Cameroon's main exports included wood, mineral fuels, and cocoa. Zambia has a relatively bigger share of exports to the United States than many Sub-Saharan African countries. However, the

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domestic product (GDP) and GDP per capita of trading partners, popula-

Klasen, S., I. Martínez-Sarzoso, F. Nowak-Lehmann, and M. Bruckner. 2015. "Trade Preferences for Least Developed Countries: Are They Effective? Preliminary Econometric Evidence." Policy Review No. 4, Committee for

Introduction

Did preferential access to the US market durably boost African manufacturing export performance? To address this question, this chapter uses product-level data that take advantage of trade policy changes in the United States at the turn of the twentieth century:



— Only MFN - - - - With GSP ····· With GSP LCD With AGOA



The AGOA resulted in a large (competition-adjusted) preference margin in apparel for Sub-Saharan African countries. The AGOA gave African countries the same preference margins as NAFTA gave Mexico. The RPM received by Kenya and South Africa from the AGOA is robust to the CAFTA preferential treatment that started in 2005. Ideally, to calculate the true preference margin, we would also include the tariff equivalent of the MFA quotas and the impact of the MFA phaseout on the preference margins, but such an exercise is beyond of scope of this chapter.

African Export Performance and the Role of the AGOA

Africa's Export Performance

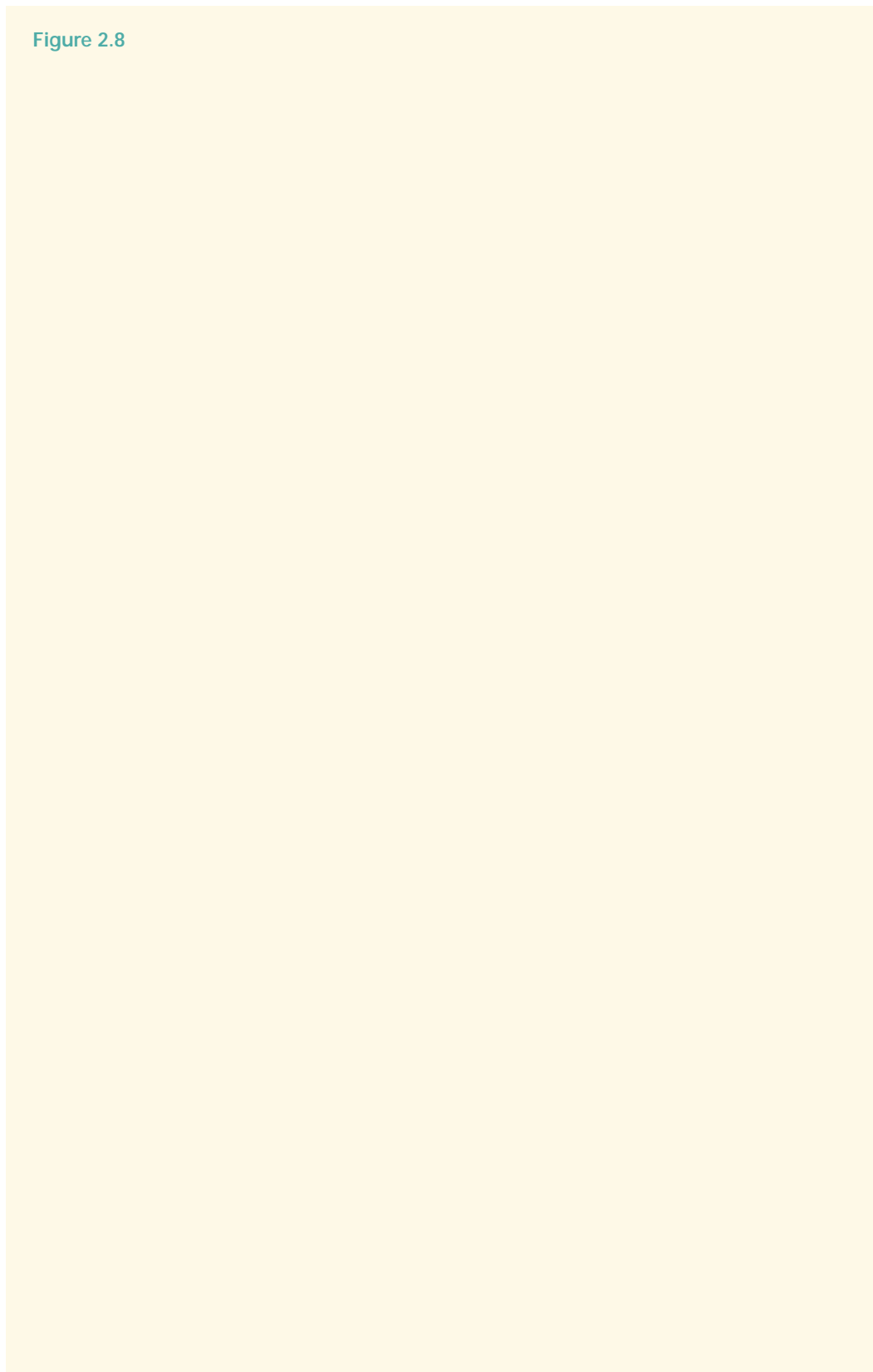
the sectoral composition of the African export basket

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Figure 2.8



Rates of Export Growth

To gain greater insight into the AGOA's role, we examine the patterns of export growth for individual Sub-Saharan African countries before AGOA

- *Missed opportunities.* Some countries were eligible for apparel preferences, engaged in some exports of apparel to the United States but with no clear pattern, and at no stage took significant advantage of the AGOA. We designate these as the “missed opportunities” group,

changes in US imports. Therefore, they account for any overall surge or drop in US imports from AGOA countries for eligible and noneligible prod-drop in US im

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than in the years following the end of the MFA quotas (Figure 2.12, panel a). In contrast, for Southern Africa, the AGOA's average impact on apparel exports is significantly higher in the early AGOA period, and it decreases after 2005—with the end of the MFA quotas—until it is not significantly different from zero (Figure 2.12, panel c). Although the Southern African countries initially took advantage of the opportunities created by the AGOA, their apparel exports clearly suffered more after the end of the MFA quotas.

The decline in the AGOA's impact in the face of increased competition from previously quota-constrained countries, such as China after 2005, suggests that the US trade preferences did not help the Southern African countries to build a durable comparative advantage in apparel exports. The results show patterns that are largely consistent with the four apparel stories emerging from the raw data on exports, as described earlier.

