Regional integration

Sowing the seeds for food security

Trade’s place in the Sustainable Development Goals

Why regional integration matters to development
More integration, less poverty

ARANCIA GONZÁLEZ, Executive Director, International Trade Centre

Africa is the world’s least integrated region in terms of internal trade flows. Trade among African countries has for decades hovered at around 10% of the continent’s total – well below Europe’s 70%, Asia’s 50%, or even Latin America’s 20%. Research conducted by the International Trade Centre (ITC) has shown that African exports often face higher trade barriers in neighbouring countries than they do in other parts of the world.

On 10 June, however, leaders from 26 eastern and southern African countries sent a powerful signal of intent to reap the economic dividends of greater regional trade, when, in the Egyptian Red Sea resort of Sharm-el-Sheik, they inked an agreement to create a Tripartite Free Trade Area.

Together, the three regional economic communities covered by the new accord – the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) – represent 58% of the continent’s GDP, and are home to more than 600 million people.

At ITC, supporting regional integration, particularly South-South trade and investment, is a key focus of work. But our experiences confirm that signing agreements is not – in and of itself – enough to ensure that intra-regional trade takes off. Even after tariffs are lowered or eliminated on paper, complicated customs procedures, infrastructure bottlenecks, and a plethora of non-tariff measures can stymie trade and discourage businesses even from trying to sell or operate across nearby borders. Often regional trade is also hampered by supply side constraints in the form of limited offer.

Sometimes the problems are simpler: traders might simply not be aware that a given regional agreement exists!

ITC works with governments, the private sector, and trade and investment support institutions to ensure that businesses, especially small and medium-sized enterprises, are equipped to take advantage of trade agreements.

Our projects and programmes expand access to cutting-edge trade and market intelligence. Even before members of the World Trade Organization struck an agreement on trade facilitation in late 2013, we had been supporting countries around the world in their attempts to reform customs and border procedures to reduce costs and smooth the passage of goods and services across borders.

Non-tariff measures, which can raise trading costs by the equivalent of a 20 to 30% import duty, have in recent years been one of ITC’s biggest programmes. Through business surveys and multi-stakeholder dialogues, ITC helps identify the main obstacles to imports and exports that companies face in a given country, and puts forward recommendations for policies or mechanisms to address or eliminate these barriers. It turns out that, very often, the policies that businessmen and women identify as the principal obstacles to trading are in fact domestic, such as complicated procedures for receiving export certification. Solutions to these problems are critical for regional trade agreements to succeed. Yet they are largely to be found at home, not in a country’s trading partners.

Effective regional trade integration can drive in-country and region-wide growth and prosperity, which in turn, research suggests, contribute to peace and security. Regional trade agreements can, if well designed and implemented, also lead to better integration into global trade and international value chains. Targeted capacity building can make for competitive SMEs thriving in regional markets.

At ITC we stand ready to support the Tripartite Free Trade Area member states, and other countries and regions working towards greater regional integration, be it in Africa, Asia, Latin America or the Pacific. It is one of the best tools we have at our disposal to create better trade, prosperity, peace, and, above all, to reduce the number of people living in poverty.
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News Brief

World Bank boosts electricity programme in West Africa

The World Bank Group has pledged US$200 million for the construction of a regional energy transmission network among the Western African countries of the Gambia, Guinea, Guinea-Bissau and Senegal. The cost of electricity generation in the region is very high as a result of high dependence on oil-based thermal production.

The bank’s support of the OMVG Interconnection Project will help countries in West Africa change their energy mix by connecting them to more sustainable and cost-effective energy resources, such as Guinea’s 6,000 megawatts of hydropower potential. Natural gas deposits along the coast from Cote d’Ivoire to Nigeria and in Mauritania can also be converted into power.

Liberia’s WTO accession drive clears key hurdle

World Trade Organization (WTO) member states have demonstrated a consensus for concluding Liberia’s accession to the organization at the WTO’s forthcoming Tenth Ministerial Conference in Nairobi, Kenya. Members agreed at a recent meeting in Geneva that importance of accession for the Liberian economy in light of the Ebola health crisis, which had a dramatic impact on the country’s trade performance. The outbreak had threatened recovery made in recent years following a long civil war.

Axel Addy, Liberia’s minister of commerce and industry, said that trade for development is a critical tool for poverty reduction. He added that Liberia had been determined to fast-track accession negotiations with WTO members through technical work and commitment to bring domestic measures into conformity with WTO rules ahead of the Nairobi meeting in December.

Sustainable fuel programme focuses on accessibility and education

Nearly 2.9 billion people in the developing world use polluting fuels like coal and wood for cooking and heating. According to the World Bank, the estimated health, environmental and economic cost of solid fuels usage is more than US$123 billion every year, which underlines the urgent need to make inroads into development of sustainable fuels.

For the past five years, an international scheme led by the World Bank has helped 100 million people adopt clean and sufficient cooking solutions. However, access to sustainable fuel still remains limited in much of the developing world despite those efforts. One of the biggest challenges is reducing the high dependence on traditional fuel sources, like wood or dung, that come at a little to no financial cost for millions who live in rural areas.
The European Commission launched the Deep and Comprehensive Free trade area (DCFTA) facility for small and medium-sized Enterprises (SMEs), providing new investments worth at least EUR2 billion for three Eastern European countries. This step to boost the trade exchange will bring the economies of Georgia, the Republic of Moldova and Ukraine closer to European Union (EU) internal markets.

The investment aims to make those countries' economies more competitive. It will help SMEs take advantage of increased foreign direct investment and comply with EU product standards and environmental protection measures.

Rana Plaza victims’ compensation scheme secures funds for final payments

The Rana Plaza Coordination Committee has completed the task of raising all the funds required to enable the scheme to make full payments to all victims in the coming weeks.

The committee, which is chaired by the International Labour Organization (ILO) and represents all industry stakeholders, had estimated that US$30 million was required to ensure that all victims can receive fair and equitable compensation according to ILO Conventions.

By April 2015, the second anniversary of the Rana Plaza collapse in Bangladesh that killed more than 1,100 people, over US$27m had been raised and the Committee had paid out 70% of the awards promised to nearly 3,000 claimants, including a significant sum pledged in May. Further donations, including one significant sum pledged late last week mean that US$30m has now been reached and all final payments can be made.

ILO Director-General Guy Ryder (pictured) was encouraged by the action taken by the Government of Bangladesh, the country’s employers, workers, international brands, trade unions and NGOs on the committee to ensure that fair compensation can now be paid to all victims of this terrible tragedy.

‘This is a milestone but we still have important business to deal with. We must now work together to ensure that accidents can be prevented in the future, and that a robust national employment injury insurance scheme is established so that victims of any future accidents will be swiftly and justly compensated and cared for,’ he said.

OECD ministers launch new framework to boost sustainable investment

Ministers from Organisation for Economic Co-operation and Development (OECD) member states have endorsed updated guidelines to help national governments and regional groups create the right conditions to attract domestic and foreign investment.

Ministers approved an updated Policy Framework for Investment (PFI) – first developed in 2006 – during the annual OECD ministerial meeting in Paris on 4 June.

The new version places more focus on infrastructure, small and medium-sized enterprises and the role played by global value chains in economic activity. It also includes gender issues, a vital element of inclusive development, as well as policies to channel investment in areas that promote green growth.

‘The global investment landscape has changed dramatically over the past decade,’ said OECD Secretary-General Angel Gurría. ‘This updated Framework will help get investment to where it is most needed, making it more effective and sustainable to benefit business, society and the environment.’

The PFI connects 12 policy areas: investment policy; investment promotion and facilitation; competition; trade; taxation; corporate governance; finance; infrastructure; developing human resources; policies to promote responsible business conduct; investment in support of green growth; and public governance.

European Commission unlocks €2bn for SMEs in Georgia, Moldova and Ukraine

The European Commission launched the Deep and Comprehensive Free trade area (DCFTA) facility for small and medium-sized Enterprises (SMEs), providing new investments worth at least EUR2 billion for three Eastern European countries. This step to boost the trade exchange will bring the economies of Georgia, the Republic of Moldova and Ukraine closer to European Union (EU) internal markets.

The investment aims to make those countries’ economies more competitive. It will help SMEs take advantage of increased foreign direct investment and comply with EU product standards and environmental protection measures.
Few so-called superfoods have received as much attention as quinoa in recent years. Originating from and grown mostly in South America, it is hailed for its nutritional value and for being easily cultivated in different climatic and agricultural conditions. For these reasons quinoa has been named by the Food and Agriculture Organization (FAO) as the world’s most promising crops in establishing global food security.

