

**Part 2: Industrialization–Trade Nexus**

CHAPTER

3

**THEORIES AND EXPERIENCE**

A properly designed and run trade policy—alongside complementary policies—can launch an economy into industrial take-off.

African countries need such policies to help them overcome their inability to industrialize. Rudimentary agricultural practices and largely informal services lead to missed growth opportunities. Thus Africa's key task is to promote robust and labour-intensive industries for employment generation and efficient use of the continent's diverse resources. Africa's industrialization should target markets in Africa (via

tighter regionalism) and beyond (via fairer trade agreements), and in both cases open markets will be critical.

This chapter presents some theory and a framework for a trade policy that potentially promotes industrialization, one that must ensure coherence with other national policies, be selective (primarily for reasons of cost) and operate in the shrinking policy space open to countries.

## THEORETICAL UNDERPINNINGS OF TRADE'S BENEFITS IN INDUSTRIALIZATION

Production is at the heart of trade. The application of trade theory therefore has an indirect impact on what trading countries should produce to maximize their welfare, and as trade theory has shifted, its assumptions for the global environment have altered.

Trade theories have evolved over the years from a macro-based to a micro-based perspective. Micro-based theories stem from the idea that trade is conducted by firms and not countries. Consequently, an understanding of firms' and industries' characteristics is important, and this is the basis of new trade theories. The issues addressed by these new theories and the experience of (especially newly) industrialized countries strongly suggests the need for Africa to rethink the design and implementation of its trade and complementary policies.

Modern industrial production is characterized by far fewer producers than in earlier years. For

instance, there are fewer than 20 major global car producers and even fewer global chocolate manufacturers. Entry by new firms into these and other industries is far from free because of the huge investment requirements. Additionally these few firms could collude to prevent entry by prospective firms. For trade-induced industrialization to be effective, African countries should have a deep understanding of the market structure and possible firms' interactions.

Economies of scale characterize modern production plants and technology. Modern machines and innovations have supported and maintained the hegemony of a few firms in a particular industry through embedding increasing returns to scale. Each vintage of technology improves the efficiency and capacity of earlier ones. Minimum plant sizes have been rising over the years, enabling firms to reduce unit costs.

Production structures with huge economies of scale create incentives to specialize and trade, even without differences in resource endowments or technology, in differentiated products that provide a similar level of utility. The scope and dimensions of economies of scale are extended by consumers' preference for variety and falling transaction costs. So although access to big markets is important in trade-induced industrialization, few African countries are in a good position to take advantage, putting the spotlight on regional integration as an alternative.

The corollary is producers' preference for input variety. An efficient production system sources inputs from different markets to minimize production costs. Trading in intermediate products and upgrading along a given value chain (or joining it) also require efficient trade facilitation.

Industrial production is characterized by externalities and spillovers. Negative externalities are detrimental to social, economic and environmental sustainability, and every effort should be instituted to curtail these undesirable side-effects of industrialization. Positive externalities and spillovers should be encouraged through deliberate government interventions. Different dimensions of externalities include research and development (R&D), learning-by-doing, learning to export, on-the-job training and

knowledge spillovers from foreign companies. Other types of externalities include product- and input-variety externalities, as well as information and coordination externalities—all need to be harnessed for structural change.

The need for government intervention may be clear, but it requires policymakers (or their advisers) to understand the World Trade Organization (WTO), its many complicated rules (box 3.1) and the economic channels through which trade and trade policy affect industrialization. Countries produce and export goods intensive in the factors with which they are abundantly endowed. Africa's natural resources are enormous—which explains its export pattern—but it needs to transform these resources into high-value products via industrialization. It needs to transform its cocoa beans into chocolate and process its crude oil into refined products. One thread among the many in the rich fabric of industrialization is trade policy.

## Getting trade policy right is a balancing act of providing incentives for firms to innovate, develop capacity, invest in R&D and upgrade technology

### BOX 3.1: MASTER IT—OR IT WILL MASTER YOU

Established in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT), WTO expanded the scope of trade and trade-related issues under its purview. However, it has made reaching a global agreement on trade issues vastly harder—unfinished negotiations after 15 years of the Doha Round and the proliferation of regional trading agreements bear witness to that.

Forty-two African countries are WTO members, but they have yet to develop their capacity to fully engage with WTO, especially to use the multilateral trading system to their advantage.

# A SELECTIVE TRADE POLICY FRAMEWORK

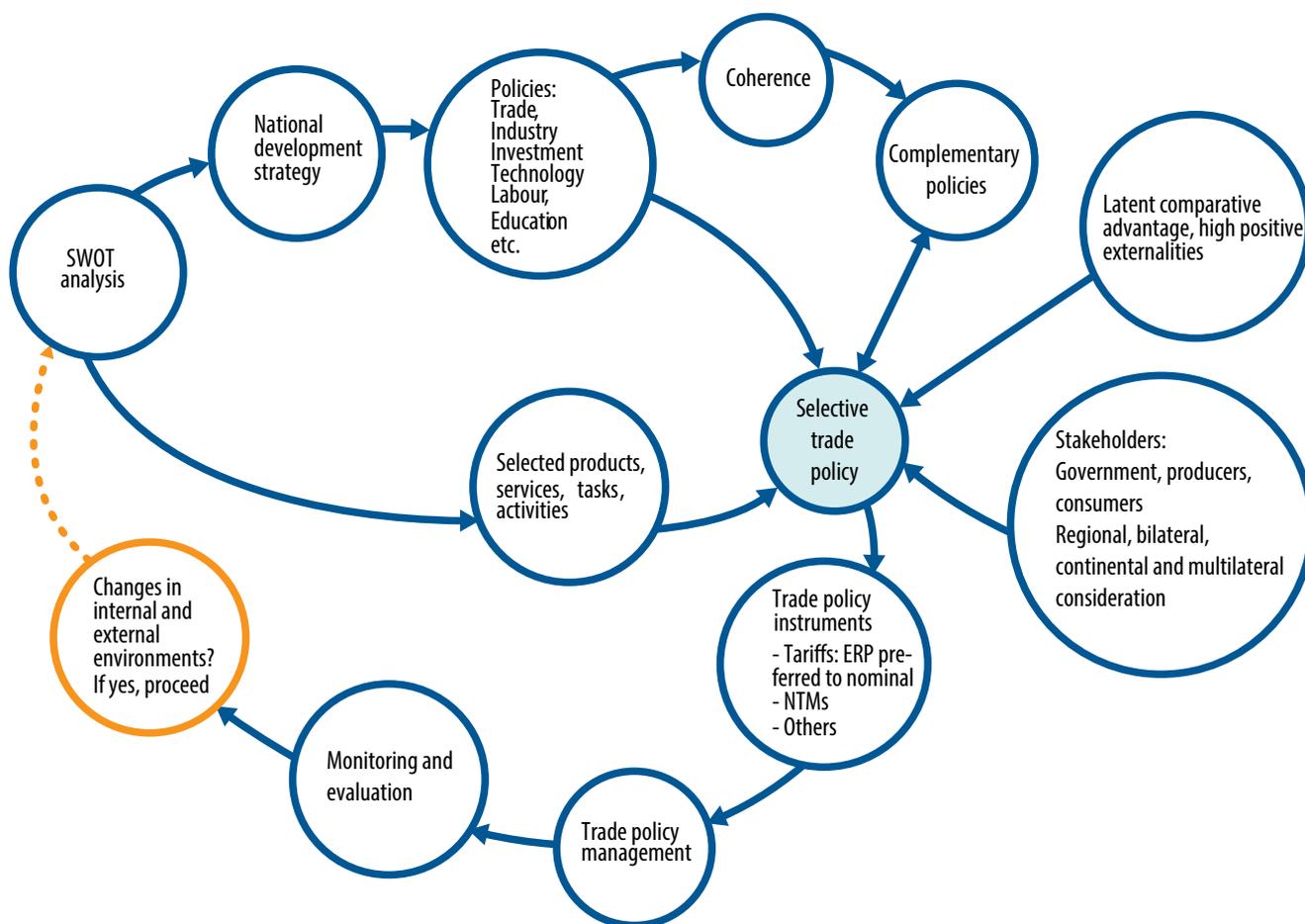
Getting trade policy right is a balancing act of providing incentives for firms to innovate, develop capacity, invest in R&D and upgrade technology. Yet it must not expose “infant industries” (see box 3.2 below) to international competition, because such exposure could de-industrialize the economy as these industries are submerged by the resources of far richer firms from abroad.

