Africa's Trade and Investment Opportunities with other developing countries
Enhancing South-South Cooperation

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Global Trade and Developing Countries
Developing countries’ share in the world trade system has increased

- Over the last 30 years, developing countries’ share in world trade has risen from about one fourth to one third
  - their share in the trade in industrial goods actually doubled.
- But the share of the increase has been uneven among developing countries:
  - Least Developed Countries (LDCs) continue to be highly dependent on exporting a small range of commodities.
Sub-Saharan Africa clearly illustrates the extreme case of marginalization in global trade...

- The share of SSA in world trade has seen a continual decline
- FDI in the Africa region has remained negligible, at approximately 1 percent of GDP, representing 0.8 percent of all FDI and 2.1 percent of FDI going into all developing countries.
• Africa’s national markets are generally too small to take advantage of increased large-scale production.

• The Lack of competition due to a long period of operating under sheltered markets
The low levels of FDI being attracted by Africa confirms the region’s exclusion from the intra-firm network, which accounts for the largest contribution to growth of world trade.
Terms of trade...

- Africa’s terms of trade have also declined by over 15 percent since 1970.
- The share of SSA’s trade in the world markets has also fallen by half since 1970 and accounts for less than 2 percent of all world trade, thus, placing sub-Saharan Africa at the very margins of the global economy.
In terms of the composition of exports, there has been little structural transformation, with primary commodities assuming dominance, at more than 80 percent whereas the share of manufactured goods in SSA’s total imports have averaged more than 70 percent.
Weak industrial growth...

- Although industry grew roughly three times as fast as agriculture during the 1960s when most of these countries attained independence, the period of SAP saw an alarming reversal in many African countries.

- The African continent’s share of world manufacturing value added marginally rose from 0.7 percent in 1970 to 1 percent in 1982 but fell to 0.8 percent in 1994 and there has been little improvement since then.
Low intra-regional trade...

- Main explanations:
  - inadequate infrastructure services
  - underdeveloped financial systems
  - Lack of complementarity in the African countries’ production structures
Unsupportive multilateral trade system
• subsidies, quotas and high tariffs continue to be widely applied for especially sensitive products, particularly in the textile and garment and agricultural sectors

• For instance, average tariffs applied by OECD countries to the developing countries’ agricultural export products continue to stand at around 15 percent.
Lessons from other Developing Countries
What is the role of trade in both economic growth and poverty reduction?

- From experiences in Latin America, in particular, the formula: “trade liberalisation leads to growth and growth leads to general well-being” has proven to be too simplistic.
To make trade and economic growth pro-poor in the sharing of benefits, experience from Asia and Latin America suggests that African countries have to respond to the challenge at two different levels, namely, internal and external levels.
Internal Level
Internally, trade reforms, particularly in the context of a liberalized regime, is most effective when it is combined with the maintenance of macroeconomic stability and sound institutions.

Macroeconomic stability in a liberalized economic environment is fundamental to trade enhancement as it frees capital and provides the requisite environment for private sector growth that is so important for trade expansion/diversification.
2. The need to raise aggregate savings and investment is also cardinal

- Presently, most African countries face serious aggregate savings constraint
3.

- Existence of a facilitative regulatory and legislative environment at the national level is pivotal for successful trade expansion.
- Competition law should not unduly restrict firms’ ability to freely trade.
  - This is particularly important for Africa considering the newness/inexperience of institutions tasked with the responsibility of competition enforcement; the limited financial, information, and human resources; and the power and influence of multinational corporations whose activities they have to monitor and regulate.
4.

The growth benefits of trade reform are likely to be limited or elusive in those low-income African countries that lack a supportive policy environment and whose entrepreneurs are constrained by weaknesses in the institutional and market infrastructure for production and trade.
5.