In Peru, the International Trade Centre’s (ITC) Trade and Environment Programme (TEP) is working to build farmers’ and exporters’ capacity to meet market requirements and build links to international markets. In partnership with Peruvian Export and Tourism Promotion Board, the Ministry of Agriculture and Irrigation and the German Agency for International Cooperation (GIZ), ITC is also working to boost trade intelligence in the quinoa, Andean grain and cacao sectors.

Photographer Tomas Munita visited some of the projects in Peru earlier this year and these photographs are the result of that visit. ©
on-tariff barriers and trade restrictions in developing countries did not figure much in the Millennium Development Goals and this continues to be the case in discussions on the United Nations’ Sustainable Development Goals.

The Open Working Group was formed in 2013 out of a United Nations Conference on Sustainable Development (Rio+20) mandate to discuss possible Sustainable Development Goals (SDGs) to shape the post-2015 development agenda. Its 2014 proposal includes calls for a rules-based, open, multilateral trading system; improved Aid for Trade support; better regional and trans-border infrastructure to promote regional connectivity; and lowering tariff barriers for exports from developing countries, including duty-free, quota-free (DFQF) market access for least developed countries (LDCs).

There is little new in the proposal relative to the approach taken under the Millennium Development Goals (MDGs). The only concrete trade performance target proposed, a doubling the global share of LDC exports by 2020, is already part of the Istanbul Programme of Action.

POSSIBLE WEAKNESSES IN PROPOSED TRADE OBJECTIVES
The suggested trade objectives have both conceptual and operational weaknesses. The mercantilist focus on exports as opposed to trade (both exports and imports) disregards that - in practice - lack of trade competitiveness is largely the result of domestic policies. As firms will generally benefit from access to imported inputs that they use to produce exports or to sell products that compete with imports, this bias may misdirect policy attention towards interventions that will have only limited benefits.
Moreover, LDCs already have DFQF access to many high-income markets. There are important exceptions, such as Bangladeshi exports to the United States of America, but the large emerging economies can do more in this area. However, research shows that the ‘binding market access constraints’ are often non-tariff measures (NTMs) including restrictive rules of origin. What matters then is helping firms overcome applicable NTMs in the relevant markets, both at home and abroad, and more generally meant to lower their trade costs.

The experience of East Asian countries that have successfully used trade to sustain high rates of economic growth over a long period illustrates the high payoffs to lowering trade and investment barriers and more generally in reducing trade costs. Market access constraints in export markets are not necessarily the binding constraint on trade expansion. In practice, autonomous reforms drive economic development.

While trade agreements can help – especially for nations that are land-locked and depend on neighbouring countries with sea ports – the key need is to identify the primary sources of trade costs, determine what governments should do to address them and decide where others can or should help.

A BETTER GOAL: LOWERING TRADE COSTS

These observations suggest consideration be given to including a specific trade cost reduction target as part of the post-2015 agenda. Non-tariff barriers and services trade restrictions in developing countries and inefficient border management and related sources of real trade costs did not figure much in the MDGs and this continues to be the case in the discussions on the post-2015 SDGs.

Given the extent research on the links between trade expansion and growth, the importance of trade costs as an impediment to the operation of international supply chains, and the role that services play in overall trade costs (transport and logistics services, related infrastructure), policy attention arguably should focus on lowering trade costs. One option would be to set a specific trade cost reduction goal (for example, reduce trade costs for firms operating in low-income countries by an agreed amount by 2020).

There is a precedent for adopting a trade cost target: Asia-Pacific Economic Cooperation (APEC) member governments agreed to a common trade facilitation performance target in two consecutive action plans starting in 2001, setting a goal of reducing trade costs by 10% over a 10-year period on a regional basis. The global community could emulate this initiative, building on and learning from the APEC experience.

A trade cost reduction target leaves it to governments working with stakeholders to determine how best to achieve the target and which elements should be prioritized. In the process it will help incentivize the relevant international organizations to focus more of their activities on assisting governments to reduce trade costs.

This was first published as part of the The e15 Initiative, which is being implemented by the International Centre for Trade and Sustainable Development and the World Economic Forum.

1. Bringing goods to market can be a burdensome affair.
Seven priorities for global energy governance

CHRISTOPHE FREI, Secretary-General, World Energy Council

Energy ministers of the Group of Seven (G7) industrialized nations recently signed a joint statement on energy security. Its fundamental principle was that energy security is a common responsibility.

A given nation relies on neighbouring countries and on coordinated solutions to overcome weaknesses and provide that security. However, the foundation for a successful international collaboration must be built on robust and balanced policy frameworks in every partner country.

It is estimated that US$48 trillion, or 60% of annual global GDP, must be invested in energy infrastructure over the next two decades. Political and regulatory risks are considered the main issues preventing the mobilization of the capital required to make those improvements.

Balanced policy frameworks for energy in the areas of security, equity and environmental sustainability are the best guarantee to avoid sudden and dramatic policy changes. Political risk is therefore a condition for the mobilization of the required capital and delivery of long-term energy security. At the World Energy Council (WEC) this is referred to as ‘balancing the energy trilemma.’ This framework ultimately promotes the prosperity and competitiveness of individual countries. Yet, the annual WEC Energy Trilemma Index illustrates that much work remains to be done in most of the 129 rated nations.

AWAKE AT NIGHT

The risks and challenges to the energy landscape are effectively illustrated by the WEC’s 2015 World Energy Issues Monitor. It shows that energy leaders from over 80 countries remain concerned about energy and commodity price volatility and climate framework uncertainty. They also fear market distortions through stop-and-go energy subsidies and trade barriers as well as outdated market design.

While the specific national context requires that every country finds its own solution to creating the best trilemma balance, it is clear that answers to many energy challenges can be found only through cross-border collaboration. The three guiding
questions that should drive international cooperation in energy are:

1. Which fundamental energy-related prosperity objectives can be achieved only through international cooperation?

2. Which existing market distortions or failures prevent the realization of effective solutions to question 1 and require internationally coordinated solutions?

3. Which strategic technology areas support the solving of question 1 and deserve priority status for internationally coordinated research and development (R&D)?

With these challenges in mind, international collaboration and governance efforts should be focused on these priority areas:

- Efficient resource sharing through regional integration of infrastructure
- Universal access through promotion of adequate policies, skills development, innovative business models and financing schemes
- Mitigation of carbon dioxide emissions through an international climate-framework agreement and burden sharing
- Sun-setting of distorting fossil fuel subsidies that discourage energy efficiency
- Sharing of green technologies and solutions through elimination of tariff and non-tariff barriers
- Revision and regional alignment of outdated market design in electricity and natural gas
- Coordinated R&D in system-critical components with a focus on electric storage and carbon capture/utilization and storage

BUILDING ON EXISTING INSTITUTIONS

Clearly, all of these issues urgently need greater international cooperation and further progress than has been observed over the past two decades. Intergovernmental organizations and initiatives struggle to make meaningful progress, with current efforts often focused on merely avoiding back-tracking. The real challenge is strengthening existing institutions and adapting to the changing energy landscape.

The International Energy Agency (IEA), for example, institutionalizes the joint approach among the Organisation for Economic Co-operation and Development (OECD) member countries regarding the strategic petroleum reserves. However, having China and India as full members will be critical for the future credibility of the effort. Regional organizations promote the complex objective of cross-border infrastructure integration in all regions, generally with only limited or slow progress, but this is an area where real progress can be made. The United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Sustainable Energy for All initiative (SE4All) face the most challenging objectives. These can only be achieved through stronger international cooperation to deliver universal access to modern energy services and avoid climate destabilization.

It is also clear there can be no effective implementation of international climate framework or substantive movement in the absence of strong and balanced national energy policy frameworks.

THE WINDOW OF OPPORTUNITY

As we look to the future we must keep ambitions high for the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) meeting later this year in Paris. The UN’s SE4All process has generated new international dynamics, correctly identifying that energy access is critical for the entire development agenda. However, the issue must now move towards real action and the energy sector has a clear role to play in this effort.

This year provides ample opportunities for existing global governance institutions to show they are mastering the challenges they were set up to address. Delivery of a clear, unambiguous and equitable international climate agreement at COP 21, the definition of energy access as a Sustainable Development Goal and delivery of an implementable roadmap for universal energy access are vital. Neither should we forget the World Trade Organization’s Ministerial Conference in Nairobi, Kenya, in December, where conclusion is expected on tariff limitations for environmental goods. It is our moral responsibility to use those opportunities and actively support these institutions and initiatives.