Conclusion

This chapter analyzed the impact on African exports of preferential access to the US market by exploiting a newly developed, disaggregated product-level database. It focused mostly on apparel exports because the policy changes in that sector enable us to assess the durability of the impact of the preferences, by examining whether export gains survived after the 2005 market

database by Felbermayr, Teti, and Yalcin (2017), which in turn is based on the UNCTAD Trade Analysis Information System (TRAINS) and Inter-databas.(.)37(

Figure 2A.1 Total Exports of Sub-Saharan African Countries and







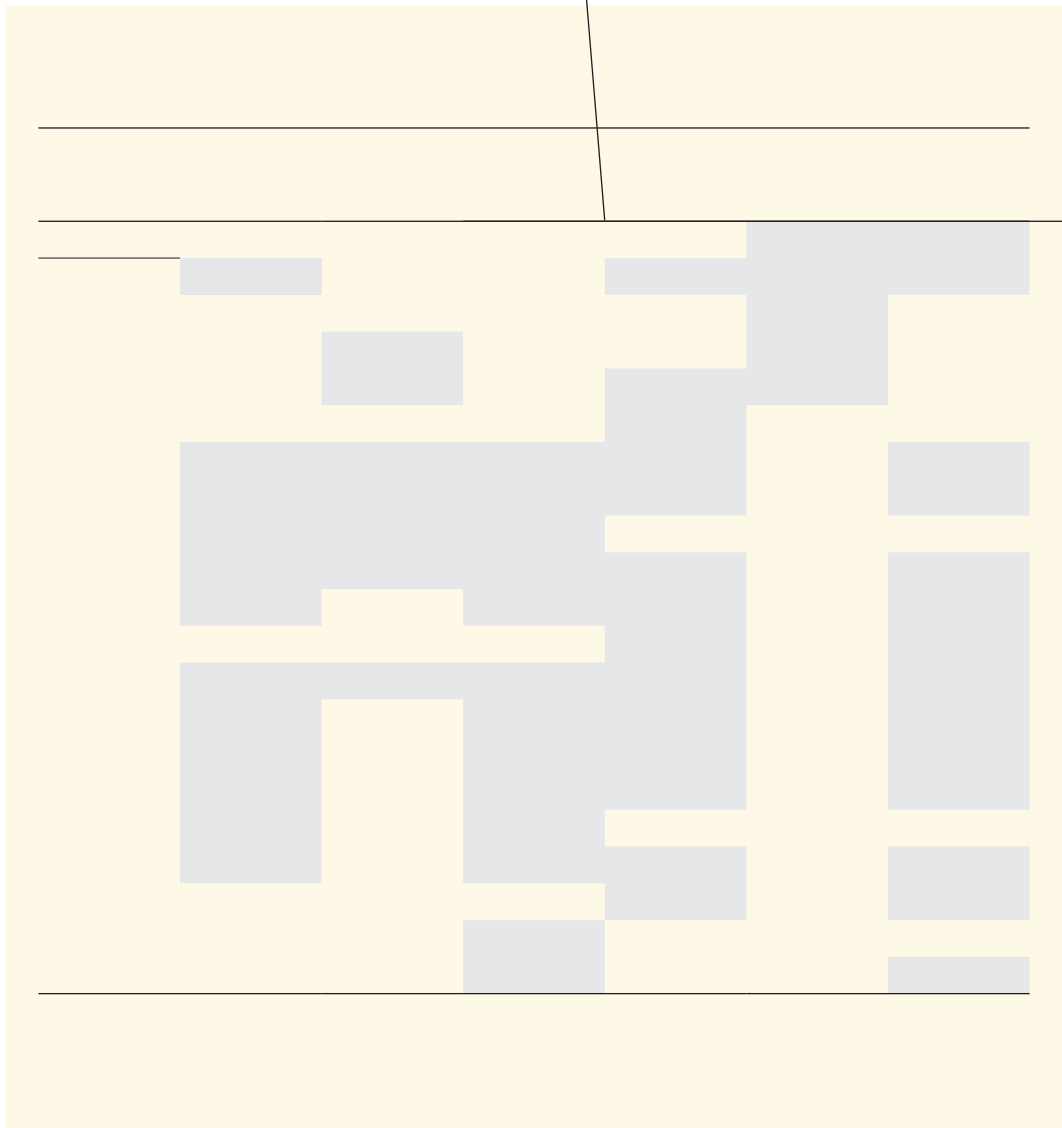
Notes

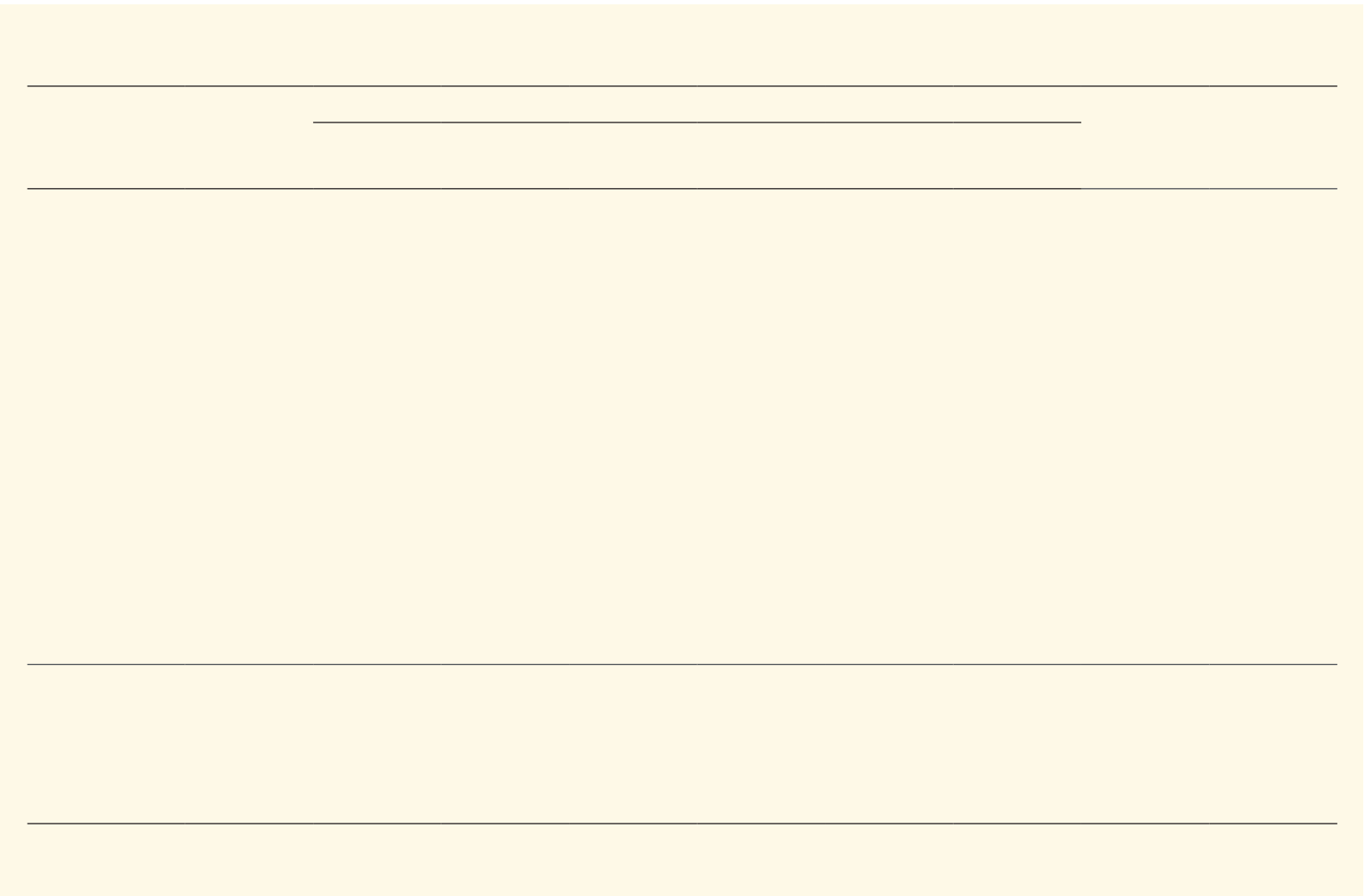
1. The MFA governed world trade in textiles and apparel from 1974 through 2004,





