KENYA HUMAN RIGHTS COMMISSION

Why Trade Matters To Everyone

Africa, Trade and Jobs-Creating decent jobs through trade and value addition

ABSTRACT

The African continent is endowed with immense natural resources. Between 2002 and 2012, oil, metals and other mineral exports accounted for more than two-third of export growth in Africa; crude oil alone accounted for more than 50 per cent of Africa's merchandise exports in 20121. Despite increase in the share of exports in the world market, the contribution the world's trade remains at 2.6 per cent of total world share. This shows that Africa in integrated wrongly in the global value chain as a supplier of raw materials to the developed countries. Indeed, Africa's labour force added 91 million people but only 37 million jobs were created in wage earnings over the past 10 years. Almost one half of Africans (48 per cent) are in extreme poverty2; almost three quarters of the youth population is poor, as 72 per cent of them live on less than 2 dollars a day; the percentage of working people is very high at 46.5 per cent3.

The 2013 report[4] by WTO, OECD and UNCTAD dubbed *implications of global value chains for trade, investment, development and jobs* noted that global value chains have become profound feature in the global trade and investment arena, offering new prospects for growth, development and jobs. Effective participation in GVCs will require significant further investment in technology dissemination, skill building and upgrading. This report bases the level of value added from domestic economies to the size of the country, the economic structure and export composition. For countries where the domestic content has increased, this can generally be explained by a composition effect. For African countries, the structure and composition of their economy are characterised by huge trade deficit where most countries are net importers of finished products from developed countries and exporters of raw materials and semi-processed products (both agriculture and industrial). At the industry level, there is a high foreign content observed especially in electronics and machinery. Due to their high level and sophisticated production processes, the production of major parts and components has been offshored.

In the latest race for raw materials, China, EU and the US have aggressively led the deal making in Sub-Saharan Africa. China has specifically boosted its economic footprint in Africa in exports with 2,216%, US with 420% and the EU with 139%. The IMF Direction of Trade Statistics evidently shows that the geographical composition of sub-Saharan Africa's trade is from the EU, US and the BRICS.

Sub-Saharan African economies have not managed to diversify their economies due to challenges such as supply-side constraints, low levels of skills and technology. Sub-Saharan African depends on the export of primary products. According to Collier and Dollar (2001) in Collier (2002), three quarters of developing country exports in 1980, were primary commodities but at the time of writing, about 80 percent were manufactures. Sadly, Africa had not been part of the transformation. Between 2000 and 2008, primary commodities continued to dominate Africa's merchandise exports, compared with South East Asia-another developing region of the world. Also, while Africa's share of world merchandise exports has been declining the share of fuels and mining products in primary exports and total merchandise trade has been increasing.

Least Developed African countries are becoming more commodity-dependent than before. Out of 49 countries classified by the United Nations as least developed, 33 are in Africa. Of concern is the

[1] Africa Economic Report 2014, draft version, 2013. Addis Ababa: UNECA.
[2] This poverty rate (people living on less than $1.25 per day) is as of 2008. UN 2013.
[3] This data is as of 2012. Source is (ILO. 2013)
[4] WTO, OECD, UNCTAD 2013

increasing nature of their dependence on commodity exports. Gayi (2010) shows that least developed countries (LDCs) in Africa have become more commodity-dependant over the 2000-2008 periods. As a share of merchandise exports, in 2008 primary commodities made up 82 percent, up from 69 percent in 2000. Also, while the concentration index from 2000-2008, for African LDCs, increased by 73 per cent, that of Asian LDC's decreased by 39 percent (Gayi 2010). The increasing dependence has implications for the country's ability to cope with negative macroeconomic shocks arising from volatile commodity prices worsening the already existing low standard of living.

Africa has experienced deindustrialization in the past two decades as evidenced by the fact that the share of manufacturing in total value added fell from 13 per cent in 1990 to 12 per cent in 2000 and 10 per cent in 2011. Nevertheless, for most countries in the continent, it is low-productivity activities such as informal tradable services that account for the bulk of the recent boom in the service sector and so it is not surprising that it has not had the expected impact on economic transformation. Because of the enclave nature of the resource sector, it cannot be relied upon to create enough jobs to absorb the 15 million youths who enter the labour market each year. In this context, there is need to diversify the sources of growth to create employment, reduce vulnerabilities and also lay more robust foundation for sustained growth. (UNCTAD 2013)

The questions to be answered in this session will be the following:

- How can African enterprises be integrated in the global value chains valuable to create employment opportunities?
- What lessons can Africa learn from experiences to leverage decent employment and livelihood opportunities for its youthful population within a framework of World Trade?
- How can equity and trade justice be integrated into the world trade to offer opportunities for African small scale producers?
- How can business community and multilateral companies leverage their investments to create decent employment and promote inclusive growth in Africa?