1. Windmills in China.
2. Solar power is helping to bring electricity to rural areas in India.
Rihab Daqaweieh was one of a group of women and businesswomen from the State of Palestine, Mongolia, Peru, Mongolia, India and Papua New Guinea whose collections were showcased at a fashion show at United Nations headquarters in New York in September 2014. For Daqaweieh – and her business – the event and the process leading up to it proved a turning point: she has more than doubled her exports since.

When Palestine’s first National Export Strategy (NES) was unveiled in Ramallah on 1 June, it was small and medium-sized business-owners like Daqaweieh the government had mind as it is they who hold the key to expanding Palestinian trade.

A five-year roadmap for increasing Palestinian exports, the NES – presented by Palestinian Prime Minister Rami Hamdallah, Palestine Trade Centre (PalTrade) Chairman Ibrahim Barham, International Trade Centre (ITC) Executive Director Arancha González and European Union representative John Gatt-Rutter – seeks to drive socio-economic development and better integrate Palestine into the global economy. It sets out specific interventions to increase the competitiveness of nine key export sectors and subsectors. In addition, it provides guidance on improving the business environment to realize the vision articulated by the strategy’s authors: Export-led Prosperity, Made in Palestine.

‘This first Palestinian export strategy is the culmination of a national effort,’ said Hamdallah. ‘The implementation of the Palestinian export strategy is expected to lead to an overall growth in export sectors over the next five years by 67% with an annual growth rate of 13%. This will lead to enhanced Palestinian access to raw materials, a reduced trade deficit and reduced dependence on the Israeli market as the main destination for Palestinian exports.’

EXPANDING EXPORT RANGE
To extend trade for new products and markets – and to boost employment generation – the strategy presents detailed action plans for the following priority sectors and subsectors: agro-processed meat; footwear and leather; fresh fruits, vegetables and herbs; furniture; information and communications technology (ICT); olive oil; stone and marble; textiles and garments; and tourism.

For the private sector to fully participate in this transformation of the Palestinian economy, the NES includes cross-sector strategies to address constraints in the business environment. In particular it highlights the need for better access to finance, improved quality management and trade information, and enhanced trade facilitation.

‘By launching this National Export Strategy, Palestinian businesses, policymakers and international partners now...’

An export compass for Palestine

JARLE HETLAND, Editor, International Trade Forum
have a tool to better use trade as a platform for growth and place SME development at the heart of the future economic roadmap,’ said González of ITC. ‘The strategy identifies sectors, through which Palestine can strengthen its competitiveness, leading to greater economic independence and better livelihoods for the Palestinian people.’

The NES was formally endorsed by the Cabinet of the State of Palestine in September 2014. That decision also established the Palestinian Export Council (PEC), a public-private platform set up to manage and monitor the strategy’s implementation. Under the leadership of the Minister of National Economy and PalTrade, the PEC, in close collaboration with partners and donors, will ensure that actions identified in the NES are efficiently implemented.

STATE-BUILDING TOOL

Gatt-Rutter pointed out that the strategy sets out the framework for increasing Palestinian exports through the implementation of a detailed package of measures that must be applied by the Palestinian Authority across promising sectors

‘It is also a powerful political tool in the state-building process,’ he said. ‘The document identifies concrete targets and measures to establish a strong and independent economy as part of a viable and independent Palestinian state.’

Barham of PalTrade said: ‘The effective contribution of the NES to trade development will largely depend on the ability of the State of Palestine to plan, mobilize resources, coordinate projects, and monitor their implementation through a concerted effort of public and private stakeholders.’

The strategy was designed under the leadership of the Ministry of National Economy and the management of PalTrade, with technical assistance and guidance from ITC. The EU provided financial support for the design of the NES under its Trade Diversification and Competitiveness Enhancement Programme.

While Daqaweieh and other exporters in Palestine welcomed the new strategy, many of them have already set their sights on new opportunities abroad and at home. For Daqaweieh, a member of BusinessWomen Forum – Palestine, the United States of America has become the main export destination for her clothes, which mixes traditional Palestinian embroidery techniques with neat, modern design.

But equally important for Daqaweieh are the opportunities her exports create at home: she now employs 120 women around Ramallah, providing a much-needed income for their families. With Palestine’s National Export Strategy the hope is that more businesswomen and men will follow Daqaweieh’s lead and overcome barriers to export, thereby helping generate more jobs.

1. Rihab Daqaweieh at her shop in Ramallah.
2. Mixing old traditions with modern design.
3. Palestine’s National Export Strategy has been dubbed a ‘state-building tool’.
4. Rihab Daqaweieh’s textiles are finding their way to foreign markets.
5. Representative John Gatt-Rutter, Palestinian Prime Minister Rami Hamdallah, ITC Executive Director Arancha González, and PalTrade Chairman Ibrahim Barham.
WOMEN VENDORS EXHIBITION AND FORUM
2-3 September, São Paulo, Brazil

World Export Development Forum 2015
Sustainable trade: Innovate, invest, internationalize
20-21 October, Doha
Africa recently took what many hoped will be a giant leap towards better regional integration among countries across the continent. Leaders from 26 African countries meeting in the Egyptian seaside town of Sharm el Sheik on 10 June signed an agreement to create the continent’s largest free-trade zone, covering 26 countries in an area from Cape Town to Cairo.

The Tripartite Free Trade Area (TFTA) unites three existing trade blocs – the Southern African Development Community (SADC), East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) – into a single new zone. Once ratified and implemented, the TFTA will help facilitate the free movement of goods across an area comprising more than 625 million people and a combined gross domestic product of more than US$1 trillion.

While a continent-wide free trade bloc is still some way off, the TFTA is an important step forward for Africa. Across the region only 12% of trade is among African countries. Latin America, too is lagging behind, with only 21% of all trade being intra-regional compared to 50% in Asia and 70% in Europe.

On the following pages we will examine why regional integration matters – for all regions – and especially the role trade plays in this process. However, more and better trade is not the only public good that comes with regional integration: it is closely followed by peace, security and prosperity.
Regional trade in a multilateral world

ROBERT KOOPMAN, Chief Economist, Director of Economic Research and Statistics, World Trade Organization

Regional trading arrangements (RTAs) have been around for centuries and preceded the General Agreement on Tariffs and Trade (GATT), which made explicit provision for customs unions and free-trade areas. The number of RTAs notified to the World Trade Organization (WTO) has risen to more than 250 in the past 30 years, with the majority created since 1990 when the number was closer to 70.

The rapid growth of global supply chains and their extension into developing countries has spurred demand for deeper behind-the-border reforms. Many recent RTAs seek to support production networks by linking research and design, manufacturing, logistics, communications, investment, intellectual property rights, competition policy and regulatory standards. While these initiatives coexist with the multilateral trading system, they are not a substitute for it.

We must ensure that these megaregionals continue to build momentum to broader liberation and work well with the multilateral trade system.
EXPANDING MULTILATERAL TRADE

The multilateral, rules-based system established by GATT and continued under the WTO has had stunning success in expanding global trade while balancing the interests of its members. In the six decades since GATT was signed world exports have grown 35-fold and tariffs have dropped by 90%.

The expansion of WTO membership and the unilateral tariff reductions and provisions negotiated as part of accessions has increased liberalization. The multilateral agreement on trade facilitation agreed at the Bali Ministerial Conference in December 2013, the first update to global trade rules in 20 years, will reduce trade costs at the border for all members. Estimates suggest it will contribute to over US$1 trillion in increased exports to the global economy.

The WTO’s role is to support the development of global trade rules, monitor adherence to those rules, help resolve disputes that may arise between members, and promote the deeper integration of members – especially developing country member – into the global trading system. Overall, however, progress at the WTO in creating new rules and updating older ones has been slow.

Most empirical evidence suggests trade creation resulting from RTAs generally has greatly exceeded trade diversion, particularly when examining tariff policies. Most tariffs are already low in developed countries, so the preferential tariff access RTAs provide is generally not that great. Further, most have been unable to reduce tariffs significantly on sensitive products with the highest protection.

MEGA-REGIONAL TRADE AGREEMENTS

The current negotiations of mega-RTAs involving large players – for example, the Regional Comprehensive Economic Partnership, the Trans Pacific Partnership and the Transatlantic Trade and Investment Partnership – introduce new elements into the trade creations-trade diversion debate.

These mega-regionals are pursuing convergence in policy and regulatory environments among the partners, behind-the-border efforts often referred to as WTO-plus or WTO beyond. When they result in outcomes that are non-discriminatory - either because they are applied multilaterally or because any discriminatory elements are difficult to enforce - the mega-regionals can advance multilateralism.