The starting point for a selective trade policy framework (figure 3.1) and for any national policy is the national development strategy.<sup>1,2</sup> The strategy should incorporate all the country’s attributes:

its opportunities and challenges as well as the linkages and synergies among economic sectors. A development strategy should also assign unique and non-conflicting yet complementary roles to different units and stakeholders. These roles are then translated into policy documents.

A strong relationship between the industrial policy and the national development strategy and between trade and industrial policies is required. These and other policy documents are expected to be highly coordinated. Indeed an ideal situation is an integrated trade and industrial policy. A similar

**FIGURE 3.1: A SELECTIVE TRADE POLICY FRAMEWORK**



Note: Arrows are required to indicate that at any stage in the process, a re-evaluation may be required. For instance, after monitoring and evaluation the process may be re-initialized at any stage.  
ERP = effective rate of protection.

strong relationship is expected between these two and other policies, including those for technology, labour, tax and the exchange rate. Coherence is important because trade policy alone, without appropriate complementary policies, cannot deliver on industrialization and structural change.

The next level concerns issues in developing the trade policy framework. A good trade policy must be interactive, iterative and evolving. A trade policy is interactive when all stakeholders are engaged or have equal opportunities to contribute to the process. Of course, trade has a very wide range of stakeholders ranging from ministries, departments and agencies of the government to producers and consumers. This approach allows the various groups to contribute to the process and the policymakers to achieve buy-in. More importantly, it also presents a platform for exchanging ideas and experiences, and in the process stakeholders tend to strategize on the best way to take advantage of the new trade policy (or its reforms).

The parameters informing the process include a country's endowments, technological capabilities of the manufacturing firms and other country's specific attributes. These parameters must be evaluated relative to other countries' attributes. The purpose is to provide information about a country's comparative advantages or disadvantages in different sectors (goods and services). It is desirable at this level—and more importantly, for a selective trade policy—that evidence-based studies should inform the determination of a country's comparative advantage. Hence, rigorous analytical studies are required (usually cast in SWOT analysis: Strength, Weakness, Opportunity and Threat analysis).

The expectation is that based on rigorous analysis, different countries (and even the same country at different periods) are well informed; and trade policy design responds to issues raised in the studies. Such an exercise may lead to different orientations to trade policy. Some countries may lean towards liberal trade policy; others may embrace restrictive

trade policy. The trade policy of a small, less-endowed country may not be necessarily close to that of a large and well-endowed country.

A selective trade policy entails two “big tasks”: selecting industries (or tasks) that will receive special treatment; and choosing trade policy instruments to influence not only the products but also the process. Some industries or tasks would be helped to compete globally; some (infant industries) protected from international competition for a while and developed to compete internationally later.

Selective trade policy has generated a wide debate on its various elements including the selection criteria, suitable policy instruments, and management of the process. These issues are yet to be fully resolved. However, the literature provides some parameters for selecting the winners and avoiding the losers.<sup>3</sup> The goal of selection should be paramount.

For selected industries, appropriate diagnostic checks are required to identify and analyse constraints to optimal performance and the possible policy tools (including trade policy). Other, complementary policies may be more potent in addressing some of the identified constraints (chapter 5). Or it may be that effectiveness of the appropriate trade policy instruments is constrained by these other factors. In any case, policymakers need to identify all possible policies required and—in the case of trade policy—all possible trade policy instruments.

Trade policy instruments for selective trade policy should be carefully selected and applied, with a good's value addition considered. Thus the focus should be on the effective rate of protection (ERP) rather than nominal tariffs. The possible effects of trade policy measures on global value chains (GVCs) (chapter 4) should be recognized and factored into trade policy design and implementation (table 3.1).

**TABLE 3.1: TRADE POLICY MEASURES AND POSSIBLE EFFECTS ON GVCs**

| Trade policy measure   | Potential investment-related effect (illustrative)   |
|--|--|
| Import tariffs, tariff escalation.<br>Non-tariff barriers: regulatory standards (e.g., technical barriers to trade and sanitary and phytosanitary measures). | Negative effect on export-oriented investment in operations that rely on imported content that is subject to the measure.<br>Positive effect on market-seeking or import substitution investment (barrier-hopping).  |
| Trade facilitation (applying to both imports and exports).<br>Export promotion (e.g., export finance, credit guarantees and trade fairs).                    | Positive effect on export-oriented investment by reducing the cost of multiple border crossings on both the import and export sides and through expedited exports (of particular relevance in time-sensitive GVCs).<br>Positive effect on market-seeking investment that benefits from facilitated (and cheaper) imports.  |
| Preferential or free trade agreements (including rules of origin and sector-specific agreements).  | Positive effect on investment that benefits from easier (and cheaper) trade between member countries, strengthening regional value chains.<br>Positive effect on market-seeking investment through economies of scale from serving a bigger market.<br>Consolidation effect on investment (primarily through mergers and acquisitions) as a result of reconfiguration of GVCs in member countries. |
| Market access development preferences (e.g., Generalised System of Preference, Everything-but-Arms, Africa Growth Opportunity Act).                          | Positive effect on foreign investment in preference-recipient countries targeting exports to preference-giving countries.  |
| Trade remedies (e.g., anti-dumping, safeguards and countervailing duties).   | Negative effect on export-oriented investment in the country affected by the measure (and on existing export-oriented investors who made investment decisions prior to the measure's enactment).   |

Source: UNCTAD (2013).

Other important considerations include the relative costs and benefits of the selected policy instruments, the relative effectiveness of the policy instruments, and the market structure of the selected industry. A selective trade policy is necessarily a dual-track approach—selected and unselected sectors. The selected sectors can constitute either a positive or negative list. The positive list contains industries empowered and supported to compete globally. The support accorded to them is mainly to address externalities and coordination failures. The negative list contains industries that are considered “infant” and thus shielded from international competition. Once a selective list is created, other sectors—whether positive or negative—are not in the list—and will be neither promoted nor protected.

When infant-industry protection is the basis of selection and tariffs are the dominant instrument, the relative costs and benefits of the three main possible policy instruments should be evaluated (box 3.2). These three instruments have different implications for raw materials, intermediates and final goods.

