Africa
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يوم الصناعة الافريقية:

Panel Issues Paper

Key Issues and Discussions Questions

UNIDO
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African Union

CFTA
Towards One African Market

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Third Industrial Development Decade for Africa 2016-2025

Panel session I: "Unpacking the AfCFTA: Opportunities and factors of success to catalyse industrialization on the Continent"

Key Issues:

1.Traditional factors of production are land, labour, capital and organization. New factors of success in industrial production are information, knowledge, skills, technology, research, innovation and networking. Those new ingredients of industrial modernization may not be available in a given country. They may be available across countries in a given region. In this new context, dovetailing the new ingredients of industrial modernization across countries is a formidable challenge. The real issue is whether the challenge could be addressed effectively within the framework of the AfCFTA.

2.Opportunities stemming from AfCFTA will undoubtedly be plenty. But opportunities are not guarantees of the factors of success. Converting AfCFTA-based opportunities into guaranties of the required factors of success is a discovery process underpinned by apt regional policy space and institutional direction and support at the regional level. Given the different levels of development and degree of industrialization, it is difficult to coin regionally integrated cohesive operational strategies and policies.

3.Medium-, high-tech and sophisticated products account for the lion's share of global manufacturing value added and trade in manufactured exports. Technological content of value added products matters. Products turned out by AfCFTA should be akin to the global reality to survive in an internationally competitive environment. This would entail intra-African trade in manufactures be higher than the current composition products in terms of higher skill and technology content.

4. The key to unlock the regional development potential and to make AfCFTA a successful initiative hinges largely on the extent and effectiveness of strengthening regional, sectoral and incremental innovation systems to reduce member countries' distance to the frontiers of best practice in processing, design and marketing products regionally and globally. The endeavour calls for creating a high degree of interactive framework between regionally available institutions, laboratories and dynamic firms. Creating this success factor is indeed a daunting task.

5. Key factors of success, among other things, include increased competition, innovation and prosperity for Africa's people. The size of regionally integrated AfCFTA is estimated at 1.27 billion people, projected to rise to 1.7 billion by 2030. Increasing the supply response to meet the huge regional demand, amidst global competitive pressures for efficiency gains, depends on the extent to which products are turned out complying with international standards and quality control norms. Other factors of success include escalated investment flows, economies of scale, access to cheaper raw materials and intermediate inputs, significantly improved conditions for regional value chains and enhanced potential for the geographical expansion of the commodity belts through value addition. The theoretical underpinnings of the factors of success do not constitute already settled preconditions. Determined efforts are needed to create those preconditions.

Questions for interactive discussion:

1. Where to we stand with regards to the AfCFTA ratification process, what have been the milestones and will be the next hurdles to overcome?

2. In regionally dovetailing the new factors of success for accelerating a high pace of industrial expansion within the framework of AfCFTA, coordination failures are bond to occur. Can knowledge dissemination on the importance of collective response to unlock the industrial development potential of Africa serve as an effective means of correcting coordination failures?

3. In the face of the AfCFTA, comprising a group of heterogeneous countries, with different levels of development and degree of industrialization, how could the contours and tenets of regionally coined industrial policy interventions create a situation where everyone has the equal chance of succeeding?

4. Should African countries sacrifice national priorities and strategically important products which contribute significantly to the
creation of sustainable sources of livelihoods in order to live with the realities of global manufacturing value added and trade in manufactures, which are dominated by medium-, high-tech and sophisticated products, particularly in view of their low levels of technological efforts and capabilities? Alternatively, can the pattern of industrial development envisaged by AfCFTA in line with the global realities make those realities work for the poor?

5. What are the regionally coordinated effective means of enhancing the adaptive skills and capabilities of African workforce to use modern technologies and devices and to commercialize new knowledge in order to contribute significantly to the strengthening of regional, sectoral and incremental innovation systems?

6. How to convert the emerging factors of success - escalated investment flows, economies of scale, access to cheaper raw materials and intermediate inputs, significantly improved conditions for regional value chains and enhanced potential for the geographical expansion of the commodity belts through value addition – into new and dynamic sources of growth within the framework of AfCFTA?

Panel session II: "Mobilizing policymakers, development partners and the private sector to address the opportunities of the AfCFTA"

Key Issues:

1. The creation of the AfCFTA provides the development partners with a unique opportunity to newly engage with African countries and jointly address the challenges and opportunities arising from the AfCFTA. In the sphere of economic development, challenges always constituted a set of opportunities, and opportunities were turned into sustainable sources of wealth creation in developed countries, newly industrializing economies, economies in transition and emerging economies. Africa should not be an exception to the trend. In the light of numerous benefits accruing from the AfCFTA, African leaders and development partners rethink the viable avenues of achieving socio-economic transformation, using the AfCFTA as a dynamic development catalyst to stimulate redevelopment of hitherto underdeveloped huge reservoir of resources encompassed by the continent. With the help of development partners, the continent's "resource curse" could be made history if opportunities stemming from the AfCFTA could be optimally used with good governance. Good industrial governance entails enhanced skills of policymakers and civil servants to conceptualize, formulate, implement and audit development projects, funded by development partners, with a high degree of accountability for ushering in expected impact and compact of those projects.