Take, for example, access commitments in investment and regulatory coherence. It is very difficult to create effective mechanisms to limit the application of commitments in these areas to just the member countries and thus non-partners are likely to benefit as well. Consider the European Union (EU) common market initiative, which essentially allowed increased access for non-members if they met EU standards. If non-member countries can demonstrate meeting the same commitment level, it is difficult to exclude them from benefiting. In addition, where mega-regionals build on core WTO disciplines such as in sanitary and phytosanitary measures or technical barriers to trade, the outcomes are likely to be a treatment consistent with most-favored-nation status, allowing non-partners to benefit.

Experimentation in approaches to updating trade rules can be beneficial to the global economy if accompanied by learning and adaptation over time and incorporation of the broad range of member needs and priorities. By contrast, a fragmentation of international trade rules, resulting from uncoordinated and haphazard efforts to update and extend them, could undermine the WTO’s role in developing, monitoring and enforcing trade rules and in promoting global economic integration, particularly for smaller countries outside the mega-regionals.

We must ensure that these mega-regionals continue to build momentum to broader liberation and work well with the multilateral trade system. In this regard it is important to make use of existing mechanisms within the WTO. Its committees and bodies provide excellent venues for RTA partners to share their experience and learning with WTO-plus disciplines and for non-partners to raise concerns about an RTA’s impact on exports.

In addition, we must sharpen our empirical skills for assessing the impacts of behind-the-border measures and for measuring trade diversion and trade creation from RTAs.

Above all, we must be committed to the difficult work of updating and expanding WTO rules.
The world economy is increasingly integrated, a development marked by the dominance of global and regional value chains. This has been accompanied by a proliferation of bilateral, regional, mega-regional and cross-regional economic cooperation agreements and integration initiatives.

Africa, a less developed but fast-emerging continent, is no exception, though it occupies a special — some would argue paradoxical — position. While it has set itself a most ambitious regional agenda, it is home to a multitude of regional organizations and groupings generally characterized by heavy — though often weak — institutionalization. Eight of these regional organizations, the regional economic communities (RECs), are the building blocks to continental economic integration under the aegis of the 54-member African Union (AU).

One of the AU’s aims is to boost intra-Africa trade and create an integrated continental market, including by establishing a continental free trade area by (CFTA), by 2017. Yet Africa is seemingly still the least economically integrated continent, even though there is a lack of good data and the large informal sector is generally not accounted for. The gaps between regional headline commitments (let alone the vision) and their implementation at national levels are glaring.

Attention has therefore generally centred on the state of regional economic integration in Africa, its potential benefits for sustainable development, the merits of objectives set, the credibility of commitments made and the capacity to achieve them. This has often led to heated debates between optimists and pessimists and discussions on whether economic integration in Africa should be viewed as a glass half full or half empty. While this relates mostly to expecta-
The heavy reliance of RECs on donor funding may stand in the way of a given country or group of countries taking greater ownership of regional organizations.

Tions of what regional integration should look like, a benchmark – which definitely matters – might not be essential.

Surprisingly, little attention has been devoted to the political economy dynamics of cooperation and integration in Africa. Just like in other parts of the world, regional processes there are complex. They involve multiple stakeholders with differing historical, cultural, political, institutional, social and economic interests and backgrounds. The interactions between economic objectives and other regional dimensions – such as political cooperation, peace and security, management of natural resources, and health – are often poorly understood and thus generally discounted.

Yet such dynamics are critical to explaining the shape, trajectory and speed of economic integration in Africa. They can help observers to understand, for instance, the multiple memberships of all African countries to more than one regional grouping. They can also aid in identifying the opportunities and driving forces for regional integration and better navigate the obstacles and challenges that hinder it. They can also help describe the political – not merely the technical – feasibility of particular reforms and the types of coalitions that may contribute to solving problems of regional dynamics.

This then assist policymakers find the room for manoeuvre and whether they should try to i) alter the incentives for behaviour currently in place, ii) somehow avoid current incentives through alternative approaches, iii) adapt to current behaviours and incentives, or iv) await more propitious circumstances before acting.


First, economic integration requires champions. These cannot come from outside the region, though international factors and actors have an influence. However, large dominant countries, or a coalition of countries, usually set the tone and speed for regional integration. They can boost, but at times also hinder regional initiatives. Think of South Africa in Southern Africa, Kenya and what some have termed the ‘coalition of the willing’ with Uganda and Rwanda along the Northern Corridor in the East African Community, or Nigeria in West Africa. Champions can also include private sector actors, as discussed below.

Second, the size of the REC affects its dynamics, with larger groupings facing greater challenges in aligning the interests of their members. Though this can influence the agenda setting, it seems to have an even greater impact on transposition and implementation of regional commitments at national level and the capacity to overcome coordination failures.

Third, while most RECs are heavily institutionalized, progress is more effectively achieved in areas where RECs build on bottom-up, functional economic integration based on private sector and civic stakeholder initiatives and specific interests. These are often expressed first at national levels and not necessarily institutionalized at the regional level.

Fourth, RECs play an important signalling role, identifying the path to greater economic integration and providing important political legitimacy. Still, momentum for action can more easily be generated around specific objectives and narrower set of priorities resting on strong domestic interests from ruling and economic elites. In such contexts, monitoring mechanisms can help increase the transparency on implementation while also providing additional incentives to fulfil commitments.

Finally, the international community, in particular donors, have so far played a key role in providing technical and financial support to Africa’s economic integration. The heavy reliance of RECs on donor funding may stand in the way of a given country or group of countries taking greater ownership of regional organizations, policies and programmes and hence block the process of institutional development by domestic state and non-state actors that is adapted to the regional context.

Traditional donors have often ignored some of the political economy dynamics of regional integration in Africa. Submitting donor support strategies and efforts to ongoing and regular political economy analysis would provide a healthy counterbalance to often well-intended but poorly targeted approaches and help guide interventions in an iterative way.

A more politically savvy approach to economic integration, based on a pragmatic and targeted set of priorities and informed by these dynamics, is more likely to effectively bring about the desired regional cooperation and integration sought by Africans and their partners.

1. Two women bring goods across the border between the Democratic Republic of Congo and Rwanda.
The role of big data in Africa’s regional integration

CARLOS LOPES, Executive Secretary, United Nations Economic Commission for Africa

The ambitions of a young Ugandan entrepreneur to expand his coffee processing business will soon be within reach. East Africa’s accelerated integration process is opening up possibilities that were unthinkable not long ago. In a couple of years he may be able to tap into West Africa’s 350 million people without having to pay the high tariffs and transport costs that currently make it easier to export to Europe than to other parts of the continent.

Initiatives to accelerate the speed of Africa’s regional integration are gaining momentum. They include the establishment of a Continental Free Trade Area by 2017, an action plan to boost intra-African trade and the dismantling of trade barriers through establishment of sub-regional free trade areas and customs unions. Measures to simplify customs procedures, the free movement of people and the development of regional infrastructure are also being put in place. The spirit of the 1991 Abuja Treaty, which has served as the blueprint for such an ambitious goal, is finally being taken seriously.

With trade pegged as a means to implement the post-2015 development agenda, as well as Africa’s own Agenda 2063, the role of trade as a vehicle for development has become more obvious.

FORMAL AND INFORMAL TRADE

On average, formal intra-African trade accounts for about 14% of total African trade. This is low compared to other regions. Intra-regional trade as a share of trade is 17% in South and Central America, 42% in North America, 62% in the European Union and 64% in Asia. Key to such a figure is the word ‘formal.’ A significant portion of economic exchanges taking place along various African borders are informal.

The good news, though, is that manufactured products represent about 46% of intra-African formal trade. This indicates the huge potential for the development of supply chains across the continent.
Africa’s predominately monocultural economic base can be changed by adding value to goods produced on the continent. Along with productivity gains and a boost in competitiveness, enough jobs can be created for the continent’s young and rapidly urbanizing population.

In perhaps the boldest attempt to date to collect data on the impact of regional integration, the Economic Commission for Africa (ECA), the African Union and the African Development Bank have jointly developed a Regional Integration Index. The tool will be a barometer for governments and the general public, enabling them to check the performance of countries and their regional economic communities.

Summarizing information from more than 70 indicators, the index tracks progress and identifies bottlenecks to be addressed, informs policy decisions and helps with future trade negotiations. In support of its implementation, the ECA is training countries and sub-regional entities in Africa on data collection and supervision.