Most African countries rely on a narrow set of trade policy instruments, primarily tariffs, indicating lack of capacity to develop and institutionalize appropriate instruments. This is why, for example, many African countries bound their tariffs at ceiling level—contingent protection measures such as safeguard and anti-dumping measures require greater capacity—but the ceiling creates

### **BOX 3.2: PROTECTING INFANT INDUSTRIES: IMPORT TARIFFS, IMPORT QUOTAS AND PRODUCTION SUBSIDIES**

Essentially, three policy instruments may be used for protecting infant industries from import competition: import tariffs, import quotas and production subsidies.

In choosing an instrument from them, policymakers must, via analysis, select the one that will achieve two results: automatically decreasing the level of protection as learning progresses and productive efficiency rises; and immediately eliminating protection once learning has ceased.

Each of the three instruments has its disadvantages in terms of cost-of-protection implications. Generally, import tariffs and import quotas generate consumption and production distortion costs because they interfere with normal consumption and production decisions. But both yield tariff-revenue benefits to the government. A production subsidy generates only production distortion costs because it leaves the market price unchanged, though it places a cost burden on government rather than yielding revenue.

If policymakers want to minimize the cost of production (to consumers and the economy), they should use a production subsidy, which is also the most appropriate instrument for supporting domestic production of industrial raw materials and intermediate inputs. Thus products such as iron and steel; and cement—critical to and major inputs in other industries—should not be protected through import tariffs and import quotas. If they are, the result would be to raise their prices and hence the costs of the final products in which they are inputs. The appropriate instrument for this type of infant-industry protection is a production subsidy, whose effect is to reduce their costs rather than raise their prices.

It may be that production subsidies are infeasible owing to fiscal constraints. But even then, an intra-industry cross-subsidy could be considered. In particular, if the government wishes to support both the domestic production of the components and the assembly of motor vehicles, for example, part of the integrated policy package may offer tariff protection for the final product (the fully assembled vehicle) and production subsidy for the domestic manufacture of the most important components. In such a package, part of the tariff revenue derived by the government from the tariff-based policy part can be used to finance the production subsidy element.

In other cases an intra-industry cross-subsidy may not be viable—as two examples illustrate. The general concern over food security suggests that it may not be wise to use tariff policy instruments for encouraging the domestic production and processing of food products, such as rice and wheat, because tariff-based protection will raise food prices and thus penalize relatively poor consumers whose food security ought to be protected. More generally, a cheap food strategy is important in a labour-intensive industrialization and development strategy, which must rely on efficient, but low-wage, labour. Given the unique role of food as a wage-good, such a strategy is made feasible and may be sustained by an accompanying cheap-food policy.

The second example is the use of tariff policy instruments for promoting the domestic production of essential medicines and health products. As with food products, a tariff-based protection policy will raise prices of medicines and may place such products beyond the reach of those who need them most. In all such cases, the

more viable alternative policy instrument is a production subsidy, whose focus is to reduce the cost of domestic production, without interfering with import prices.

Finally, policymakers should be aware of the implications of applying the infant-industry protection argument without ensuring that the preconditions for success are met. Without a sufficiently large domestic market and a clear indication that the protected industries exhibit latent dynamic comparative advantage, enjoy significant economies of scale, and generate positive externalities and spillover effects, the protection policy is more likely to create a set of monopoly or near-monopoly producers whose efficiency will probably fall, rather than rise, due to lack of competition. As a result, such producers will keep demanding more and more protection, with the implied or expressed threat of mass unemployment if the government fails to meet this demand.

A government that does not wish to be coerced over a failed policy should, from the start, set clear preconditions and criteria for success when it adopts an industrial development strategy based on the infant-industry argument. It must also be prepared to rigorously apply the success test and not hesitate to “pull the plug” when this test is failed.

Source: Oyejide (2014).

uncertainties and sends the wrong signals to would-be investors as the country reserves the right to change tariffs at will.

Monitoring and evaluation, too, are often compromised or totally neglected, but can be supported by intermediate variables that can gauge progress or effectiveness of policy. Such variables may include changes in the component of trade being targeted (trade in intermediates), increases in foreign direct investment (FDI) to a particular sector of interest, and shorter clearance of goods from ports. Good trade policy is dynamic, is responsive to changes in the internal and external environment,

and is reviewed at intervals (long enough apart for firms to use it to ground their planning and investment).

## KEEPING UP WITH THE LEADERS

A possible dividend for latecomers into industrial development is that they can take advantage of the fact that capital usually moves from developed to less developed economies—the “flying geese” pattern. It begins with rapid expansion of labour-intensive manufacturing, the first stage of industrialization, which triggers changes in the economy. Of particular importance to capital are

### BOX 3.3: SUCCESSFUL NON-AFRICAN EXPERIENCES OF INDUSTRIALIZING THROUGH TRADE

The United Kingdom, the world’s first industrialized country, used government interventions to protect domestic industries in the early stages of industrialization, including selective industrial protection; gradual opening up, starting with tariff reduction, followed by free trade; and using the domestic market as a learning ground for international competition.

The list of protected industries started small and grew. Import protection was first applied to woollen products, cotton products and iron; then to other metals, wrought iron, leather, shipbuilding and fisheries; and then to flax and silk (Shafaeddin, 1998). “Only after the Industrial Revolution was well established and when Great Britain had consolidated its industrial base did it start to follow around 1850 a free trade policy after some gradual tariff reduction” (Shafaeddin, 1998).

Most other countries that industrialized followed this pattern, including Belgium, France, the Netherlands, Germany and

the US, but with gradually shortening periods of protection. And by the time the process reached Japan and East Asia’s newly industrialized economies—Hong Kong SAR, China; Singapore; Republic of Korea; and Taiwan, Chinese Taipei—they were even shorter.

A focus on East Asia is understandable given its spectacular growth and transformation—and subsequently on China, which has lifted more people out of poverty in 20 years than any other country, or even group of countries, has done in a comparable period.

#### Japan and the East Asian tigers

Japan began to liberalize its economy only after 1973, though after 1950 it had targeted for government interventions industries including motor vehicles, computers, electronics and electrical appliances, iron and steel, synthetic fibres, ship building, petroleum refining and petrochemicals. It used instruments such as loans, grants, tax incentives, and export promotion; domestic

market protection through prohibitive tariffs, import quotas, restrictions of foreign investment; and coordination of technology agreements and subsidies.

What dynamic African countries may learn from Japan is that the government regularly evaluated industrial performance and adjusted its interventions; it only gradually opened up the economy; it had a strong and interactive relationship with the private sector, in which firms usually respected non-binding “administrative guidance”: it focuses on technological development, industrial deepening and diversification now that it cannot use some of its traditional trade policy instruments; it thoroughly analysed its WTO agreements (e.g., aid for technological and regional development is still permitted, which it fully exploits); and it extensively uses trade associations (as WTO rules out some practices conducted by government but not by non-government actors). Needless to say, private standards are very high in GVCs, independent of WTO.

increases in wages and other factor prices. The effect of this expansion is the loss of comparative advantage by labour-intensive manufacturing, and thus it is the time for capital to fly to other countries or regions. Apart from seeking economies with low factor prices (including wages), investors consider macroeconomic stability, size of the domestic market and technological capabilities of the domestic firms.

In line with the flying geese structure, many analysts feel that movement of capital from China is imminent, although its next destination is unknown. While African countries are possible candidates for capital from China, other candidates are Vietnam, Cambodia and Bangladesh. African countries should position themselves to take

advantage of these opportunities. Japan is similarly positioning its companies for relocation to Africa by directing its spending on industrial training and education with a view to inculcate Japanese work ethics and methods in Africa. The British (and other westerners) brought their capital to Africa a long time ago (box 3.3).