p exported to the United States; EBA_{ijpt} takes the value 1 only for year t when the EBA is in effe





special ECOWAS/WAEMU provision intended to tap this potential, should be considered. This section provides the rationale for such

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of the right incentives to ensure developmental regional cooperation initiatives.

Under this model, in each of the African neighborhoods, governments of leading and lagging countries and the international community would participate in the contract. The governments of countries in East, Central, Southern, and West Africa would commit to the following:

- *Establishing “African Economic Areas”*—neighborhood-like blocs of countries with higher potential for integration—that would tie the economic interests of leading and lagging countries in Africa’s regional neighborhoods tightly together.
- *Allowing and maintaining the free movement* of labor, capital, goods, and services within these areas.
- *Maintaining and protecting access routes* between landlocked countries and outlets for trade, as well and for

and 2014–16); (b) “improved” (countries with average

contract enforcement mechanisms, reducing rent-seeking activities in specific markets, and reducing risks of political instability—would see increasing trade with Asia and the benefits from such trade.

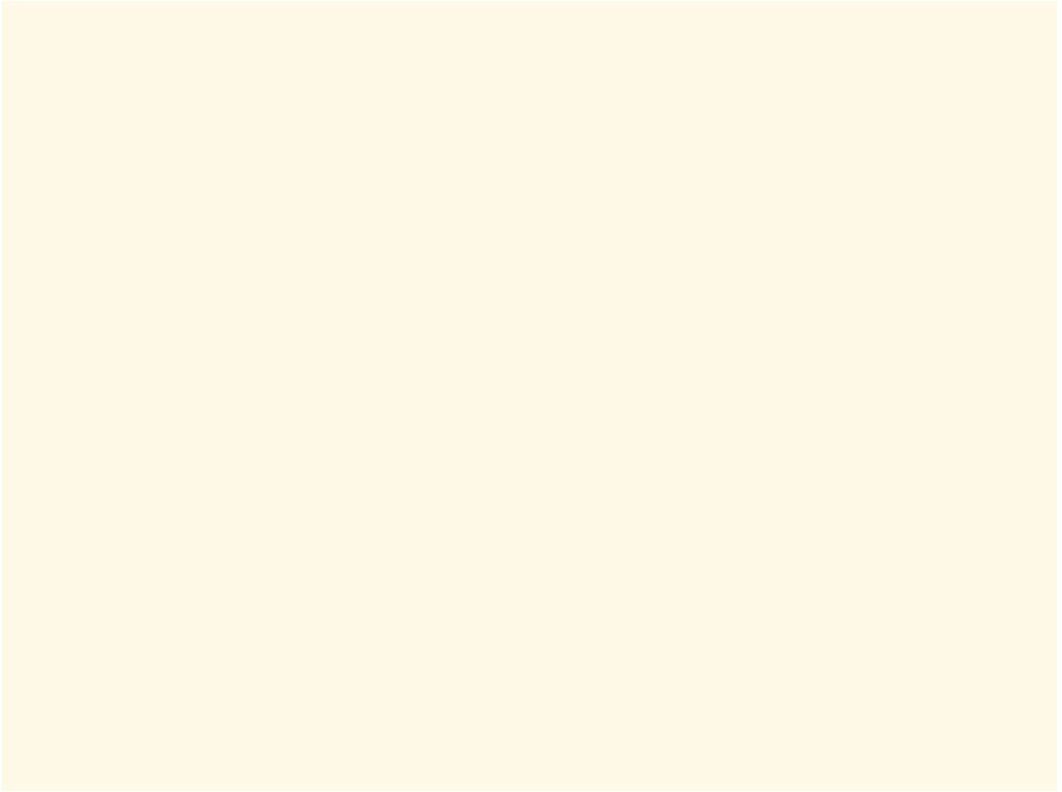
A policy of export orientation toward Asia could support faster growth

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Conceptual Motivation

At the conceptual level, the chapter is motivated by two closely related strands of the trade policy literature. The first strand concerns the role of trade agreements. Preferential trade agreements (PTAs) have been on the forefront of the trade policy agenda, including in Sub-Saharan Africa. More recently, Indonesia has started negotiating PTAs with a few African countries since it has identified opportunities for increased trade. Several empirical studies have assessed the impact of PTAs using different techniques, including general equilibrium, partial equilibrium, and gravity equation models.

The second strand of literature explores the nexus between firm productivity and export behavior, which Bernard, Jensen, and Lawrence (1995)



Sub-Saharan Africa's imports from EU countries has also declined steadily over the past three years, from 42.1 percent in 2014 to 35.6 percent in 2017. However, the EU remains an important source of imports for Sub-Saharan Africa, most of which are agricultural and mining equipment and machinery, energy-related products, vehicles, and other machinery and high-skill technology products.

North America's share of Sub-Saharan Africa's exports declined from 18 percent in 1997 to 7 percent in 2016, while its share of the region's imports fell from 11 percent to 6 percent.

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Producers respond by devoting relatively more resources to industry and service activities than to agriculture. The shift to a more diverse, expensive diet—in particular to more animal- and fish-based protein intake—slows this process, but eventually the demand for more diverse diets is satisfied and further income growth is spent almost entirely on nonagricultural goods and services (box 4.1).