FROM FLIGHT DATA TO TARIFF DATA
Given the novelty of some of the indicators being used, efforts are also being made to standardize databases. The use of ‘big data’ techniques has offered opportunities for the index to be a frontrunner of innovative methodologies. For instance, collection of airline data to provide datasets on flight patterns between airports is used to calculate an aggregate of intra-African flights; or trade tariff data is employed to calculate averages of trade-weighted intra-African tariffs.

In light of the advances made in the telecommunications industry, there is potential to leapfrog technology and leverage sources of big data generated from online content, social media or satellites to mobile-phone technology to support refined policy choices. With more than 629 million mobile-phone users, phone data is proving to be a gold mine for decision-makers. This data is already making a difference in numerous areas, from humanitarian assistance to tracking the transmission of diseases and helping compensate farmers in real time for weather-related crop failures. Africa’s mobile banking systems have not only changed the way financial transactions are carried out on the continent, but are becoming a reference for the rest of the world.

Notwithstanding these successes, further investments are required to take full advantage of big data’s potential. Data-user communities are being designed that will help validate data entries generated by others rather than from official statistical entities. Being able to update the Regional Integration Index with big data will encourage the type of scrutiny and accountability that can catalyse greater government action.

With data enablers in place, entrepreneurs will be able to assess which markets are worth plugging into. This will be as crucial for the young Ugandan waiting to export coffee as it will be for the Malian business thriving on cotton production or the assemblers of BMW automobiles in South Africa. Making the right decisions can only be accomplished through having the right knowledge.
Narrowing borders, expanding trade in Latin America

CHRISTIAN VOLPE MARTINCUS, Lead economist, Inter-American Development Bank

Time matters for trade and its importance is likely to grow because of increasingly segmented production chains across countries and lean retailing, among other reasons.* Especially critical is the effectiveness of public entities that affect the transit times between origins and destinations of goods.

This is particularly the case with customs but also with a number of regulatory agencies, such as those responsible for health, food and quarantine. The manner in which their trade-related regulations are designed and enforced determines the thickness of the borders and the time required to cross them. Trade facilitation measures precisely aim to streamline the administrative processing of trade flows, thereby narrowing the border and speeding the movement of goods.

Latin American countries have recently implemented various initiatives in this direction, in several cases with technical and financial support from the Inter-American Development Bank (IDB).

RISK MANAGEMENT MAKES A VITAL DIFFERENCE

Among these trade facilitation initiatives is the introduction of risk-based inspection procedures which allow for focusing controls on high risk shipments instead of inspecting every single shipment.

Results from a recent study conducted by IDB suggest that if all exports would have been physically inspected and such inspections would have taken two days, total Uruguayan exports in 2011 would have been approximately 15% lower.** This highlights why utilization of risk-based verification procedures and expedited controls should be key components of trade facilitation strategies. Still, the ultimate goal should be the adoption of an integral risk management system encompassing all relevant border agencies.*** Despite the significant progress made by Latin American countries in this area, that goal remains elusive.
**TRANSIT REGIMES AND THE AEO PROGRAMME**

Trade can face more acute problems when goods have to be shipped through third countries because multiple border crossing and agencies from different countries are involved. This is particularly important for road-based regional trade and specifically within regional trade agreements.

Well-functioning transit regimes are virtually absent in most developing regions. One of the few exceptions can be found in Latin America: the Central American TIM (Tránsito Internacional de Mercancías, or International Transit of Goods). It implied the gradual adoption of a common electronic document and the interconnection of participating border agencies to make possible a unified transit border control. This in turn allowed for real-time control of flows and significant reductions in the time required to trade across borders and thus in trade costs. Evidence from an IDB study on El Salvador and Guatemala revealed that the TIM favoured an increase in their firms’ exports, primarily through higher shipment frequency.

The Authorized Economic Operators (AEO) programme is another important trade facilitation initiative in which cooperation will be essential to maximize its impact on trade. AEOs are firms – certified by customs administrations as complying with relevant supply chain security standards – entitled to trade facilitation benefits, primarily consisting of less frequent physical inspections and reduced clearance times. AEO programmes have been adopted in 11 Latin American countries and two of these countries have already signed mutual recognition agreements (MRAs) with partners.

**TRADE FACILITATION IN LATIN AMERICA**

Progress towards trade facilitation in Latin America has been noticeable in recent years. However, much remains to be done. The implementation of the World Trade Organization’s Trade Facilitation Agreement provides countries in the region with a unique opportunity to move this policy agenda forward.

As such, in addition to endowing border agencies with proper personnel and technological means to accomplish their mission, countries must ensure better coordination between agencies; better design or re-design their procedures; and put in place effective and interoperable mechanisms to process permits and certificates, which would create the conditions for comprehensive single windows as well as for integrated border controls. They would also have to improve their risk management systems, including the adoption of an integral risk approach linking all border agencies; upgrade their transit regimes; and strengthen and connect their AEO programmes with those of peers through MRAs.

The IDB has been and is currently supporting the efforts of Latin American countries to implement the aforementioned trade policy agenda through loans, technical assistance, capacity building schemes, and a series of studies that aim to assess and inform the impact of the different components of this agenda.

Supported initiatives and countries include single windows (Chile, Costa Rica, Colombia, Panama, Peru, Uruguay), interoperability of single windows (Pacific Alliance and associated countries), border crossings and coordinated border management (Ecuador and Colombia, Nicaragua and Costa Rica), AEO programmes (most countries), and training on trade and customs issues, single window, transit trade, and AEOs.

Trade gains from these measures are likely to be substantial and so would those additional rewards from additional employment opportunities and increased productivity.

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**The impact of customs delay on exports, Uruguay, 2011**

![Chart showing the impact of customs delay on exports, Uruguay, 2011](chart.png)

*See, e.g., Hummels et al. (2001), Hummels (2007), Hummels and Schaur (2013), Evans and Harrigan (2005); and Harrigan and Venables (2006).*

** In addition to their actual coverage, the speed of the controls also matters: if all shipments that were subject to physical inspection and spent more than two days in customs would have been released within one day as those processed without those inspections, exports would have been 5.9% larger (see Volpe Martincus et al., 2015a).

*** Marquez Fariña and Volpe Martincus (2014).


**** See Corcuera-Santamaría and García Navarrete (2014).

1. Reducing clearance times is a Latin American priority.
How financial integration can help regional integration in Africa

AMLADOU SY, Senior Fellow and Director, Africa Growth Initiative, Brookings Institution

Intra-African trade, especially with Nigeria and South Africa, is growing at a robust pace. It increased more than five-fold in 1995-2012 from US$27.9 billion to US$148.9 billion. However, given that intra-African trade remains the lowest in the world – 12% compared to 25% for the ASEAN region and 17% among the Mercosur countries – there is scope for more growth.

To strengthen regional integration, a greater effort is needed to eliminate tariffs and non-tariff barriers and to implement a roadmap to free trade areas and customs unions. However, tariffs and non-tariff barriers are not the only obstacles to regional integration in Africa. It will be equally important to strengthen financial integration.

TRADE, FINANCE AND PLUMBING

Payments and settlements – the ‘plumbing’ of financial systems – are critical to financial integration. Properly functioning and cost-efficient payment and settlement systems help support intra-regional trade and finance exchanges as well as remittances. In Africa, solutions are needed to reduce transaction costs associated with foreign currency clearing, settlements, currency risks and remittance transfers.

Transaction costs arise when trade and investment is cleared and settled in foreign currency outside Africa. For instance, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) indicates that about half of intra-African import and export settlements involve a bank outside Africa (figure 1). In particular, U.S. dollar clearing banks are becoming more important as trade and investment within Africa, about 23% of total trade according to SWIFT data, and with other emerging markets is increasing.

The number of countries adopting more flexible exchange-rate regimes has increased, resulting in increased market volatility as exchange rates become a more frequently used tool to absorb external shocks.

Know-your-customer (KYC), anti-money laundering and financial terrorism regulations also raise transaction expenses. Financial integration can help reduce those costs. SWIFT figures show that intra-regional trade is higher among the member states of the West African Economic and Monetary Union than in other regional economic communities, reflecting the use of a common currency and a regional financial infrastructure.

CURRENCY RISKS

There is also a need to reduce the costs from trading in more than 30 different regional currencies. High market volatility and administrative measures by central banks with occasionally low foreign-exchange reserves remain an issue.

Furthermore, the number of countries adopting more flexible exchange-rate regimes has increased, resulting in increased market volatility as exchange rates become a more frequently used tool to absorb external shocks. Many countries rely on administrative measures in forex markets and ration foreign currencies when international reserves are low. Instruments to mitigate currency risks, such as swap arrangements, would help strengthen cross-border investments.