2. The AfCFTA is considered as an effective means to translate the 1991 Abuja Treaty of the Organization of African Unity and realize Africa's Agenda 2063 to build a prosperous and united Africa. The main objectives are the facilitation, harmonization and better coordination of trade regimes as well as the elimination of complexities associated with multiple trade agreements. Amidst significant opportunities, formidable challenges persist. A key challenge is the possibility of countries experiencing significant tariff revenue losses and an uneven distribution of costs and benefits. Uneven distribution of benefits and costs among member States may lead to high transition cost (adjustment cost) at least in the short and medium run. The member states will need to count on development partners to introduce mitigating mechanisms to ensure equal and fair deal to all members of AfCFTA.

3. One of the key issues on Africa's path to industrialization is related to the high cost of production and cost of doing business, with an adverse impact on the global competitiveness of products. The main reason is due to the lack of strong infrastructural base and of utility services. The creation of the AfCFTA does not necessarily mean that foreign direct investment (FDI) will spontaneously flow into the continent. FDI generally flows to locations which encompass the preconditions in terms of excellent infrastructure, utility services and enhanced skills and capabilities. Given those preconditions, the impact of FDI on domestic capability building also appears to be high. Development partners could play a key role in assisting the implementation of regionally coordinated infrastructural projects and utility services and in revamping educational institutions to develop skills which correct the current mismatch between the pattern of education and pattern of skills demanded by the firms.

4. One of the objectives of the AfCFTA is to boost intra-African trade. To this end, a number of initiatives have been identified: trade policy, trade facilitation, improving productive capacity, trade-related infrastructure, trade finance, trade information, and factor market integration. Development partners have a crucial role to play in those identified areas of interventions. Development partners should address the issues of intra-African trade beyond tariffs as tariff liberalization alone cannot boost intra-African trade, the promotion of which suffers from lack of infrastructure and finance. Trade capacity building, strengthening regional institutions, and implementing cohesive policy interventions could boost intra-African trade. As most of the African countries trade in similar products, geographical expansion of

the commodity belts through value addition could be promoted to promote intra-African trade in value added products and to use intra-African trade to increase the continent's contribution to global trade in manufactures.

5. Development partners could also play a key role in helping the AfCFTA address ground realities underpinned by structural and institutional barriers. Structural barriers, which are largely economic barriers, depict typical African ground realities. African counties are largely agrarian with mostly subsistence level of farming amidst isolated large-scale modern farms and rapidly growing urban centres. Most African countries export primary products. Commodity boom-led growth failed to lift millions out of the clutches of poverty. Private sectors comprise mainly small and informal enterprises. Big manufacturing production tends to be driven by relatively large foreign firms and mostly through foreign direct investment, with limited linkages with domestic firms. Making the AfCFTA work for converting commodities into products, and comparative advantages into competitiveness is indeed a big challenge. Regional Economic Communities (RECs) as development partners tend to play a crucial role. It is worth reflecting on whether regionally coordinated projects related infrastructure and utility services could be more optimally and efficiently funded, designed, and established with the help of development partners than national level efforts supported by development partners. Development partners, including multilateral organizations, such as UNIDO, should also complement the efforts of national institutions and help overcome regional barriers and develop further their multistakeholder approaches to really address root causes and reach substantial and sustainable socioeconomic impact through projects. UNIDO's Programme for Country Partnership goes into this direction and offers an innovative approach to bring together government counterparts, development partners, financial institutions and the private sector. This framework bears a larger potential to successfully implementing large scale trade capacity building projects that have a real impact on the ground.

Questions for Interactive Discussion:

1. What role development partners can play in creating the required facets of good industrial governance which can make optimal use of the benefits of the AfCFTA to address the issues of the continent's "resource curse" and help member countries climb the ladder of value addition?

2. To what extent the AfCFTA could count on the support of the development partners to create the required preconditions for attracting FDI flows in terms of excellent infrastructure, utility services, and enhanced adaptive capabilities and skills?

3. As trade liberalization alone cannot facilitate the growth of intra-Africa trade, can development partners significantly increase their support to the AfCFTA in the initial phase to address numerous issues related to a number of non-tariff barriers and thereby assist member countries reduce the distance to the frontiers of best practices towards enhancing the global competitiveness of products?

4. How to make the AfCFTA work for the rural and urban poor with the aid of support sourced from development partners in view of the ground realities of failing to rise above subsistence in rural areas and of rapidly spreading urban peripheries where millions of poor live?

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