The next subsection looks at potential sectors that Sub-Saharan African countries could tap into based on the middle-class consumption trends.





Table 4.3 Income Elasticities of Major Fish Groups, Selected Countries, 2004

Fish type	Bangladesh	China	India	Indonesia	Malaysia	Philippines	Sri Lanka	Thailand	Vietnam	All
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Box 4.3 The China-Africa Cotton Industry

Established in 2009, China-Africa Cotton Development Ltd. is registered in Hong Kong SAR, China, and is a joint venture of the China-Africa Development Fund,

As the world's top importer and consumer of timber products, China is in a unique, and influential, position to take a leadership role to ensure that only legally and sustainably sourced timber—and other products sourced from forests—enters the country, thus helping to shift the global timber

Africa. In addition, two Indonesian trade promotion centers—one in Lagos, Nigeria, and one in Johannesburg, South Africa—strengthen Indonesia's presence in Africa.

Although Indonesia mainly invests in bilateral agreements, it also deploys

foreign markets. The additional costs of selling goods in foreign countries constitute an entry barrier that less successful firms cannot overcome. This self-selection hypothesis is tested empirically by looking at performance characteristics in the period before exporting. Empirical results for manufacturing exporters in Germany (Bernard and Wagner 1997), the United Kingdom (Girma, Greenaway, and Kneller 2002), and the United States (Bernard, Jensen, and Lawrence 1995) show that the exporters have

began operations more than 20 years ago in the Sub-Saharan region

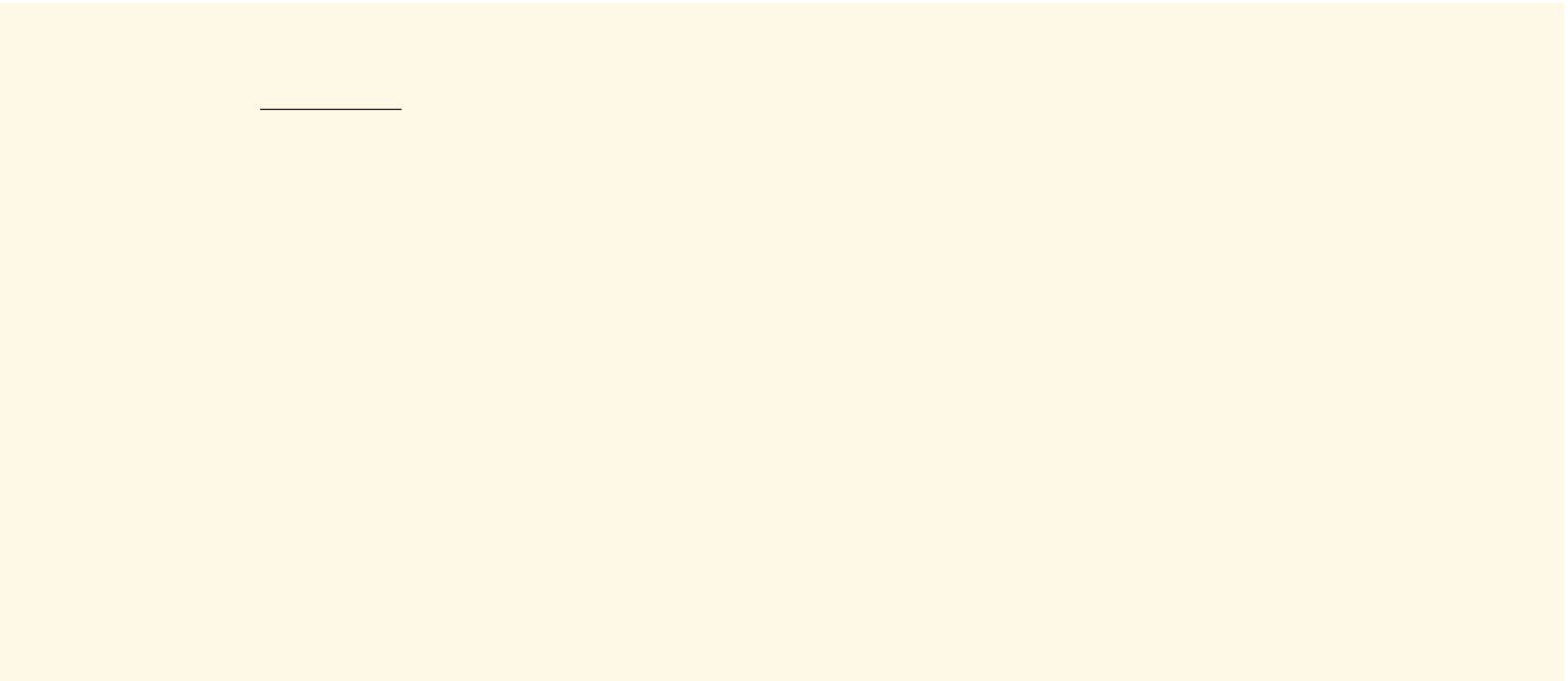


Productivity Gains of Sub-Saharan African Firms with a Dominant Position in the Asian Market

In the more recent literature on international trade and firm-level perfor-









Notes

1. In this volume, “South–South trade” refers to trade among low- and middle-income economies.
2. At the 1955 Bandung Conference (also called the Asian-Africa or Afro-Asian Conference), representatives of 29 Asian, African,







resource-intensive products such as petroleum, minerals, metals, and pri



allow for granular GVC analyses. To this end, we aggregate the BACI trade data² from the Harmonized System (HS) 6-digit level to the HS 2-digit level

