

## ROUND TABLE ON

### Innovating Africa's marketplace: towards a new framework for investment and trade

#### Summary of discussions

The African-European Centre for Investment Trade (AECIT) convened this round table to discuss a new, more inclusive approach to trade agreements.

*Innovative processes in the small and medium business sector need to be fostered in order to develop products and services which the market, whether in Africa, Europe or globally, can take up. This requires to develop an inclusive approach linking research and innovation policy, entrepreneurship and capacity acceleration to trade policy, and to make these the three pillars for sustainable economic growth and employment creation. Current trade agreements, such as the Cotonou Agreement and the Economic Partnership Agreement, are not effective enough to deal with this interdependence. The EPA can be useful, but the real basis of better integration of African economies in global value chains and for trade in added value goods in today's globalised economy will be the CFTA. This should be given priority in the new partnership which the European Union promised to Africa.*

One of Africa's main challenges is the creation of jobs for its rapid growing populations. Therefore it would be more efficient for the EU to focus on investment in Africa and on the required framework conditions, as opposed to a traditional aid based approach. If jobs and better economic conditions are created in Africa, young Africans will have a future in Africa and will not have to leave their families for a better life abroad, depriving their country of capacities.

The Continental Free Trade Agreement ("CFTA") is a good way forward and this is acknowledged by the vast majority of African countries. It is estimated that inter-African trade will grow by 50% or more through the implementation of the CFTA, but it requires a complex framework of collateral institutional and infrastructural measures too.

The following questions are key :

- How to ensure that the economic and regulatory framework is flexible enough to adapt to the expected dynamic change and to facilitate strategic agility by governments and companies;
- How can industries, that have not yet emerged, find conducive environment;
- How to achieve policy coherence for trade in goods and services, investments, taxation agreements and free movement of people;
- What are good practices for innovation and environment friendly economic growth, including in the agricultural and forestry sector;
- Protectionist versus liberal views : how to include their mutual concerns and interests through more inclusive policies;
- What about the differences in the development of the African economies – how does this effect regional integration (as distinct from the European example).

Europe cannot provide solutions to African problems, but it can be a trusted supplier of ideas and potential scenarios for solution finding. Its professed values should be put in practice when negotiating trade agreements with weaker and poorer countries.

However, Africa, even a relatively advanced country such as South-Africa, faces a challenge to commercialise scientific research and ensure that traditional sectors can benefit from new technologies. Also, there is an urgent need for innovation and technology changes at a faster rate, and for more systemic coherence and sense of common purpose in the national system of innovation. A the country's entrepreneurial capacity can be increased through the establishment and use of the enabler organisations (e.g SEDA and initiatives such as "Start-up South Africa" to promote and support entrepreneurial mentality). However, innovation in education system is needed too in order to promote entrepreneurship; organisation of vocational training systems, in cooperation with business, can be helpful.

Science and technology should be not viewed in isolation but as part of a holistic and integrated part of the advancement of the country's economy. The SA White Paper addresses key issues such as : expanding knowledge development; deepening African collaboration; enhance policy cohesion; create an inclusive approach. However, most governments in the world are always a step or two behind innovation.

Another problem is the decline in productivity in South Africa, and in other countries. This is attributed to the lack of infrastructure and efforts to improve employee productivity. Integration in Global Value Chains (GVC) is required, so that African countries could work together in the production chain of various goods, each country focussing in the production line in accordance with its abilities and, through time, be assisted to move from simple to more complex production. The different stages of production in the GVC, basic products, intermediary products, and sophisticated products need to be recognised and fostered for regional trade in Africa.

Africa's trade-income potential depends however on : infrastructure, domestic credit facilities, rule of law, and tariff and non-tariff barriers. The IMF was of the belief that a decrease in tariff barriers would increase the GVC participation.

Companies should be identified for assistance and exposure to the greater market, depending on their development stage : incubator model; intermediary trade model; advanced trade model.

Africa will have the largest workforce by 2025 and by 2050 its population will be 2 Billion – this is a reality governments need to take into account and to seek to take advantage of for economic growth and job creation

African governments need to : engage all stakeholders in the market in order to enhance industrial development; put in place collaborative agreements which promote industrialisation; and increase their political will and effectiveness. Governments require different push and pull in order to move forward.

National policies determine the implementation and effectiveness of trade agreements and they have significant economic transformation effects, if they look at value chains holistically (goods, people, services, capital and data).

Tools of trade policy making should be managed properly : identification of opportunity areas; barriers identified by business; civil and labour participation; information road shows for businesses; information gathering from businesses regarding regulations; and consultation with reference groups and agencies. Widespread consultation with stakeholders and collaboration are thus a must. However, to avoid illegal practices, transparency should be promoted, and the creation of a buffer between decision makers and government officials as well as the use of independent specialists.

Studies have shown that the most important part of innovation and entrepreneurship is the sale of product. Universities play an important role in supporting entrepreneurs, as examples in countries with top ranking for innovation and competitiveness show. Universities can create an entrepreneurial ecosystem where the transfer and sharing of information takes place – this is important for innovation. Science centres are important for innovation, where ideas are incubated, accelerated, commercialized, and sold, but this demands the right approach by universities, such as mentorship programs, between students and entrepreneurs.

The SA 'Gazelle Program' targets high growth entities (approx. 40). Because of the historic legacy, a special effort is made to incorporate township economies/companies and selecting the best of them, then to fund and scale up to create local economies (school food schemes).

There are various assessments needed prior to the selection of such 'gazelle' companies, namely : experience; creativity and innovation; compliance; and leadership. The focus for such companies should be to export it to the neighbouring countries, e.g. Zambia, Mozambique, Zimbabwe etc in order to establish local economies.

There was a clear consensus among participants to continue to focus on the interdependence of innovation, trade and capacity building as a key part of the future CFTA and of reformed trade agreements with the European Union.