Speakers:

1. Ms. Atsango Chesoni-Executive Director and secretary to the board, Kenya Human Rights Commission (KHRC), Kenya
2. Professor Yash Tandon, International Political Economist, Oxford, U.K. and former Executive Director South Centre, Geneva.
3. Ms. Isabelle Ramdoo-Deputy Head of Program, Economic Transformation and Trade, European Centre for Development Policy and Management (ECDPM), Maastricht, Netherlands.
4. Ms. Jane Nalunga, Country Director, Southern and Eastern Africa Trade Information and Negotiations Institute, (SEATINI)-Uganda.
5. Mr. Sylvester Bagooro, Program Coordinator, Africa Trade Network and Political Economy Unit Program Officer, Third World Network (TWN), Ghana.
6. Mr. Guillermo Valles, Director, Division on International Trade in Goods and Services and Commodities, United Nations Conference on Trade and Development (UNCTAD)-Geneva.

Moderator: Mr. Fredrick Njehu, Program Advisor-Trade Justice, Economic and Social Rights Program, Kenya Human Rights Commission (KHRC)

Rapporteur: Julien Grollier, Assistant Programme Officer, CUTS International Geneva

OPENING REMARKS

MS. ATSANGO CHESONI

Executive Director, Kenya Human Rights Commission (KHRC)

In her opening remarks, Ms Atsango Chesoni lamented that although there has been increased trade at the multilateral level, the global trading system has been skewed in favour of the developed nations while African countries have been left at the margins as suppliers of raw materials. This system produces precarious employment in developing countries like Kenya. While jobs created through trade should create a path to greater equality for women and for poverty reduction for their families and communities, they are instead precarious employments that create community-wide costs that economic indicators fail to reflect. At the end of the global value chains, the vast majority of workers are women who bear the brunt of the skewed trade system.

Decades of forced liberalisation has devastated many African countries, consequently leading to huge job losses, poor health care and less education. Trade liberalisation often comes in conjunction with increased rights for foreign investors and pressure to privatise economies. This is a case of "do as we say and not as we do", since developed countries prospered by protecting their farmers and industries, only opening up to competition once their industries were strong enough to compete. These countries are now using trade rules to deny poor countries the same rights. Yet, African countries are not ready to compete.

Africa has experienced de-industrialization in the past two decades, as evidenced by the fact that the share of manufacturing in total value added fell from 13% in 1990 to 10% in 2011. Today, most of sub-Saharan Africa's exports is mainly in petroleum and oil products and in East Africa this trend is likely to continue encouraged by the discovery of oil in Uganda and Kenya as well as massive gas deposits in Tanzania.

She hoped that participants would benefit from the workshop through increased knowledge, understanding, insights and ideas as well as stronger networks to support them in their efforts to promote meaningful integration of African countries in the world trade system.

SPEAKER

MS. ISABELLE RAMDOO

Deputy Head of Program, Economic Transformation and Trade, European Centre for Development Policy and Management (ECDPM), Brussels, Belgium

Ms. Isabelle Ramdoo started by saying that the issue of Economic Partnership Agreements (EPA) was the elephant in the room since today was October 1st, i.e. the deadline for starting the implementation of the agreement. As a result, the trade regime of countries who did not yet start the implementation will fall under either the Generalised System of Preferences (GSP), Most Favoured Nation (MFN) or Everything But Arms (EBA) depending on their status. Furthermore, two EPA agreements were completed this week with West Africa and SADC. She therefore focused her intervention on the relationship between EPAs and job creation.

Providing an overview of Africa's trading landscape, she outlined that while intra-African trade is rather high (30%), the levels of intra-regional trade are very low and inter-regional trade is even less. This is the first challenge to be addressed for Africa to move forward as a continent. Another challenge is Africa's dependency on traditional trading partners. According to her, most African countries and regions have not integrated sufficiently among themselves and with the rest of the world, and when they have done so they are stuck at the bottom of the value ladder.