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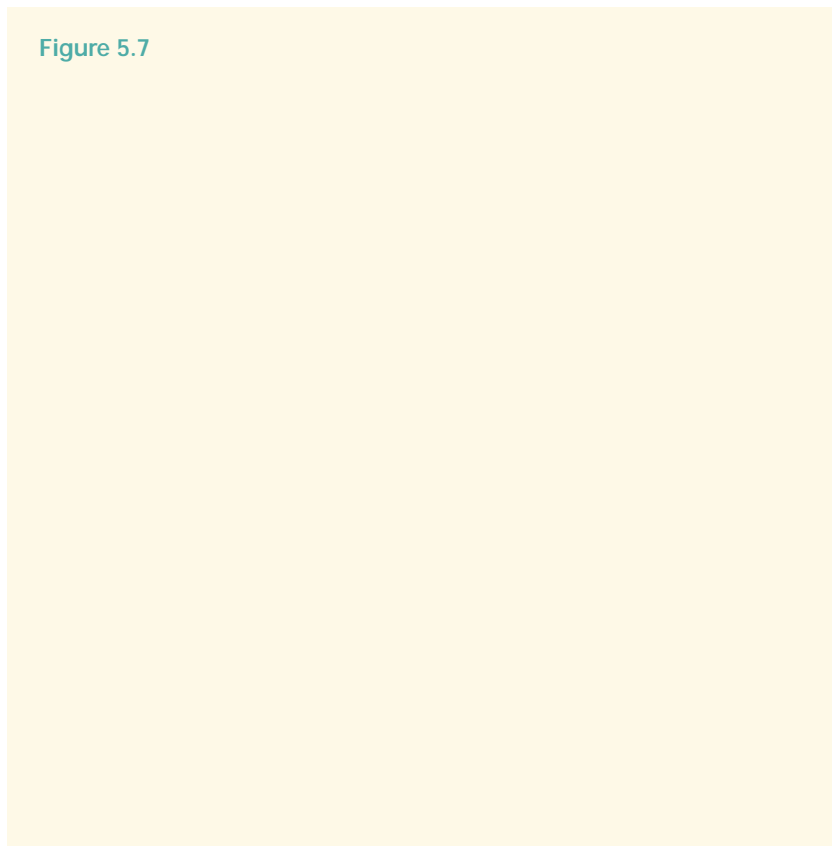
Primary versus Nonprimary Exports from the Africa-5 to Asia

This subsection summarizes the sectoral patterns in terms of the “primary” (extractive) and “nonprimary” (nonextractive) exports to Asia from the entire Sub-Saharan African continent as well as the individual Africa-5 nations. We classify sectors as primary or nonprimary on the basis of the United Nations (UN)

Table 5.2 High-Skill versus Low-Skill Manufacturing Exports from Sub-Saharan Africa and the Africa-5 Countries to Asian and Non-Asian Destinations, 2005 and 2015 *(continued)*

Skill intensity of 60 0 1 SC0s 60 y15 US\$ 0 1 m1 T(Descon)55(15)J JEMC /Span 4Lang (en-US)11CID 17398.166 2..3743

Figure 5.7



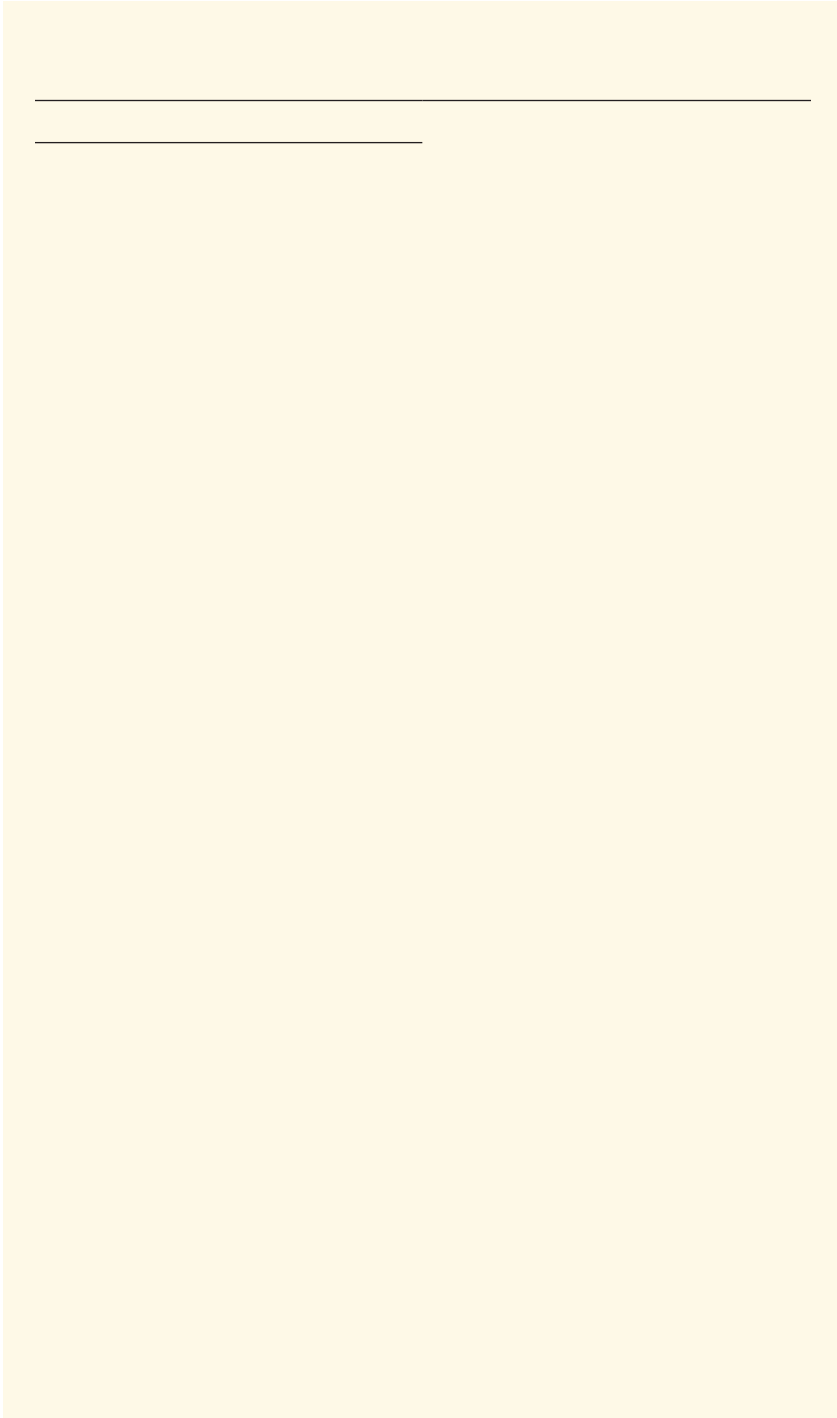
Africa's largest trading partner. Analysts have expressed concern that



about whether exports being more upstream is good for economic development, but the level of upstreamness portrays the structure of the domes-