## **A possible dividend for latecomers into industrial development is that they can take advantage of the “flying geese” pattern.**

The Japanese government still has a strong trade–industrial strategy with traditional instruments (protection of the domestic markets and promotion of exports) under new guise; moral suasion; policy instruments applied by category (“sunrise” or “sunset”); and a “moving band of openness.” This is not fundamentally dissimilar from other developed economies’ earlier opening up in a sector whose supply response had been fully developed.<sup>a</sup>

### **China’s selective trade policy**

The role of the state in China goes far beyond trade. As a developmental state, China has been able to develop coherent policy and implement it efficiently (Xiaoyun, 2014), integrating the selective trade policy closely with development plans.

Since the mid-1980s, the authorities have used different instruments to promote exports of selected products and sectors. Duty exemptions were granted, particularly to imported intermediates used in exports, on capital and technology through FDI, and on equipment imported by foreign firms in initial investment in affiliates in China. For

ease of administration, monitoring and evaluation of the various incentives, special economic zones were created.

Although China reduced its average customs tariff from 41 per cent in 1992 to 16.8 per cent over 1998–2001, the advantage derived from tariff exemptions has remained significant, and this selective trade policy has proved very successful in creating export-oriented industries based on imported inputs. The large gap between nominal and collected tariff rates reveals the extent of tariff exemptions (Lemoine and Únal-Kesenci, 2004). The gaps vary from one product to another. Some examples using 1997 tariff rates include processed food with nominal tariff rate of 23.2 per cent and collected rate of 3.7 per cent, a gap of 19.5 per cent; beverage with nominal rate of 60.2 per cent and collected rate 24.0 per cent, a gap of 36.2 per cent; apparel with a gap of 41.1 per cent (i.e., nominal rate of 41.8 per cent versus collected rate of 0.7 per cent) and leather with a gap of 35.2 per cent (nominal rate, 35.5 per cent; and collected rate, 0.3 per cent).

China’s selective trade liberalization expanded international processing, which was the engine of its rapid diversification of manufactured exports. The effective protection enjoyed by processing activities in the 1990s favoured strong productive links between China and its East Asian partners. Its integration with the production and trade networks of Asian firms was at the core of its foreign trade expansion. China’s selective trade policy thus strongly determined the commodity and geographical pattern of the country’s trade (Gaulier et al., 2004).

<sup>a</sup>“Restrictions on the ability of foreign firms to develop a permanent presence in the Japanese market have been removed only where Japanese firms have achieved a dominant position at home and a strong often dominant position abroad. In other words, restrictions have been removed where they don’t matter any more” (Singh, 2004: 10).

### **BOX 3.4: SOME REGIONAL INDUSTRIAL INITIATIVES IN AFRICA**

The East African Community (EAC) has two related documents on industrialization: the industrial strategy (2012–2032) and the industrialization policy (2012–2032). These documents promote “structural change of the manufacturing sector through value addition and product diversification based on comparative and competitive advantages of the region”.

The Southern Africa Development Community (SADC) Industrial Development Policy Framework (2013–2018) provides a blueprint for the industrial development of its 15 member states. The goal is to “promote development of an integrated industrial base within SADC through the exploitation of regional synergies in value-added production and enhancement of export competitiveness”, including via “collaboration in the development of regional value chains with targeted interventions”.

The Economic Community of West African States (ECOWAS) launched the West African Common Industrial Policy (WACIP) in 2010. Its vision is to “maintain a solid industrial structure which is globally competitive, environment-friendly and capable of significantly improving the living standard of the people by 2030”. The general objectives are to accelerate industrialization of the region through the transformation of local raw materials, develop and diversify industrial productive capacity, and strengthen regional integration and export of manufactured goods.

Sources: Based on EAC (2012), SADC (2013) and ECOWAS (2010).

## **REGIONAL INTEGRATION IS STILL A TRIUMPH OF HOPE OVER EXPERIENCE**

Africa’s regional approach to fostering trade-induced industrialization is so far a story of unfulfilled promise. In theory, such integration presents scope for policy to bolster the gradually rising but still small share of intra-African trade, especially in manufactures, and to promote regional value chains (RVCs) via larger markets as stepping stones to a continent-wide market. It can also serve as an agent of restraint (or discipline) and enhance the credibility of trade reform.

It is, however, labouring under heavy burdens: poor and inefficient regional infrastructure, both the “hard” and “soft” sides; and a failure by policymakers to fully appreciate the importance of trade in services, which has increased, abetted by a rise in FDI. (Chapter 4 presents an analysis of potential trade in regional and global value chains, as well as in intermediates and services.)

The efforts by Africa’s regional economic communities to promote industrialization appear largely ineffective. In 2004, an assessment of

industrial cooperation by these groupings found that they had done little to boost production, productivity or manufacturing value added (ECA and AUC, 2004)—a verdict that still holds a decade later. Once again, implementation is the stumbling block—not the underlying goals or documents (box 3.4).

The Action Plan for Accelerated Industrial Development of Africa (AIDA), for example, was adopted by the AU (Africa Union) Summit in 2008 and still has a guiding role for discussion of industrial development. The regional economic communities have indeed developed industrial frameworks, but have failed to tie them closely to their other activities and have not always garnered the full-throated support of member states. Perhaps more worrying is the virtual disconnection between their efforts and trade negotiations more generally, in particular North–South bilateral and regional trade agreements.

**Africa’s regional approach to fostering trade-induced industrialization is so far a story of unfulfilled promise**

## **TOWARDS A COORDINATED AND HARMONIZED TRADE FOR INDUSTRIAL DEVELOPMENT IN AFRICA: UNITED WE STAND, DIVIDED WE FALL**

The observed disconnection between continental initiatives and various regional and national activities especially in the area of trade calls for concern. Trade negotiations and related engagements at the national levels appear incoherent with various regional and continental initiatives. If the current trend is not checked, Balkanization of the continent is imminent, an antithesis of regional and continental integration agenda. African countries are consummating relationships with old and emerging development partners without due regards to both regional and continental integration agenda and their industrial development objectives. These relationships are from a very weak position based on so many factors, including (1) lack of sufficient capacity and technical know-how to effectively negotiate, and (2) asymmetries in the economic size of African countries and most of their partners. The European Union, the US and China for instance are each of them bigger economies than the entire economies of Africa.

Africa should consider, adopt and implement a continental negotiations template to guide countries in their engagements with the rest of the world. Such a template promotes coordination and harmonisation of engagements with these partners and Africa's regional and continental objectives. It also provides a platform for African countries' consultation with each other and prevents "incentive wars"<sup>4</sup>: a race to the bottom. Better coordination will ensure African countries have more bargaining power. The call for a negotiations template is not new: Mangeni and Karingi (2008) made a case for it in the negotiations of Economic Partnership Agreements (EPAs) in Africa. Similarly in the context of Africa and its emerging partners, AfDB et al. (2011) strongly recommended a continental framework. The recent efforts at fast-tracking the

African Continental Free Trade Area and the need to coordinate and harmonise different activities towards this goal, including harmonisation of common external tariffs at the continental level (see chapter 5), make a continental negotiations template imperative.