From her perspective as a former EPA negotiator for Mauritius, she highlighted 5 key messages on EPAs:

1. *Trade is not an end in itself and EPAs are not a panacea:* Trade is a tool which can be a friend or a foe depending on how you handle it. To be beneficial, trade provisions should be activated together with other policies, i.e. domestic reforms; support to private sector; accompanying measures for losers; effective implementation of commitments on both sides etc.
2. Successful outcome of negotiations, in particular to address "hard cookies", require **leadership and political will**.
3. Our multipolar world is flat and is evolving faster than ever: no country can grow sustainable in autarky. What matters is how you connect with the world, not whether you should connect or not.
4. Are EPAs good or bad? Neither naysayers nor advocates are totally right: the truth is somewhere in the middle (and will be in the eating).
5. The world is changing: there is a life after EPAs, e.g. intra-African trade, China, US, TTP, TTIP…

Talking about the results of EPA implementation so far, she pointed out that after 14 years of negotiations that cost many African countries bad talks among themselves, "the mountain gave birth to a mouse". In fact, the EPAs have turned out to be shallow agreements that are goods-only (except for CARICOM), totally partial, frozen in time and not linked to 21st century. She said that there is no reason to be afraid of EPAs since they will most likely be taken over by change. The result is that from today October 1, we have five different trade regimes for one continent.

As far as the creation of "decent jobs" and integration in global value chains are concerned, we should not over-expect from EPAs. While these agreements manage to preserve the status-quo and prevent sensitive sectors to be affected, the main problems lie outside trade policy and EPAs (skills etc.) and can be best addressed through sound national policies. She noted that the top 10 economic performers in Africa (Ethiopia, Angola, Zambia, Rwanda etc.) have no EPA.

In conclusion, she said that the real question is how ready are we to work on trade policies at national and regional level to make the most of all the trade tools available to us?

SPEAKER

MS. JANE NALUNGA

Country Director, Southern and Eastern Africa Trade Information and Negotiations Institute, (SEATINI), Uganda

Ms. Jane Nalunga started by agreeing that the issue of EPA was indeed the elephant is the room, since it is not possible to talk about industrialisation in Africa without talking about EPAs. She reflected about the paradox that while Africa's economic growth rate is twice that of global growth, we see youth unemployment (70% in Uganda) that is likely to continue given the high fertility and birth rates. Her intervention therefore explored some leads that may explain why Africa's growth is jobless.

According to her, the nature of trade policies in place determine job creation and industrialisation. She lamented that SAPs in the 1980s led countries to liberalise, privatise and deregulate which led to collapse of industries throughout Africa. This is illustrated by the collapse of the tomato industry in Ghana (which could not compete with Spanish tomato paste), of the cashew nut industry in Mozambique, the African textile industry etc. The role of value chains also played an important role, as exemplified by the collapse of the Ugandan cotton sector precipitated by the collapse of the textile industry. Up to today, trade liberalisation has prevented Africa to undertake liberalisation.

At the WTO, issues important for industrialisation and job creation in LDCs have been sidelined, such as Agricultural subsidies, implementation issues etc. At the EPA level, East Africa is expected to liberalise 82% of its trade with EU. This means that the sectors where tariffs have been reduced up to 0% will never be able to industrialise since they will never be able to compete. This is aggravated by the fact that no policy space has been secured to increase tariffs in the future. In summary, Africa is being relegated to producing raw materials forever. Under the EPAs, the EU is resisting export taxes to protect its markets. Yet, export taxes provide critical policy space for African industrialisation and are a right granted by the WTO. On the other hand, the EU continues to give massive subsidies to its producers.

The EAC is also "negotiating" a bilateral investment treaty with the US, who expect East African countries to sign their unilaterally drafted template the US. The agreement as it stands would only protect US investors' rights. The EAC should be very careful in signing this agreement, and learn from the experience of South Africa where the government was taken to court by a company on the basis of an investment agreement.

As a way forward, she said that too much focus has been given on economic growth, forgetting about the people. It is time to bring the people back into trade policy, including in negotiating agreements like EPAs. Trade matters, but it is a double edged knife and should not impoverish people but rather drag them out of poverty.

SPEAKER
SYLVESTER BAGOORO

Program Coordinator, Africa Trade Network and Political Economy Unit Program Officer, Third World Network (TWN)

Sylvester Bagooro agreed that trade can be good (e.g. when it supports domestic production, enable technology transfer etc.) or bad. In the case of Africa, trade doesn't support domestic production since the continent's high export growth rates are led by minerals and petroleum while the bulk of imports are value-added products. According to him, Africa has been using the wrong model for development as unemployment figures indicate.