corruption can enhance a country's economic efficiency in general and



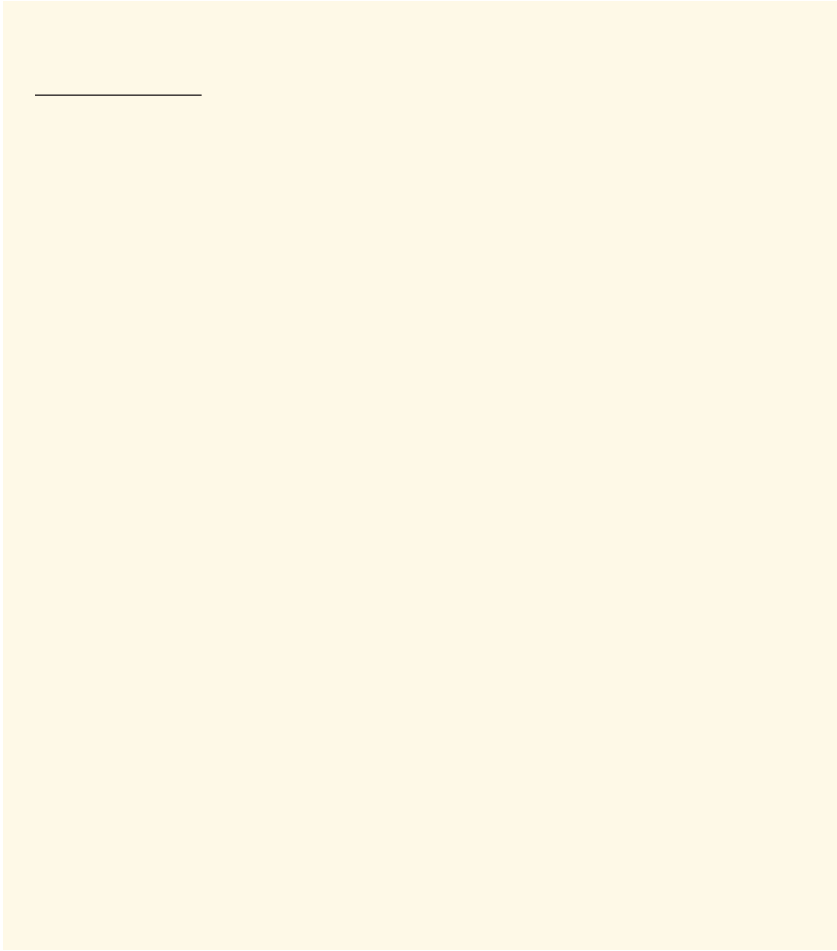
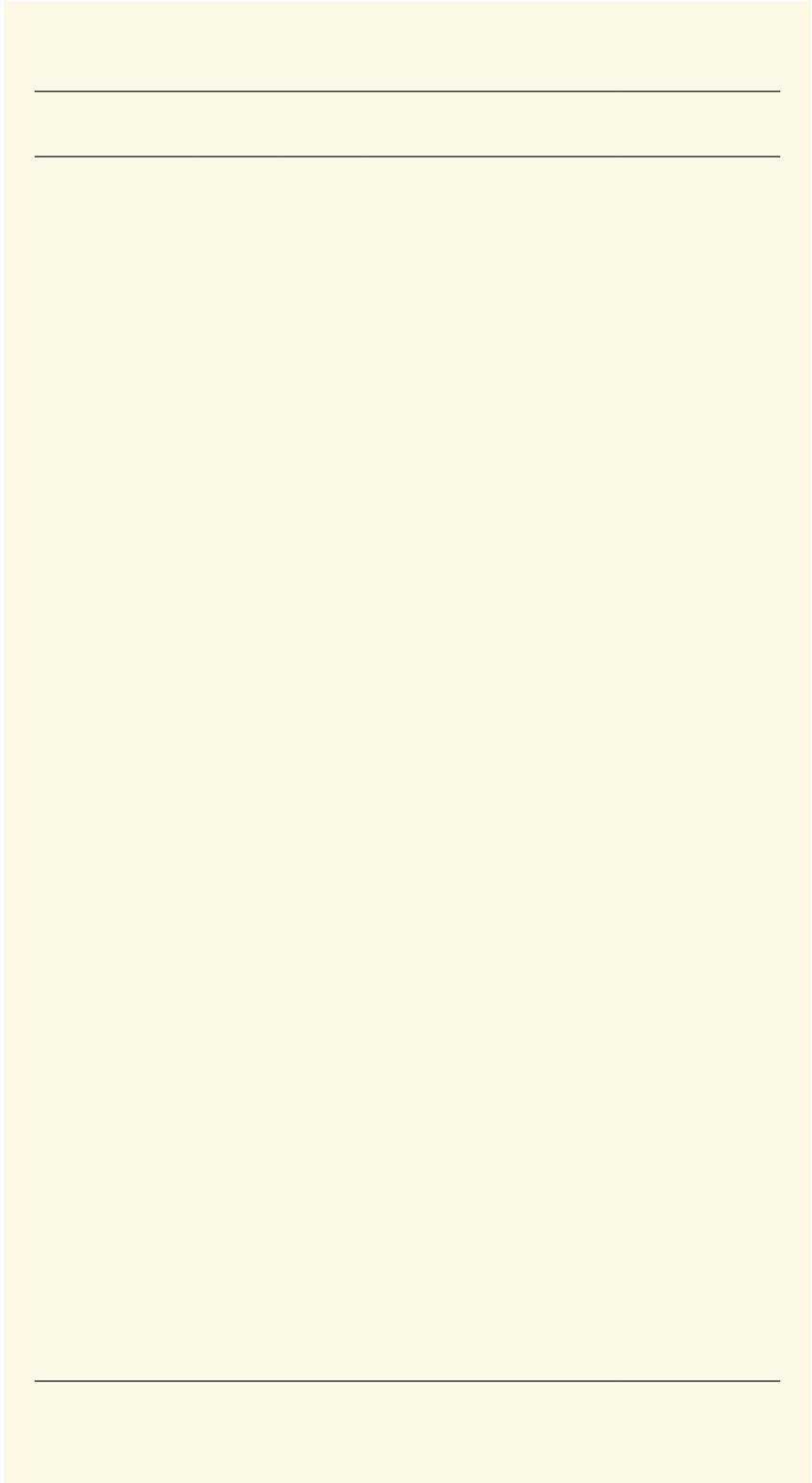


Table 5A.3

Table 5A.4









- *Resilience.* Intraregional trade is expected to be more resilient to global shocks. Regional integration, particularly intra-Africa trade, has been found to strengthen the capacity of economies to absorb global shocks and build resilience to shocks emanating from high-income economies.
- *Diversification.* Regional integration promotes the exchange of a more diverse set of goods (relative to trade in more concentrated primary goods). Exports to the rest of the world are often concentrated in primary goods, but intraregional trade flows are relatively diversified, contain higher value added, and include a relatively larger share of manufactured goods.
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Introduction

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Source: Calculations from the UNCTADstat database, United Nations Conference on Trade and Development (<https://unctadstat.unctad.org>).