**African countries are consummating relationships with old and emerging development partners without regards to regional and continental integration agenda**

# TRADE POLICY COHERENCE AND SELECTIVITY IN A SHRINKING POLICY SPACE

**T**rade policy has many objectives, and promoting industrial development may just be one of them. And so its design, especially in ensuring coherence, as seen, is critical. The space in which to use such policies has, though, narrowed dramatically in recent years, largely because of the rules of WTO.

The analysis presented in this section derived mainly from findings from 10 country case studies and supplemented with extensive literature search. The country case studies were conducted with the aim of gauging the trade policy-making process especially in relation to industrialization. The fact is that countries have different objectives for their trade policies, and in some cases these objectives are not congruent. For instance, where maximization of revenue from trade taxes is the overriding objective, then tariff liberalization for promoting import of intermediate inputs and hence industrialization may be difficult to implement.

Two main instruments were designed for the purpose of the exercise. The first instrument was designed to obtain information from the private sector on their involvement and participation in the trade and industrial policy-making process. The second instrument was administered on the public sector: the Ministries, Agencies and Departments (MDAs) in the area of trade and industry. These instruments were supplemented with published sources including information from websites of various organizations at national, regional and international levels. The instruments were designed to seek understanding in the following areas: (1) the policy process at two levels namely: (a) coherence between trade policy and other policies especially industrial policy and the national development strategies; (b) the level of involvement of various

stakeholders; and (2) implementation issues on trade and industrial policies. Other issues relating to local processing, government policies especially in the areas of regional trade agreements, imports of raw materials and intermediate products and non-tariff measures were also covered.

Basic information with respect to the 10 countries is presented in Table 3.2. There are two countries per subregion. These countries also reflect the diversities of the African continent including landlocked versus coastal countries, net-oil exporting versus net-oil importing countries, islands and small countries. Based on the diversities of African countries as exemplified in the table, a one-cap-fits-all model is not expected and more so given that African countries are at different levels of development. However, the synergies created by the diversities of resources have not been effectively tapped into.

## COHERENCE NEEDS TO BE BEEFED UP

Most of 10 case-country countries have attempted to achieve some coherence between their trade policy and national development strategy. Long-, medium- and short-term planning is iterative, as most of the countries review their plans regularly (table 3.3). Trade policy coherence with industrial policy appears less strong.

Two prominent themes are to mainstream trade with the national development strategy;<sup>18</sup> and, for African least-developed countries (LDCs), to participate in the Enhanced Integrated Framework and its programme of Diagnostic Trade Integration Studies. (However, the goal of these efforts is to reduce poverty and not directly to promote

**TABLE 3.2: BASIC INFORMATION ON THE SELECTED AFRICAN COUNTRIES**

|    |            | Region          | Location advantage | Resource endowment             |
|----|------------|-----------------|--------------------|--------------------------------|
| 1  | Botswana   | Southern Africa | Landlocked         | Oil importing and mineral rich |
| 2  | Cabo Verde | West Africa     | Island             | Oil importing and mineral poor |
| 3  | Chad       | Central Africa  | Landlocked         | Oil exporting                  |
| 4  | The Congo  | Central Africa  | Coastal            | Oil exporting                  |
| 5  | Egypt      | North Africa    | Coastal            | Oil importing and mineral poor |
| 6  | Morocco    | North Africa    | Coastal            | Oil importing and mineral poor |
| 7  | Mozambique | Southern Africa | Coastal            | Oil importing and mineral rich |
| 8  | Nigeria    | West Africa     | Coastal            | Oil exporting                  |
| 9  | Tanzania   | East Africa     | Coastal            | Oil importing and mineral rich |
| 10 | Uganda     | East Africa     | Landlocked         | Oil importing and mineral poor |

**TABLE 3.3: COHERENCE ISSUES IN TRADE POLICY DESIGN**

|    |            | Trade Policy       | Industrial Policy               | National Development Strategy         |
|----|------------|--------------------|---------------------------------|---------------------------------------|
| 1  | Botswana   | 2009 <sup>5</sup>  | 1998 <sup>6</sup>               | Vision 2016, NDP10                    |
| 2  | Cabo Verde | No                 | No                              | Vision 2030 <sup>7</sup>              |
| 3  | Chad       | No                 | No                              | NDS <sup>8</sup> 2013-2015            |
| 4  | The Congo  | 2014 <sup>9</sup>  | 2003 <sup>10</sup>              | NDP 2012-2016                         |
| 5  | Egypt      |                    | 2003                            | 2014/15-2018/19 <sup>11</sup>         |
| 6  | Morocco    | 1993 <sup>12</sup> | recently launched <sup>13</sup> | No                                    |
| 7  | Mozambique |                    | 2007 <sup>14</sup>              | 2014                                  |
| 8  | Nigeria    | 2002 <sup>15</sup> | 2014 <sup>16</sup>              | Vision 20:2020; Transformation Agenda |
| 9  | Tanzania   | 2009-2014          | 1996-2020 <sup>17</sup>         | Vision 2025                           |
| 10 | Uganda     | 2008               | 2008                            | 2000-2015                             |

Source: ECA (2014) ERA 2015 Country case studies for ERA 2015. UNECA Addis Ababa

industrialization.) The framework is a multi-donor programme, designed to help LDCs become more active in global trading. It focuses on helping these countries tackle supply-side constraints to trade.

Five countries (Cabo Verde, Chad, Mozambique, Tanzania and Uganda) in the 10 case-study countries are in the framework, which has assisted them in capacity building; setting up structures to coordinate delivery of trade-related technical assistance; and building capacity to trade.

Appendix 3.1 outlines elements of trade and industrial policy in the 10 countries. Box 3.5 shows how Nigeria attempts to cohere its policy features.

## SELECTIVITY APPEARS FINE ON PAPER, BUT HAS TO BE ENFORCED

Most countries among the 10 recognize the need to be selective, add value, and develop or join regional and global value chains, as these ideas feature in most policy documents and in the various discussions held during the field trips. However, most countries are not fully adopting or effectively enforcing their selective trade policies.

For example, Nigeria has a huge number of fiscal (tariff and non-tariff) incentives to promote industrial development, but sectors are neither highly selective nor regularly monitored and evaluated. Although efforts to promote industrial development under the Nigeria Industrial Revolution Plan (NIRP) were recent, selecting the various sectors to be promoted appears to be based on rule of thumb and not on known rigorous studies. The number of subsectors (20) appears on the high side to qualify for a selective trade or industrial policy. Indeed, development of oil and gas-related industry alone along the value chains and possibly with a focus on the regional and continental markets would have been more transformative (box 3.6).

A major challenge for the NIRP is applying trade policy instruments given the country's commitments to the ECOWAS common external tariff (CET), which came into effect on 1 January 2015. For example, the change in tariffs for automobiles that was initially scheduled to begin on that date has been put on hold.

### BOX 3.5: FRAMEWORK FOR INDUSTRIAL DEVELOPMENT IN NIGERIA

The Nigeria Industrial Revolution Plan is rare in that it aims to ensure that industrial development integrates with other development plans, including the:

- National Development plans that have defined the vision and macroeconomic context (i.e., Vision 2020, the Transformation Agenda).
- National Development plans that will provide industry with raw materials (i.e., agriculture, solid minerals, gas master plan etc.).
- National Development plans that will provide the requisite assets and infrastructure for industry to thrive (i.e., power sector reform, transport, gas master plan etc.).
- National Trade Policy.
- National Micro, Small, and Medium Companies Policy.

Source: FMITI (2014).