In the absence of private-sector involvement, consideration could be given to multi-lateral solutions. The World Bank’s private finance arm, the International Finance Corporation (IFC), issues bonds in local currency but typically swaps its positions back to U.S. dollars. The IFC’s efforts to kickstart local swap markets are laudable, but ultimately domestic banks and corporations should play a more important role. It is therefore important to identify and address existing obstacles.
to market development, starting with banking and forex market regulation.

INTRA-REGIONAL REMITTANCES

Remittances can be an important source of foreign exchange for some countries. They have exceeded 10% of GDP in Togo, Cape Verde, Senegal, Nigeria and Lesotho.\textsuperscript{1}

However, transfer costs within Africa are the highest in the world. For instance, it costs about US$19.50 to US$21 to transfer US$200 from South Africa to Malawi, Angola, Mozambique, Botswana or Zambia. World Bank data suggests these costs are up to 10 times higher than the cheapest transfers (from Singapore, the United Arab Emirates or Saudi Arabia).

Mobile payments could help reduce transaction costs. For instance, telecom operators such as Orange and Tigo have come up with innovative cross-border solutions. Orange Money is present in 11 countries in sub-Saharan Africa and mobile-to-mobile payments in CFA francs are possible between West African countries including Cote d’Ivoire, Mali and Senegal. Similarly, in East Africa, Tigo offers cross-border mobile money transfers with automatic currency conversion between Tanzania and Rwanda.

The rapid growth of mobile usage in sub-Saharan Africa – from 16.5 million users in 2000 to 650 million users in 2011 – suggests the potential for mobile payments to increase. Efforts to increase Internet usage, coupled with lower smartphone costs, could further reduce the costs of mobile payments and other innovative solutions. Indeed, companies are increasingly targeting emerging markets with plans to manufacture smartphones that would sell for less than US$25. Such developments could also increase financial inclusion.

It will be important, however, to strike the right balance between regulatory objectives and the pace of innovation. The African Mobile Phone Financial Services Policy Initiative, which includes a number of African central banks, provides a forum for regulators to discuss these issues and adapt regulations accordingly.

African institutional investors could play an important role in integrating securities markets through cross-border investments. The issue is that African countries are at different levels of development of their pension and insurance industries. Asset allocation by many pension funds is limited to real estate and domestic government securities, often because of regulation and the dearth of investable assets.

The recent decision by the US$150bn South African public pension fund, the Public Investment Corporation, to start investing in the region is a good start. Listing requirements for exchange-traded funds and depositary receipts in African stock exchanges are also promising.

Solutions such as swap arrangements or a multi-currency clearing center should also be considered. In the meantime, innovation is proceeding at a rapid pace and mobile payments can now occur between some African countries with different currencies. Regulators will have to keep pace with such developments without unnecessarily stifling their benefits.

1. Investors could play a more important role in strengthening securities markets.
2. There is scope for much more trade and growth in Africa.

While trade openness creates growth, it is not in and of itself a panacea for the myriad challenges of development. While trade openness creates growth, it is not in and of itself a panacea for the myriad challenges of development. In the dual context of crafting of the post-2015 Sustainable Development Goals and the transition between what I deem the ‘old’ and ‘new’ worlds of trade, it is important to consider the potential risks and rewards mega-FTAs and regional integration efforts may hold for emerging regions. It is more important still to examine and reaffirm the role the International Trade Centre (ITC) has played and continues to play in advancing the Aid for Trade (AFT) agenda.

In *The Geneva Consensus*, a book I published just after my departure from the World Trade Organization, I highlighted the need to find a balance between the benefits of creating economic gains through trade and the potential impact trade openness can have on social fabrics. Opening trade does create efficiencies, and therefore economic...
gains – but policymakers must make sure these economic gains also translate into social gains at all levels of society, especially for developing countries where inequalities have been on the rise.

Though reducing trade obstacles can and does level the playing field of world trade, such obstacles are themselves being transformed as we transition from the old to the new world of trade. In the old world, trade obstacles were drawn along the lines of national systems of production and existed to protect domestic producers from competition. In that world, opening trade meant reducing these obstacles, primarily tariffs, quotas and subsidies. Eliminating these barriers, if not easy, was fairly straightforward for trade negotiators.

NEW-WORLD OBSTACLES

In the new world, production has become transnational along global value chains for both goods and services. While some old-world trade barriers remain, new-world obstacles to trade are increasingly based on precautionary measures vis-à-vis the safety and preferences of a nation’s or region’s consumers and not the protection of its industries. The path to reducing trade barriers based on precaution is harder to tread because it requires harmonizing value-based norms and quality and safety-based standards that also happen to reflect citizens’ collective preferences.

At the same time, the graduated trade-openness approach based on differing levels of development that reigned in the old world of trade is no longer applicable in the new. Variable tariff regimes based on development levels were possible in the old world but are not in the new. Take, for example, standards on maximum residual pesticide residue for flowers. Having a graduated standard for lower, middle and high-income countries does not make sense. In this example, we can imagine the tangible advantages regulatory convergence achieved through a mega-regional trade deal like the Trans-Pacific Partnership or the TTIP could have for a flower farmer in an African country like Rwanda.

Meanwhile, developing regions are still dependent on the evolution of external regulatory bodies even as certain intra-regional economic integration movements begin to bear their fruits, as in Eastern Africa, Central America and within ASEAN. However, much is left to be done on a global scale. Despite some progress at Bali in 2014, the Doha Round remains unfinished. Many tariffs are still high in developing countries, particularly in emerging markets. Excessive agricultural subsidies can present substantial barriers to these countries’ abilities to fully integrate with more developed nations.

But there is good news. These and other persistent obstacles to developing regions’ full integration and world trade can be overcome. Through both material and technical trade assistance – especially in adapting to sanitary and phytosanitary standards, and the establishment of benchmark private standards – ITC and its partner organizations and countries are working to ensure developing and emerging economies’ continued success dovetailing with the evolving architecture of the new world of trade.

BOOSTING COMMERCE FOR GOOD

As regards the overall success of Aid for Trade (AFT), I remain encouraged by what I perceive to be two of its major achievements. First, the programme has helped to effectively mobilize resources towards projects that boost commerce through improved trade infrastructure and reduced red tape. Secondly, by mainstreaming the importance of trade’s positive role for development, AFT has sustained interest in development and trade despite the difficult geopolitical context of the global economic crisis. Continued streamlining of Aid for Trade’s resource allocation process and ever-greater transparency and accountability will ensure the initiative’s continued success.

As a major player in Aid for Trade, ITC can and should remain ahead of the curve in this new world of trade. Its recognized expertise in both public and private standards have become a key determinant of the capacities of developing countries and SMEs to trade.

1. A flower farm in Kenya.
2. A cement factory in Dire Dawa, Ethiopia. Producing 3,000 tons of cement a day, it helps meet the demand of the country’s building boom.
Regional integration continues to occupy the minds of many leaders in Africa, Caribbean and Pacific (ACP) regions, indicating there is significant political will to move this agenda forward. International institutions and agencies are working closely with countries on a range of initiatives to accelerate the process.

The secretariat and members of the ACP Group of States have recognized that integration into the world economy is a stepping stone towards alleviation and eradication of poverty and an effective means of achieving prosperity, peace and security.

The economic benefits of integration are well documented, including the creation of larger markets and new trading opportunities while increasing competition and lowering prices for consumers. It can also help generate greater levels of domestic and foreign investment.

Developing free-trade areas or customs unions which create common markets for goods, people, capital and services is the crust of regional integration. More advanced models go further, introducing a common currency, harmonizing some national legislation and developing common policies.

The rationale behind the creation of the Economic Partnership Agreement (EPA) between the ACP Group and the European Union (EU) was that this too would aid regional economic integration. For example, all African members of the regional EPA grouping would remove tariff barriers with each other, thereby encouraging
It is becoming increasingly clear that concluding EPAs with sub-regions or individual countries is likely to have serious negative implications on regional integration among ACP countries.

Intra-African and intra-ACP trade. They would then agree on the degree and time-frame for tariff reduction in favour of the EU.

Unfortunately, EPA configurations do not coincide with regional integration groupings currently existing in the ACP. The EPA grouping either incorporated non-members into existing regional groupings, as in the case of the Caribbean Community and Common Market (CARICOM) states plus the Dominican Republic, or they divided or merged regional organizations in the case of Africa.

Furthermore, the customs unions in the process of formation, when completed, will not coincide with EPA groupings, with the only exception being perhaps the East African Community (EAC). Indeed, one existing customs union, Southern African Customs Union (SACU), has some members (Botswana, Lesotho, Namibia, Swaziland and South Africa) in the larger SADC EPA, which also includes Mozambique and Angola.