Note: Regions are defined by United Nations Conference on Trade and Development classifications. "Africa"

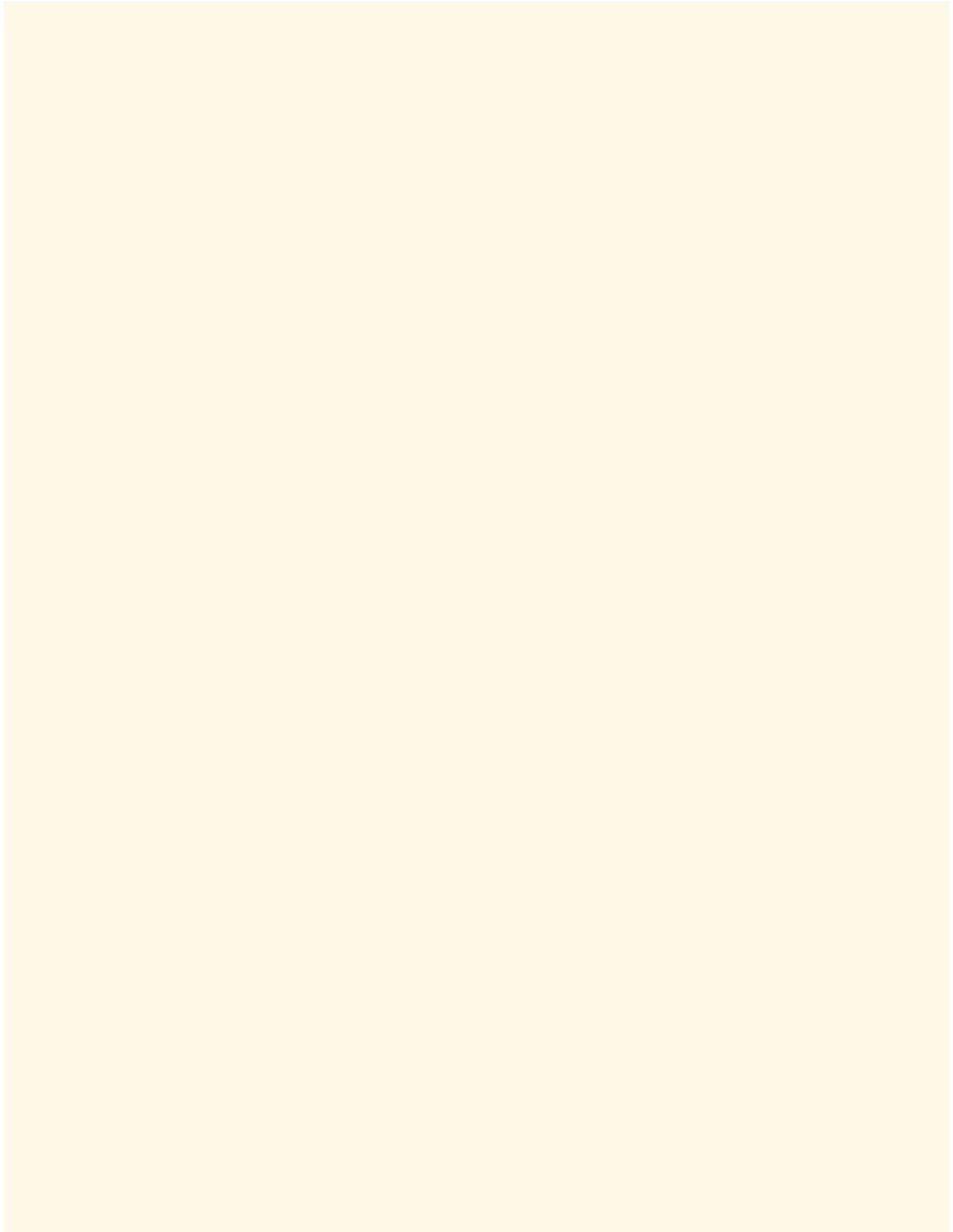




Table 6.4 Summary of Key Findings on the AfCFTA's Economic Impact

		Estimated impacts
Source	Scenario for tariff and/or NTB removal	

Box 6.1





toward the right, reflect governments' failures to address these key challenges.

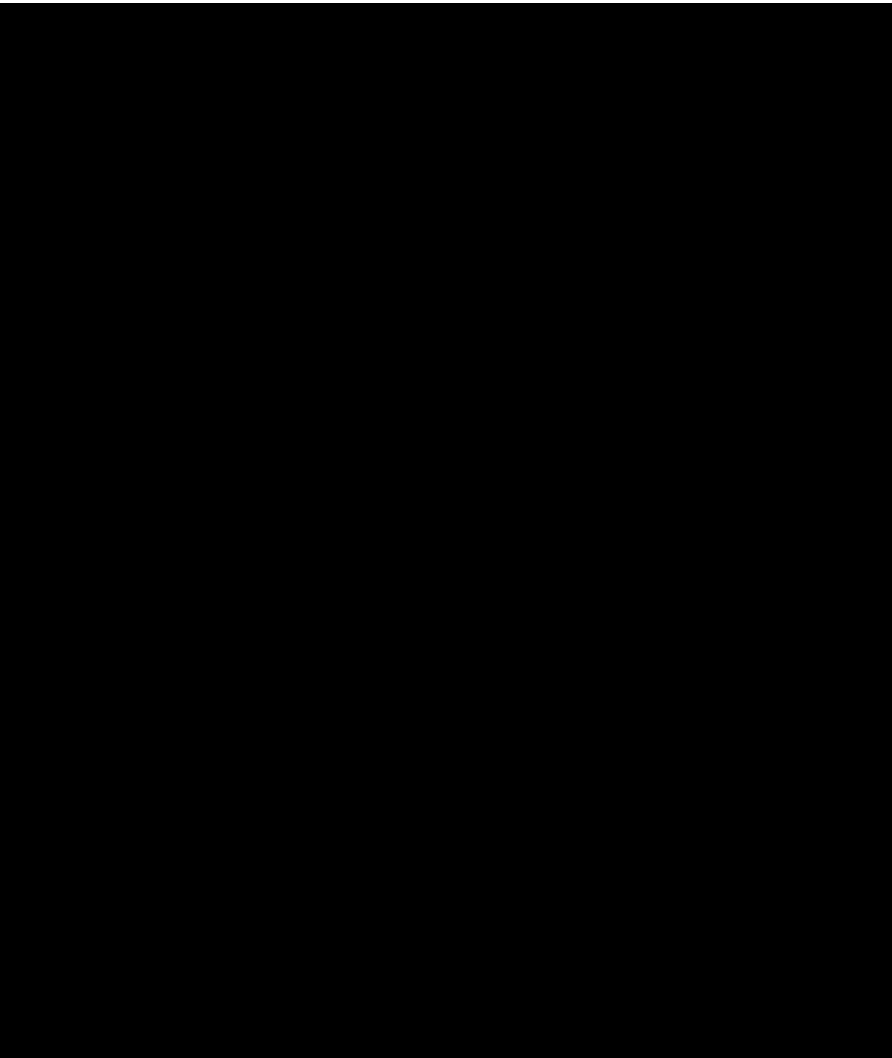
Transitioning from RECs to the AfCFTA: A Sticky Process