**BOX 3.6: NIGERIA INDUSTRIAL REVOLUTION PLAN**

The plan focuses on four industry groups and 20 subsectors. The sectors have been selected because they are ready for accelerated ramp-up in capacity.

| Sector   | Subsectors   |
|--|--|
| <b>Agribusiness &amp; agro-allied</b>                  | Food processing (specifically beverages, packaged food products) |
|  | Sugar  |
|  | Palm oil processing  |
|  | Cocoa processing   |
|  | Leather and leather products                                     |
|  | Rubber products<br>Textiles and garments                         |
| <b>Solid minerals &amp; metals</b>                     | Cement   |
|  | Basic Steel  |
|  | Aluminium  |
|  | Chemicals  |
|  | Auto assembly  |
| <b>Oil and gas related industry</b>                    | Petrochemicals   |
|  | Fertilizers  |
|  | Methanol   |
|  | Plastics   |
|  | Refineries (with Oil & Gas Ministry)                             |
| <b>Construction, light manufacturing, and services</b> | Housing (i.e., supply side\construction)                         |
|  | Light manufacturing (consumer and home goods)                    |
|  | Services   |

**Agribusiness & agro allied:** Nigeria's rich agricultural ecosystem offers significant potential to increase production and growth. The NIRP's aim is to maximize the benefits from the country's agricultural resources, build an end-to-end integrated agro value chain, boost local production to meet local demand, and reduce the country's reliance on imports of processed food products. The NIRP is focused on mid- and downstream processing and market activities, and integrates with the Nigeria Agriculture Transformation Agenda (ATA), which increases agro-output to feed industry and the NIRP.

**Solid minerals & metals:** Massive unexploited raw reserves, notably iron ore, can enhance industrial output. The NIRP proposes to create a strong industry that can tap into the mining sector (initially focusing on the iron ore value chain) and build a competitive advantage around high-value high-volume products further down the value chain (e.g., automotive). The NIRP will create an enabling environment targeting large investors to institutionalize world-class production standards in the country.

**Oil- and gas-related industry:** Significant hydrocarbon reserves provide the foundation for Nigeria to build

competitive oil- and gas-driven industries (similar to Saudi Arabia). Nigeria could use its cheap and abundant gas to revitalize industry, encourage high value-adding downstream investments and build institutional industrial strengths.

**Construction, light manufacturing and services:** Multiple opportunities exist in the local market, driven by Nigeria's large consumer population, business demand and infrastructure needs.

Source: FMITI (2014).

## GETTING EVERYONE ON BOARD: THE POLITICAL ECONOMY OF TRADE POLICY REFORM

Trade policy making in most of the countries in the 10 appears to involve different internal stakeholder groups. Most of the producer associations consulted confirmed that they were involved in trade policy making but indicated that they were largely out of the loop when changes were made to policies. Consultations with producer groups varied by country. In some cases, they served as members of various committees and ministries, departments and agencies of government on trade and development issues. Traders are rarely consulted, and consumers appear completely neglected.

Trade reform in general, and trade policy reform for the purpose of promoting industrialization, is complex. It requires aggregation of various and diverse interest groups—national and international. Interest groups within the former include public, private and the non-governmental organizations (NGOs). Public stakeholders include ministries, departments and government agencies. There may be no consensus among these groups with regards to trade policy issues. For instance, the ministry of foreign affairs may approach the issue of trade policy reform from foreign relations perspective, the ministry of finance may place more emphasis on revenue from trade taxes while the ministry of trade and industry may be promoting industrialization through trade policy reform.

In a similar manner, the private sector group is as complex as its numbers of subgroups: producers versus consumers, and traders (importers versus exporters). The group of producers is not in any way homogeneous: producers that rely on imported inputs versus producers that are producing for export markets. NGOs, too, differ in their interests—the environment, child labour, animal rights, etc. The cooperation of these groups is important not only in policy design but also in its implementation. The interactions of international groups and the trade policy itself are usually outlined in agreements (bilateral, regional and multilateral), which may

extend to investment or the environment, further complicating cooperative efforts.

Multiple stakeholders have to be committed to trade policy reform, as the costs of reform (falling on the losers) usually precede its benefits (accruing to the winners), requiring solid management of the transition. If the transition is not properly sequenced (chapter 5), the whole reform may be derailed or truncated—even if the gains would, ultimately, have been more than enough to compensate the losers.

## POLICY SPACE IS NARROWING

African countries are being increasingly constrained in deploying trade policy. Instruments that were once legal and used by virtually all developed countries are being outlawed under WTO. The WTO discipline imposed on the use of tariffs and para-tariff measures has, for example, constrained their application for industrial development, although ceiling bound tariffs set by African countries and some flexibilities are still available, even if they signal uncertainties to investors (box 3.7). Indeed apart from agriculture where all tariff lines were “tariffed” and bound, most countries still have policy space in their tariff for manufactures, but this is unlikely to be for long—another reason for African countries to build the relevant institutions.<sup>19</sup>

Two approaches gauge the restrictiveness of policy space in the world trading system: dispute settlement indexation and historical benchmarking (what was available and what is now available). Using the first approach, Lee et al. (2014) catalogued activities at the WTO dispute settlement mechanism and revealed the virtual absence of African and other developing countries’ using a classification: developed countries, developing and least developed countries. Out of 86 dispute cases on subsidies and countervailing measures, half were between developed countries, and 43 per cent between developed and developing countries either as complainants or as respondents. Of the cases, 4.6 per cent were between developing

**BOX 3.7: SOME FLEXIBILITY STILL IN WTO AGREEMENTS**

WTO members retain some flexibility to support structural transformation, including tariff policy where some lines are still unbound, and where the difference between bound and applied tariffs provides room for modulating them in support of development goals. WTO members can also continue using certain kinds of subsidies and standards to promote research and development or innovation and can exploit flexibility in using export credits (UNCTAD 2014).

Under the Agreement on Trade-Related Investment Measures (TRIMs), countries may continue to impose sector-specific entry conditions on foreign investors, including industry-specific limitations. The agreement also allows some leeway through the mechanism of compulsory licensing (whereby authorities can allow companies other than the patent owner to use the rights to a patent) and “parallel” imports (i.e., imports of branded goods into a market that can be sold there without the consent of the owner of the trademark in that market) (UNCTAD 2014). Some scholars (e.g., Chang and Cheema, 2001, page 44) argue that there should be a way around it: “developing countries can maintain or even strengthen local content requirement, which is an important tool for technology upgrading”.

Developed, developing and least developed members of WTO have varying obligations. The least developed have the least stringent rate of commitments and time allowed to adopt them. African countries need to exploit this opportunity too.

On paper, infant-industry protection is still allowed under the GATT (Article XVIII: C),<sup>20</sup> but it is a Herculean task to invoke these provisions, especially for capacity-poor LDCs. Other “smart” policies can be used to develop industry, directly and indirectly, including balance-of-payments safeguards and contingent protection measures (Article XVIII: B).

Though greatly contained, support can still be offered to LDC firms, including export subsidies. Subsidies for regional development, research and development (R&D) and environment-related technology upgrading are still allowed. There are indications that the subsidy restrictions only cover “trade-related” policies, leaving room for “domestic” policies for learning and technology, including subsidies for equipment investment, start-up enterprises, and particular skills.