It is becoming increasingly clear that concluding EPAs with sub-regions or individual countries is likely to have serious negative implications on regional integration among ACP countries. Therefore, the ACP Group has urged the EU to take into account the existing regional trading arrangements in the finalization of the EPA negotiations. This would allow for the rationalization of ACP regional groupings to be completed before full implementation of the comprehensive EPAs is concluded.

The ACP Group is concerned about this situation and in confronting this challenge supports the Africa Union’s efforts to encourage the merger of regional groupings that are closely interlinked. As such, it welcomes and congratulates the three regions of COMESA, EAC and SADC that launched a free trade agreement (FTA) in Sharm el Sheikh, Egypt, on 10 June 2015.

This has been followed by the commencement of negotiations in Johannesburg on a continent-wide FTA. We have also learned of a decision to rationalize the Economic Communities of Central Africa that would include the merger of Economic Community for Central Africa States (ECCAS) and the Central Africa Economic and Monetary Community (CEMAC). This new institution would commence negotiations of an FTA with the Economic Community Of West African States (ECOWAS).

The ACP Group will have a leading role to play in this interregional cooperation as under the ACP-EU cooperation, the two sides recognize the role of regional integration in fostering trade cooperation, peace and security, in promoting growth and in addressing cross-border challenges.

Regional infrastructure; the sustainable management of natural resources; adaptation to climate change; food and nutrition security; and agricultural transformation are additional areas receiving attention.

ACP-EU cooperation also supports national governments, parliaments and non-state actors in matters of regional integration. They contribute to the establishment and fostering of free trade areas and customs unions to help regions to reap the benefit of economies of scale and push the conduct of trade to the top of the development agenda.

Increased activities in ACP regions are being set up to simplify and harmonize national customs systems and procedures, making it easier for goods to cross borders.

The ultimate objective is to enhance and accelerate regional integration in ACP states to meet the aspirations and achieve the goals that the ACP organizations have set for themselves. The ACP Group Secretariat will continue to support regional initiatives whose objective is the sustainable development of ACP economies for the benefits of its peoples.

1. Modern fishing techniques is helping eradicate poverty in Samoa.
2. The ACP and EU are working together to boost the competitiveness of African cotton.
The importance of infrastructure with regard to regional integration remains doubtless in Africa. Past efforts at regional integration have focused on removing barriers to free trade, increasing the free movement of people, labour, goods and capital across national borders.

The past decade has included an unprecedented level of investment into infrastructure development across Africa, including in energy, rail, roads, ports and telecommunications. The overall value of mega-projects under construction across Africa in 2014 stood at US$326 billion according to the Annual Deloitte African Construction Trends Report 2014, a 66% increase from 2013.

The Southern Africa region contributed the biggest share of the projects (46%) followed by West Africa, East Africa, Central Africa and North Africa. The building boom has come in response to the realization that infrastructure is the main driver of intra-regional trade and integration.

Africa largely consumes goods that are produced elsewhere, mostly as a result of inadequate infrastructure preventing intra-regional trade and the creation of regional markets. For instance, in 2012 it cost approximately US$2,000 to ship a 20-foot container by sea from China to Mombasa, Kenya, a distance of almost 9,500 kilometres. However, transporting that same container from Mombasa to Kigali, Rwanda – only 1,700 km over land – cost
partnerships, are expected to merge with future projects to provide a much more efficient and much less obstructive infrastructure systems. This, in turn, will facilitate the movement of goods and enable the establishment of intra-regional trade markets, a scenario from which everyone involved is likely to benefit. Inclusive policy initiatives that lead to such improvements can only assist in the development of local economies.

Around US$4,650. That is especially sad since both countries are members of the same economic bloc, the East African Community (EAC).

In East Africa, the burden of poor or inadequate infrastructure is a major constraint to regional integration and development. In fact, the cost of transport has been estimated to add as much as 50% of the total cost of goods sold in the region.

However, since the rebirth of regional integration in East Africa began in 1999 there has been increasing strategic interest from governments to improve infrastructure. This has been identified as a key driver of trade and a catalyst for socio-economic development, which are the main pillars supporting regional integration.

The EAC has adopted a coordinated infrastructure projects approach since 2012 which has led to issues concerning supply and proper management of infrastructure now being embedded in bloc policies, which in itself enhances regional integration. There is now emphasis on regional economic corridors with mega infrastructure projects at different levels of planning and implementation.

For instance, the two main regional seaports of Dar es Salaam, Tanzania (linking it to Uganda, Rwanda, Burundi, and Democratic Republic of Congo), and Mombasa (linking Kenya to Uganda, Rwanda, Burundi Democratic Republic of Congo and Republic of South Sudan) are undergoing extensive infrastructure and capacity expansion.

These initiatives focus on all modes of transport including communication and energy. In particular, mobile telephony has taken the lead in integration with four major mobile networks operating as one network across the region without roaming charges. Planned heavy investment in soft infrastructure will enable interfacing of regional customs systems, the development of an electronic single window and deployment of electronic cargo tracking. Moreover, the investment in technology has supported robust mobile-money transfer and electronic banking services that have significantly boosted intra-regional trade.

While the business community continues to experience some infrastructure-related challenges, the future looks bright. The combined initiatives already in place, supported by strong public and private sector partnerships, are expected to merge with future projects to provide a much more efficient and much less obstructive infrastructure systems. This, in turn, will facilitate the movement of goods and enable the establishment of intra-regional trade markets, a scenario from which everyone involved is likely to benefit. Inclusive policy initiatives that lead to such improvements can only assist in the development of local economies.

East African transport challenges

**Rail:** Since gaining their independence, most EAC countries have added very little or nothing to their existing railway lines, meaning only 8% of goods are transported by rail.

**Roads:** Long transit periods due to poor road networks.

**Waterways:** Lack of navigation infrastructure and maritime transport in Lake Victoria has denied the over 30 million people in the region the opportunity to trade with each other. A similar situation is found around other lakes.

**Ports:** Long dwell times at ports and borders due to unstable energy supply and unreliable customs systems.

**Pipelines:** The fuel pipeline infrastructure is old with limited range, hence inadequate supply leading to higher energy expenses.

**Energy:** The increased cost of energy leads to low production and reduces the competitiveness of goods produced in the region, creating an unnaturally high dependence on imported goods.

**Information and communication technology:** Inadequate and unstable Internet connectivity slows processes such as customs clearance procedures and the flow of goods from ports and borders.

1. The highway between Mombasa and Nairobi, Kenya.
2. A truck carries goods and people.
3. A lack of investments means that only 8% of Africa’s goods are transported by rail.
How can we encourage travel and tourism in ASEAN?

TONY FERNANDES, Chief Executive Officer, Air Asia

The official beginning of the One ASEAN Community is almost here – we are only a few months away – yet so much still remains to be done to establish true regional integration. In the case of travel in the region, discussions have been held and some actions made, but we are far from achieving our goals of facilitating travel in the Association of Southeast Asian Nations (ASEAN) region.

We need concrete actions. For one, we need to work on easing access to and within ASEAN. Tourism has been identified as a key revenue generator by every ASEAN country, yet the entry rules at most of our borders seem to suggest otherwise. If we want more tourists from outside the region to come and spend their money in ASEAN and thereby contribute to the growth of our economy, doesn’t it follow that we should ease access for them?

We have to make ASEAN more welcoming for tourists, and perhaps the introduction of a common ASEAN visa, similar to Europe’s Schengen visa, is a solution. This should include the building of an electronic visa system for all ASEAN countries for seamless border control. There is also a need to set up dedicated ASEAN immigration lanes at all international airports of member countries. While there have been early movers in this – the airports of Bangkok and Kuala Lumpur, for example – we need all other international airports in the region to follow suit.

THE ASEAN BRAND

We also need to take concrete steps to build the ASEAN brand. What does it stand for, and what is our unique selling point? Branding is central to attracting tourists, and we need to find ways to build a positive brand for the region. Relatedly, it is imperative that we raise awareness about the region. Perhaps we can start by ensuring that the ASEAN flag is displayed alongside the national flags at the embassies of ASEAN countries and in schools across the region. Or through cultural exchanges and intra-ASEAN internship programs that provide students and graduates regional work experience.

We must ensure that we raise awareness about ASEAN and the progress of integration through regionally-coordinated campaigns on multiple channels and through traditional and social media so that our message gets across to young people, households and businesses and perhaps spurs them into action.