- Most importantly, it is clearly industrial and agricultural development and diversification that will enhance trade, particularly intra-regional trade, rather than the mere removal of barriers to trade *per-se*.
- i.e. need for enhanced production of tradable goods and services
In the light of these 5 realities, the most basic challenge for Africa, drawing lessons from countries like India, is to strive to maximize industrial output growth rate through:

- increasing the range of manufactured exports
- increasing the value-added for primary exports
- consolidating, in a guarded way though, market liberalisation in a way that allows national producers to respond promptly and positively to economic/market signals.
External Level: Trade
• Trade can make a considerable contribution to sustainable growth and poverty reduction but only when the multilateral trade regime is favourable to the special interests of developing countries.
developed-country market access barriers have continued to limit their export opportunities
India and Latin American countries have championed the crusade that has revealed that industrialized countries’ trade barriers for products that are mainly exported by developing countries are higher than for export products of the industrialized countries. Through the OECD countries’ tariffs alone, the developing countries are losing about as much income as they are receiving through development cooperation.
Naked facts...

- Under the Uruguay Round, the OECD countries lowered their tariffs on the products of other OECD countries by 45 percent, but tariffs on developing countries’ products only by 30 percent.
• Production-related support for agriculture in developed countries (particularly under the EU Common Agriculture Policy) boosts their own output, with the effect of displacing low-income country exports in developed-country markets.

• The particularly high tariffs on processed exports from developing countries make it harder for them to diversify their economic and export structures and to reduce their dependence on commodity exports.
• With **tariff escalation**, tariffs rise with the level of processing, with the effect of reducing the demand for processed imports from developing countries, thus, frustrating the diversification of these economies into high value-added exports.
The impact of trade on development depends not only on how and how much trade, but also on what is traded.

Comparisons over the last 50 years suggest that countries that are still dependent on trade in a few primary commodities are the slowest growing.
Diversification of trade involves a set of general economic measures including:

- high saving and investment,
- public investment in infrastructure, health and education,
- specific trade promotion.

An essential element is finding the capital to invest to establish new forms of production and trade.
More facts...

- External market access barriers are especially high in agriculture and labor intensive manufactures, with tariffs in excess of 15 percent.
• Developing country exports of manufactures face much higher trade barriers than exports from developed countries

• In one World Bank study, it is estimated that barriers to manufactured exports account for around 70 percent of the total export barriers faced by developing countries
The Way Forward
1. manufacturing should be at the heart of a new round of trade negotiations if it is truly to benefit developing countries
2. There is need to relax African economies’ supply response capacity constraints so as to enable them take fuller advantage of the new opportunities offered by global markets.
Examples of supply response...

Finance is essential in transforming African economies

- putting African countries on a stronger and sustainable growth path by opening-up business opportunities to a wider clientele

- The African financial sector is characterised by high cost of borrowing, thin capital markets and absence of financial services in most of the rural and peri-urban areas. Consequently, the financial system has not played a meaningful role in national development.
Access to finance and cost of finance still a major constraint to operation and growth of African firms much more than is the case in other regions.

Consequently, African firms finance about 68 per cent of their investment needs with internal funds.
3. Assistance by learning from LA and Asia, through South-South collaboration, regarding how Africa can address its export supply response capacity constraints through investment in the building of appropriate economic and social infrastructure
4.

- Trade finance is pivotal
- Export finance (export credit)
- Trade insurance
- Export pre-financing revolving facility
5.

- Any further reforms of trade in the context of liberalization needs to be in the interests of the developing countries.

- Where developing countries have exportable products, developed countries should give them fair opportunities to trade them.
6.

- more coherence is required between development policy and trade policy, particularly among the OECD countries that consume most of the low-income countries’ exports
7.

- Opening markets and dismantling trade-distorting barriers must target principally those sectors where developing countries have export potential and comparative advantage.
- All forms of developed countries’ export subsidy for agricultural products should be ended.
Lastly

- The strengthening of developing countries’ negotiation capacities is pivotal for them to have their collective voice better heard in the multilateral trade negotiations.

- Africa, together with Asian and Latin American countries, need to be able to assert their interests and to do this effectively, they need to be able to find a negotiating position that benefits their future development and then actually be able to defend that position.
Thank you for your attention