**TABLE 3.4: WTO DISPUTE SETTLEMENT CASES RELATING TO INDUSTRIALIZATION, 1995-2005**

| Respondents          | Local content requirements | Import controls  | Non-agriculture export/production subsidies   | Tax manipulation   | Weak intellectual property right enforcement               |
|----------------------|----------------------------|--|---|--|--|
| Developing countries | 11<br>Brazil, India, China | 19<br>Argentina, Brazil, India, Rep. of Korea, Malaysia, Mexico, Philippines | 3<br>Brazil, Rep. of Korea, Philippines   | 10<br>Chile, Dominican Rep., Rep. of Korea, Mexico, Peru | 5<br>Argentina, India, Pakistan                            |
| Industrial countries | 0                          | 4<br>EC  | 18<br>Australia, Belgium, Canada, EC, France, Greece, Ireland, Japan, Netherlands, US | 4<br>Japan, EC   | 10<br>Canada, Denmark, EC, Greece, Japan, Portugal, Sweden |
| <b>Total</b>         | <b>11</b>                  | <b>23</b>  | <b>21</b>   | <b>14</b>  | <b>15</b>  |

Source: DiCaprio and Gallagher (2006).

Note: Figures are number of cases. EC = European Commission.

countries, and 2.3 per cent were between developed and developing countries jointly against low income countries.

Yet African countries are conspicuous by their absence, either as complainants or respondents, despite the heavy presence of other developing countries. More than half the total cases related to import controls and subsidies (table 3.4).

Africa's absence is explainable by its lack of capacity to diagnose an issue and pursue a dispute in accord with WTO rules; and by inaction by developed-country members on the actions taken by developing countries because of their marginal impact on the developed countries' interests. In addition, the inactions by the developed countries may stem from the fact that they have alternative means of handling the issues through North-South agreements (chapter 5). However, as African countries are aspiring to structurally transform their economies either individually or in regional or continental blocs, their use of trade policy instruments that were once used by most developed countries may become inevitable. These may require seeking concessions or waivers. Even

where these instruments are not simply outlawed, the process of invoking them is more stringent, and therefore African countries should develop capacity to use such instruments.

Another perspective to the analysis of policy space at the multilateral level is the rule-based content analysis of the relevant trade agreements.<sup>21</sup> The use of subsidies to support industrialization and structural change particularly in the East Asian countries exemplifies this strand of analysis (UNCTAD, 2014). Other trade policy instruments that are now constrained include performance requirements on foreign investors with respect to exports, domestic content and technology transfers. Reverse engineering and imitations through access to technology are also constrained—again, approaches used earlier by developed economies (UNCTAD, 2014). Table 3.5 presents a summary of trade policy instruments that were GATT compliant and their status under WTO.

**TABLE 3.5: TRADE POLICY INSTRUMENTS, WTO**

| Sector                       | Policy instrument              | WTO compliant? |
|------------------------------|--------------------------------|----------------|
| Goods                        | Tariff sequencing              | No             |
|                              | Import licenses                | No             |
|                              | Duty drawbacks                 | Yes            |
| Subsidies                    | Export                         | No             |
|                              | Production                     | No             |
|                              | Research and Development (R&D) | Actionable     |
| FDI                          | Local content                  | No             |
|                              | Technological transfer         | Yes            |
|                              | Trade balancing                | No             |
| Intellectual property rights | Selective patent               | No             |
|                              | Compulsory licensing           | Yes            |
| Others                       | Skills building                | Yes            |
|                              | State-run firms                | Yes            |

Source: DiCaprio and Gallagher (2006).  
Note: All instruments are GATT compliant.

# CONCLUSIONS

In many African countries, trade policy design has not been effective, and its coherence with other policies has been limited—one reason why the majority of African nations have failed to diversify their exports from agricultural, mineral and crude oil products.

Another reason is asymmetric international trade agreements. Africa therefore needs to rethink its approach to trade and investment negotiations. Each bilateral, regional and multilateral trade deal has narrowed scope for traditional instruments once used by developed countries. African countries should halt this erosion by insisting on the right to promote industrialization, auditing agreements that they have signed to exploit any flexibilities, develop the capacity to do such auditing and, further, take full advantage of the agreements to which they are party.

A well-sequenced, gradual approach to upgrading and industrialization is more practical than short, sharp shocks. African economies should start from labour-intensive sectors and upgrade to medium- and high-technology sectors. Their trade policies must promote dynamic efficiency of mature firms and promote efficiency of “infant industries” through temporary shields from international competition. Trade policy design should be informed by factor endowments and comparative advantage, and should recognize that African industries are dependent on international markets for both inputs and outputs. Typically, good trade policies should strike a balance between promoting dynamic efficiency of mature industries and firms through exposing them to international competition, while shielding infant industries from fierce competition from established foreign industries until they

establish and develop some pockets of efficiency. But trade policy alone cannot deliver industrial development. African governments need to ensure that trade policy is coherent with other economic policies and is integrated into the overall national development strategy. Subsequently, coherence should be built at various regional economic communities (RECs) level, then continent-wide (chapters 4 and 5). In particular, Africa should adopt and implement a continental negotiations template that will help to promote coordination and harmonisation of policies and thus assist in fast-tracking the establishment of continental FTA and deepen continental integration.

**Trade policy design in many African countries has not been effective, and its coherence with other policies has been limited**

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## APPENDIX 3.1: KEY ELEMENTS OF TRADE AND INDUSTRIAL POLICY IN 10 COUNTRIES

### BOTSWANA

Botswana, a resource-rich landlocked country, has Vision 2016 as its main development strategy. Its economic principles are not very different from those in previous documents and include sustainable economic diversification, increased international competitiveness of the economy and export promotion.

The industrial policy interacts with a range of other policy documents such as the National Export Strategy for Botswana (2010), Economic Diversification Drive Strategy (2011), Investment Strategy (2010), Special Economic Zones Policy (2011), Competition Policy (2008) and Citizen Economic Empowerment Policy (2012).

Industrial policy falls within the Southern Africa Development Community (SADC) Industrial Development Policy Framework. The framework promotes cross-border value addition, particularly in pharmaceuticals, agro-processing and minerals.

### CABO VERDE

This small island country has no separate industrial or trade policy. Vision 2030 envisages that the competitive advantage of the country lies in services, especially tourism, supported by promotion of light industries and increasing agricultural productivity. Government efforts are, beyond maintaining a stable macroeconomic environment, incentives to attract investors, infrastructure investment and tourism promotion. Good governance and policy stability, which have become valued assets for the nation, need to be maintained.

### CHAD

Chad, a landlocked oil-dependent country, is yet to develop sectoral industrial and trade policies because of lack of capacity. The current national development strategy, the Plan National de Développement (PND 2013–15) was launched in April 2013 and provides major orientations on industrial and trade aspirations.

### REPUBLIC OF CONGO

Recognizing the role of trade to foster the development of the Republic of Congo as stated in its National Development Plan 2012–2016 (NDP), the country's Ministry of Trade drafted a

Trade National Development Plan (TNDP), which coherently fits into the country's NDP.

The vision of the country's TNDP is to develop an efficient trade system as a means to sustainable growth, improve national competitiveness, create jobs and reduce poverty. The objective is to improve the impact, efficiency and effectiveness of reforms and trade initiatives.