Such plans would be difficult to implement if the very institutions tasked to oversee implementation are weak. The governments of ASEAN as well as the private sector need to support the strengthening of these ASEAN institutions through the creation of commissions, or working groups, of businesses that are committed to regional development – tourism included – and focus on issues and solutions. We need to strengthen the ASEAN Secretariat through increased funding that would allow it to, among others, attract the sharpest minds in the region and add to its currently overstretched staff.

To truly facilitate travel in ASEAN, all stakeholders in the region need to work together, to discuss and share views on how best to push forward the improvements that are so desperately needed. We need to start now.

This article first appeared on the World Economic Forum’s Agenda.

1. Bromo Mountain in Tengger Semeru National Park, East Java, Indonesia
Meeting India’s market needs with East African goods

SUSANNA PAK, Staff Writer, International Trade Forum

Indian demand for leather goods outstrips supply. A solution to the shortage lies just across the ocean: partnering with East African businesses, which have materials to meet the need and a desire to upgrade their countries’ leather sector.

This presents an opportunity for companies like India-based Superhouse Limited, a manufacturer and exporter of leather shoes, handbags and garments to Europe and the United States of America, which is looking to grow the business through new suppliers.

‘We are already exploiting the maximum market of the Indian leather industry,’ says Ajay Kumar Singh, the company’s assistant manager of international marketing. ‘Of course we are looking at good suppliers who can supply red and blue leather, crust leather and finished leather.’

Superhouse sources materials from traditional leather-producing countries such as Argentina, Brazil and Pakistan. The quality of the leather from these countries is high, and the prices reflect it.

‘To compete with China and others who compete with us, we need very competitive prices of raw leather and finished leather,’ Singh says. ‘So that next destination is Africa. And East Africa is the best source market on the continent because of these countries’ processing powers.’

EQUIPPING EAST AFRICAN PRODUCERS TO EXPORT

There is room to enhance that power. The United Republic of Tanzania, for example, has strong growth potential in the sector as it was once one of the biggest exporters of leather on the continent. Following a change in national policy, the industry fell into a slump, according to the Leather Association of Tanzania.

To revive it, the Tanzanian business community and government are now working to develop strategies to fuel production of value-added leather goods – rather than raw hides – for export.

‘If we could convince most of the Indians who want to invest in this sector to come and invest in the tanneries in Tanzania, and the
immediate benefits by eliminating wasted effort, according to Steve Jones, chief executive officer of Forestry and Agriculture Investment Management of Rwanda. ‘What we’re saying is find somebody who needs what we do,’ Jones says. ‘We’re not a maize grower, we’re not a wheat grower, we’re not a soybean grower. What we are is we can grow specialty items. So take advantage of what we can do and concentrate the effort that way.’

Jones adds that his company is able to adapt products to meet buyers’ quantity and quality expectations, provided they’re within his scope of operations. What he needs are specifics so he can deliver goods according to the requirements. SITA is designed to facilitate that connection, according to Yaduvendra Mathur, chairman and managing director of the Export-Import Bank of India. ‘SITA is the template which we would like to learn from and take more Indian businessmen, not only to these five countries but to Latin America, to other South Asian economies,’ Mathur says. ‘This is the only way that we can address the huge challenges of poverty eradication and become developed economies.’

For more information on SITA, please visit www.intracen.org/sita

government did its job to enforce laws, then we understand that the sector will definitely start to pick up,’ says Elibariki N. Mmari, board member of the Leather Association of Tanzania and chairman of the Mwanza Region of the Tanzania Chamber of Commerce, Industry and Agriculture.

FILLING THE MARKET GAP
There are also global players involved in the process. The International Trade Centre’s (ITC) Supporting Indian Trade and Investment for Africa (SITA) project is aimed at building business partnerships and filling Indian demand for goods and services by tapping the capacity of East African countries – namely Ethiopia, Kenya, Rwanda, Uganda and Tanzania – to meet it.

‘It’s also about having increased value added to those exports, creating new markets, thinking about more ways that India and East Africa can partner up, for both parties to grow,’ says Tamar Bello, head of the global partnerships team at the United Kingdom’s Department for International Development, which funds SITA.

As part of the project, Indian companies will invest in their African counterparts’ businesses by sharing know-how, technology and quality expectations. Sectors involved include spices and essential oils; leather; coffee; cotton, textiles and apparel; business process outsourcing; and information technology-enabled services.

‘SITA will work closely with businesses – both East African and Indian – to build and nurture partnerships across the board, which include technical, managerial and financial skills,’ says Govind Venuprasad, SITA’s senior coordinator. ‘In getting there we will leverage our relationships with governments and institutions to enable, promote and sustain these partnerships.’

BUILDING A FOUNDATION
For business partnerships to last, it is not enough to meet mutual needs: enterprises and investors alike need a stable business environment built on sound policies and access to key information, including information on markets, standards and competitors.

An umbrella focus of the SITA project is to create a more business-friendly environment in the partner countries by helping businesses to better understand and take advantage of policies. Examples include the Government of India’s duty-free tariff preference scheme, which offers duty-free market access to exports from least developed countries on 98% of Indian tariff lines.

Trade and investment support institutions play a key role in this programme by serving as knowledge hubs, providing exporters with easy access to the information they need to make business decisions. ‘SITA will strengthen the trade and investment support institution infrastructure in East African countries through peer learning, adoption of best practices, networking and capacity building,’ says ITC Executive Director Arancha González. ‘These institutions equip small and medium-sized enterprises with the targeted knowledge and market intelligence they need to become more competitive in global markets and create business linkages within and across countries.’

This kind of assistance is in demand. Having such a resource could provide immediate benefits by eliminating wasted effort, according to Steve Jones, chief executive officer of Forestry and Agriculture Investment Management of Rwanda.

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1. Indian consumers could soon be drinking more coffee from East Africa.
2. Value-added from East Africa is being targeted for exports to India.
3. The SITA project was unveiled on 19-20 March in New Delhi.
Agenda
from 14 June 2015

Upcoming ITC events

26 June  
49th annual meeting of ITC Joint Advisory Group, Geneva

1-3 September  
Women’s Vendor Forum and Exhibition, São Paolo

1 October  
Second ITC Trade for Sustainable Development forum opening session, Geneva

20-21 October  
World Export Development Forum, Doha, Qatar

Key events in 2015

30 June -2 July  
Fifth Global Review of Aid for Trade, themed ‘Reducing Trade Costs for Inclusive, Sustainable Growth,’

9-10 July  
Seventh BRICS Summit, Ufa, Russian Federation

13-16 July  
Third International Conference on Financing for Development, Addis Ababa, Ethiopia

30 September -2 October  
WTO’s Public Forum entitled ‘Trade Works,’ Geneva

9-11 September  
WEF Annual Meeting of the New Champions 2015, Dalian, China

15-28 September  
70th Session of the UN General Assembly, New York

25-27 September  
UN Summit for Adoption of Post-2015 Development Agenda, New York

24 October  
70th anniversary of the United Nations

25-27 October  
WEF Summit on the Global Agenda, Abu Dhabi, United Arab Emirates

15-18 December  
10th WTO Ministerial Conference, Nairobi, Kenya
New technical papers

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FROM EXPORT PROMOTION TO INTERNATIONALIZATION: THE ROLE OF TRADE PROMOTION ORGANIZATIONS IN THE EVOLVING GLOBAL ECONOMY

Trade, investment and development practices are featured in this report of the 2014 TPO Network World Conference and Awards. Aligning trade and investment promotion to optimize opportunities for small and medium-sized enterprises (SMEs) is a major focus of national trade support institutions. According to the report, mergers of the two functions have skyrocketed since 2000.


STATE OF PALESTINE: COMPANY PERSPECTIVES - AN ITC SERIES ON NON-TARIFF MEASURES

The State of Palestine has scope to facilitate trade by streamlining procedures and enhancing transparency of rules and procedures, an ITC survey on non-tariff measures among 239 Palestinian exporters shows.


THE TRADE IN WILDLIFE - A FRAMEWORK TO IMPROVE BIODIVERSITY AND LIVELIHOOD OUTCOME

This report offers a framework to analyse the impact of the wildlife trade on conservation and local livelihoods. Amid global concern about biodiversity loss and the surge in illegal trade of threatened species, international policy has turned its attention to trade restrictions, enforcement measures and demand-reduction strategies.


A GUIDE TO DIAGNOSE A BUSINESS AND ITS MANAGEMENT

Business diagnostics to improve competitiveness can help SME managers and business development service providers to prioritize business needs. This ITC report outlines methodology to analyse business processes for strategic, marketing, production and resource management, using qualitative and quantitative indicators.

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