About 80 percent of all intra-Africa trade flows through RECs and 20 percent flows outside, indicating that, although trade within the RECs is growing,

With the newly minted AfCFTA, a more gradual approach that begins with more flexible, simpler, and easier rules of origin based on broad product classifications and then moving slowly to relatively less flexible rules seems relevant. Given the lack of a competitive manufacturing sector, stringent rules at the early stages would be too restrictive to build a vibrant regional value chain. If Africa is to become the next manufacturing frontier,

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Introduction

In an increasingly connected world of global value chains (GVCs), the trade policies of one country may affect the GVC participation of many countries, including itself, given that products are crossing borders multiple times. For certain products, the more relevant trade policy barriers could be tariffs, whereas for others, such as agricultural products, the more impeding trade



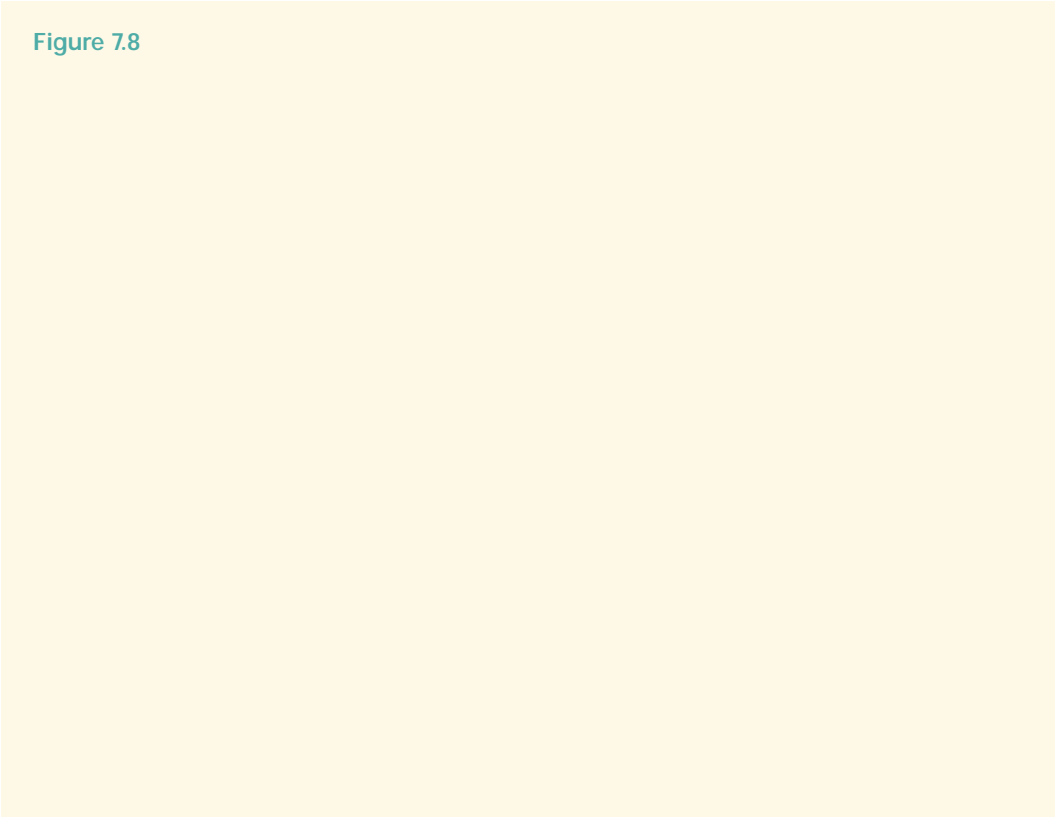
Figure 7.1 NTM Coverage of Imports in Selected Sub-Saharan African Countries,



nondiscriminatory measures is highly homogeneous across countries, with



Figure 7.8



sector-specific infrastructure (such as common standards, compliance, and

They found that banking, telecommunications, insurance, and transportation reforms had significant, positive effects on the productivity of manufacturing firms. Services reforms benefited both foreign and locally owned manufacturing firms, but the effects on foreign firms tended to be somewhat stronger. An increase by 1 standard deviation in the aggregate index of services liberalization resulted in a productivity increase of 11.7 percent for domestic firms and 13.2

with a score of 21 (table 7.1). Morocco and Nigeria also appear to be less restrictive than the sample average (which is 33.1), whereas Egypt and South Africa are more restrictive than this average. Morocco's restrictiveness is comparable to that of the Americas (20.9) and slightly more than Europe's (19.3), whereas South Africa compares favorably to the level of Asia (37.2).

Relative to the country income groups to which the Africa-4 countries belong, Egypt is more closed than other lower-middle-income countries to foreign services and service suppliers—as is South Africa, compared with other upper-middle income countries. Nigeria, although more open than Africa overall, has an STRI score comparable to its own group of lower-middle-income countries. Morocco, in contrast, is significantly more open to foreign services entities than both Africa as a whole and its lower-middle-income peers.

of the three core services sectors considered here: financial and banking, transportation and telecommunications, and professional services.

Although the Africa-4 countries behave like the average country in the sample when looking at financial services (Figure 7.17, panel a) or transpor



such an analysis, we merged the STRI and FATS databases for 2010, the

mean for exports in goods (in logs). All countries and years were considered. In figures 7.22 and 7.23, the dots for the four countries are highlighted to see whether they follow the general trend in the data set.

Figure 7.22 shows the relationship between the positive relationship between the number of nontariff measures and trade restrictions in Egypt, 2003,

Econometric Assessment

Econometric regressions are undertaken to try to infer the link between exports of goods and foreign affiliate activities in core services, and to assess

In table 7.3, column (5), we replace independent exporter and industry effects by a positive industry indicator for the sign of $\ln(\text{envolvemxporobacore serMC ETEM Lang (en-US)})$



However, the economic benefits of deepening regional integration in view of increasing access to global markets would accrue disproportion-



promise for further development, countries in a neighborhood can focus cooperation on sector-specific infrastructure (such as common standards, compliance and metrology systems) as well as specific curricula to build a skilled labor force and adapt new technologies. For example, given their comparative advantage, WAEMU countries can benefit from cooperation in specific production sectors—fruits and vegetables and their products, wood and its manufactures, cotton, low-tech manufactures, chemicals, and minerals—and reduce their overdependence on



ization WTO) as follows: (1) cross-border supply of services (that

Borin, A., and M. Mancini. 2019. "Measuring What Matters in Global