### EGYPT

Egypt's Medium-Term Macroeconomic Policy Framework for 2014/15–2018/19 appears to be the main compass for economic development. In it, the government expresses its intention to deliver on the following: sustainable real GDP growth of 6 per cent by the end of the forecast period, a faster pace of job creation in order to bring the unemployment rate below double digits, inflation within the Central Bank of Egypt's comfort zone, higher rates of domestic investment, improved export performance, greater efficiency in government spending through a planned reduction of the fiscal deficit to 8–9 per cent of GDP and government debt at 80–85 per cent of GDP, and the development and betterment of the country's human resources.

Egypt's Industrial Policy was launched in 2005. It took a substantial new direction for the industrial sector based on being more market- and demand-oriented and less interventionist. Up to 2011, this policy direction could be said to have been successful in promoting investment and exports, but failed to achieve structural change and industrialization. A new industrial policy document is being drafted.

### MOROCCO

Since the 1980s, there have been several attempts to harmonize trade and industrial policies to strengthen synergies, but they have failed to achieve coordination for several reasons. First, an overall national development strategy was lacking, and coordination and coherence between sectoral plans and policies were poor. The lack of a national planning institution in the current government adds to challenges.<sup>22</sup> Second is the tendency of industrial development policies to focus on attracting FDI rather than investing in local industries so as to boost technology transfer in the country. Third, the current National Pact for Industrial Emergence has focused on developing large industries rather than providing incentives to small and medium-

sized enterprises (SMEs). SMEs still face high set-up costs and operational constraints that hinder their competitiveness in global markets.

## MOZAMBIQUE

Mozambique produced a National Development Strategy in 2014. It stresses the importance of increasing coordination among government departments and institutions involved in economic development.

Mozambique is still implementing the 2007 Industrial Strategy, which was initially supposed to run until 2012. A new Industrial Strategy is currently being prepared and should be published by the end of 2014. Its trade policy has not been published since 1997. The International Trade Centre (ITC) has conducted a study on export competitiveness for Mozambique in 2012, but this still needs to receive government approval and to be turned into an implementation plan.

## NIGERIA

Two of the national development strategies clearly relate to trade and industrialization: the National Economic Empowerment and Development Strategy (NEEDS, 2004) and Nigeria Vision 2020 (2010). These documents emphasized the need to accelerate the pace of industrial development by increasing value added at every stage of the value chain, and to make the export of value-added goods the focal point of Nigeria's trade strategy.

The Federal Ministry of Industry, Trade and Investment (FMITI), with its various agencies, is responsible for the design, coordination and implementation of government policies in trade and industry. Although not yet approved, the country has almost completed the process of reviewing its 2002 Trade Policy, necessitated by the need to incorporate the ever-changing global, regional and bilateral trade environment. The primary goal of Nigeria's trade policy remains to enhance the positive impact of trade on economic growth and development, as well as the diversification and development of the economy through the efficient production and distribution of goods and services for the domestic and international markets.

The recent 2014 Nigeria Industrial Revolution Plan (NIRP) recognizes the problem of inadequate linkages among various stakeholders and sectors. The NIRP therefore proposes to link Nigeria's Industrial Policy with Nigeria's Trade Policy, and to integrate the Plan with all other ministerial plans of the Federal Government. This could increase coherence with other key initiatives such as the Gas Master Plan, the Infrastructure Master Plan, and the Science and Technology Plan. The NIRP is further highlighted in Box 3.6.

## TANZANIA

Tanzania's National Vision 2025, trade policy and industrial policy are closely linked, although there are some few gaps in implementation. Coherence stems from three sources: institutional, with both sets of the policies formulated under the supervision of the Ministry of Industry and Trade; a common grounding, in Tanzania's National Vision 2025; and private sector input, with representatives (particularly industrialists, farmers, traders, etc.) fully participating. And because these policies seek to address the needs of these private sector actors, the policies are inexorably complementary.

The policy documents are also similar in addressing promoting competitiveness; stressing value addition of exports; and integrating regionally.

## UGANDA

Uganda's National Development Plan, covering 2010–2015, stipulates the country's medium-term strategic direction, development priorities and implementation strategies.

The National Industrial Policy of 2008 lays out the goals for share of manufactured products in GDP, contribution of manufactured exports to total exports, and value added in industry. Its vision is to build a modern, competitive, integrated and dynamic industrial sector. It outlines four broad policy objectives to enhance the performance of manufacturing: promote development of value-added industries especially the agro-industries; increase competitiveness of local industries; enhance the development and productivity of the informal manufacturing subsector; and enhance applied research and technology development.

The current trade policy was also launched in February 2008 with the primary role of eliminating barriers to trade and providing an enabling environment where the private sector could operate competitively, reliably and sustainably. This was because trade in general (domestic trade in particular) was deemed to be constrained by issues of lack of information, poor marketing infrastructure, an inefficient transport system and lack of explicit support policies.

## ENDNOTES

- 1 Trade policy must be highly selective because of the high costs of negotiating and enforcing it. While recognizing the role and place of horizontal industrial policies, the vertical (i.e., selective) policies are important in developing dynamic comparative advantage.
- 2 A selective trade policy framework is used broadly to include any trade policy design that distinguishes among the various sectors, products, tasks and even processes. It is assumed that such a policy is cognizant of the linkages in a particular economy.
- 3 See Oyejide (2014) on selection for infant-industry argument, Spencer (1986) on criteria for selecting “strategic products” under strategic trade policy and Lin (2012) on how to select firms with latent comparative advantage.
- 4 This is defined as a situation where countries try to outbid each other for investment and aid.
- 5 This was the first integrated trade policy for the country. It is scheduled for review in 2015.
- 6 The 1998 industrial policy was the second. It is currently being reviewed. The revised document is to be sent to the Parliament soon.
- 7 Comparative advantage in tourism sector is to be combined with light manufacturing and increasing productivity in agriculture.
- 8 Trade and Industrial policies are embedded in the PND. Development of a sectoral industrial and trade policy is hindered by lack of capacity.
- 9 To be presented to the parliament before the end of 2014
- 10 La Charte Nationale des Investissements.
- 11 Medium Term Macroeconomic Policy Framework.
- 12 Now considered dated and plan is on the way to revise it.
- 13 A new Industrial Acceleration Plan (2014-2020) has just been launched. The National Pact for Industrial Emergence (NPIE) (2009-2015) was adopted in 2009.
- 14 A new industrial strategy is being prepared. It is due to be published in 2014.
- 15 The 2002 Trade Policy Review of Nigeria is under review.
- 16 The Nigeria Industrial Revolution Plan was launched in January 2014. The 2004 Industrial Policy is currently under Review.
- 17 Sustainable Industrial Development Plan. It was later reviewed and replaced with the Integrated Industrial Development Strategy 2025.
- 18 UNDP (2011) provides an indication of mainstreaming of trade into NDS by selected countries including the Central African Republic, Republic of Congo, Guinea Bissau, Lesotho, Mauritius, Nigeria, Rwanda, Sierra Leone, and Tanzania.
- 19 However, the gap between bound rate and applied rate signals uncertainty to would-be investors.
- 20 This article XVIII permits the use of quantitative restriction and non-tariff measures by developing countries for infant-industry purposes and other government assistance including for the balance of payments.
- 21 Commonly cited WTO agreements include the agreements on Subsidies and Countervailing Measures, on Trade-related Investment Measures (TRIMs), and on Trade-related Aspects of Intellectual Property Rights (TRIPs).
- 22 In 2003, the Ministry of Planning was replaced by the High Commissioner for Planning (HCP), who is under the high patronage of his Majesty the King. The main mandate of HCP is to produce statistics, forecasts, analysis and planning.