He illustrated the need for strong involvement of the State in development through comparing the cases of Mozambique and Vietnam. While in the latter state intervention made it possible to industrialise and created 2 million jobs, low state involvement left the former stuck with imports and low agricultural productivity. As a case in point, the cashew industry collapsed in Mozambique during SAPs when the country had to remove export taxes on raw cashew. This left many people unemployed. The Zambian copper industry is another example of the downsides of investment deregulation. There, the Government received a one-off 200 million dollars from privatising copper industries, but the royalties were set at very low levels. The revenue loss for the State proved to be huge when the price of copper more than quadrupled between 2004 and 2008.

However, there are also good examples of countries who managed to leverage trade for development. For instance, Ethiopia managed to add value in hide thanks to government's decision to impose an export tax, which helped create many jobs. The lesson here is that government space to intervene is important and should be secured in trade negotiations.

SPEAKER
GUILLERMO VALLES

Director, Division on International Trade in Goods and Services and Commodities, United Nations Conference on Trade and Development (UNCTAD)

Guillermo Valles said that trade is a potential enabler for inclusive and sustainable development, but policy coherence is necessary for trade to deliver on this potential. He emphasised the need to build on the lessons learnt from international and regional frameworks that work (or don't work), especially as we reflect towards post-2015 sustainable development goals. He emphasised that trade policy is a necessary but insufficient condition to development. In fact, it needs to be connected to smart industrial policies, education policies, social policies etc.

As previous speakers pointed out, the key to success is internal political leadership which African countries have been able to demonstrate by starting the process for a Continental Free Trade Area. Such leadership should also be demonstrated internally at the domestic level to connect the trade ministers with other relevant ministers to make trade policy part of an overall development strategy.

He also emphasised that trade policy should be concerned about **Non-Tariff Measures**. The regulatory approach is important, and African countries should work towards finding regulatory convergence among themselves. They should prepare for serious discussions about how to deal with NTMs, especially those that have biggest implications for regional value chains. Such discussions are crucial for regional integration.

According to him, one of the reasons why the benefits of trade reforms have not gone down to the producers is the lack of supportive and strong **competition policies.** There is no need for a multilateral agreement to implement competition policies, and in fact some African countries have adopted their own. In this regard, the West African regional approach to competition could be an example for the world.

He concluded by stressing the need for a strong WTO for regional agricultural value chains in developing countries. Bilateral agreements and EPAs don't address critical issues in this regard, since these are about important structural reforms in developed countries (e.g. on tariff escalation, subsidies etc.).

SPEAKER
PROFESSOR YASH TANDON

International Political Economist, Oxford, U.K. and Advisor South Centre, Geneva

Professor Tandon gave a geo-political perspective to the subject, by arguing that "trade is war". According to him, the WTO is a war machine led by the US and the EU where geopolitics matter far more than trade policy. This was illustrated by a few examples:

- **The Cotton 4:** The WTO has kept the Cotton 4 at bat for 15 years, and all the Bali declaration says is that "The WTO will provide regular reports on development aspects of cotton". The declaration makes no mention of the illegality of US subsidies. According to him, the WTO will never be able to fix the cotton issue.

- **Special and Differential Treatment:** SND is a pre-WTO principle and yet it not even mentioned in the Bali declaration. According to him, the declaration carries out a destruction of SND.

- **EPAs:** The October 1st deadline is a unilateral ultimatum by the EU, which it has been able to impose thanks to its geopolitical power and threats of sanction.

In his concluding remarks, he recommended to prioritise local and regional value chains and not to integrate in global value chains. He urged African countries to “de-couple”, to the extent of not even having to use developed countries currencies. In fact, the absence of a common currency means the absence of a common policy, as exemplified by the francophone countries in Africa.

PLENARY DISCUSSIONS

During the ensuing plenary discussions, the following was highlighted:

- Addressing the infrastructure deficit in Africa would contribute to boosting trade. This will require cutting regional red tapes and addressing both soft and hard infrastructure problems.
- Value chains should start at the local level before evolving to the regional level, and then global level. Yet, it was observed that for some countries like Zambia it is more difficult to fly to Angola than to the EU, despite the fact that both countries belong to SADC. In fact, border restrictions on the Zambia-DRC border result in informal trade and therefore revenue losses. There is an urgent need to have functioning regional communities.
- Africa has changed and it is on the rise, to the extent that the playing field is becoming level. Times are over when Africa had to sign agreements it didn’t want to. Nevertheless, Africa should remain open to all markets and not ignore the EU and the US.
- There is a need a renaissance of political and geopolitical will in Africa. The continent is over-dependent on foreign markets because it has not found itself as one people.