RESEARCH PAPER BY RICHARD ATTIAS & ASSOCIATES

PLENARY SESSION Scheduled for: August 30, 4.45pm

PANEL OVERVIEW

# AFRICA: THE BRIDGE BETWEEN EAST AND WEST

Economically and geographically, Africa lies between the East and the West: how can the continent continue to build trade relationships overseas, to deliver economic benefits for all?

## Regional challenges

The World Trade Organization argues that both intra-African trade and international trade are a catalyst for growth. However, a 2012 study by the WTO illustrates that African world trade was at less than 3%, with the biggest trading partners being the EU, Asia and the US. The international organization attributes this to Africa's historical role as an exporter of cheap, raw materials to colonial empires, dependence on a narrow range of primary products including fuels and mining products and to poor infrastructure *(WTO, 2012).* Although Europe was traditionally sub-Saharan Africa's biggest trade partner, it has slowly been declining since 1995 from absorbing 51% percent of non-oil exports to 36% in 2010.

China's increasing presence on the continent and significant investment in infrastructure has made trade relationships between the two actors a priority. In fact, in 2011 China was the world's second biggest importer of sub-Saharan African products, absorbing 22% of the continent's exports *(International Trade Centre, 2012).* Other factors that limited Africa's trade partnerships were trade barriers. One of the biggest drawbacks for Africa's limited trade partnerships with other regions in the West is its dependence on natural resources for trade. Depending on primary products like agriculture, minerals and hydrocarbons make economies vulnerable to volatile commodity prices but also limit the Africa's trade partnerships *(OECD, 2011).* Low market share for raw materials will also cause international exports to decline.

The OECD argues that a key ingredient for countries to increase trade is through economic diversification by expanding their project range and strengthening non-traditional sectors to engage with new economic development partners. One way to do this is by creating Regional Economic Communities (REC)s, which provide a framework for infrastructure and transportation corridors. This may attract new investment, and reduce transportation costs, and specifically international freight costs *(Yeats, Alexander and Ng, Francis, 1996).*

African governments can also create the right atmosphere for increased trade with new Western countries in North America and South America by restructuring at the bureaucratic level including improving governance, reforming customs procedures and reducing corruption (OECD, 2011). A study by the OECD found that compared with other world regions, importing and exporting in Africa was burdened by high tariffs and delays from bureaucratic customs procedures. Tariffs in sub-Saharan Africa average four times that of the OECD average (*Yeats, Alexander and Ng, Francis, Finance and Development, 1996).* However, liberalized trade agreements may not necessarily benefit all segments of Africa's population.

The most recent Economic Partnership Agreement with the EU and the Economic Community of West African states in 2014 has received mixed reactions from policymakers, journalists and academics. According to the European Commission, the 16 West African countries featured in the deal account for 40% of all trade between the EU and the Caribbean and Pacific region, with the Ivory Coast, Ghana and Nigeria accounting for 80% of the exports to the EU. Benefits of the partnership could enhance capacity building and economic competitiveness in West Africa. It will also increase West African exports to the EU, stimulate investment and boost the agricultural sector in West African states *(European Commission, 2014).* Critics argue that the liberalized trade deal favored Europe but harmed Africa with lowered tariffs, which could negatively impact the agriculture sector, and specifically small holder farmers in African states *(Al Jazeera, 2014).* Since tariffs make up to 7-10% of most African government revenue, eliminating or lowering import taxes would have serious impacts on government spending *(Oxfam, 2006).* Moreover, some critics feel that the trade deal would undermine African regional integration. The challenge of policymakers is to determine the best trade policies between Africa and Western countries to benefit the all demographics and sectors.

## Recommendations from OECD World Trade Organization, International Trade Centre, OECD:

- African countries can improve governance to create an enabling environment for investment and trade *(OECD, 2011)*
- By diversifying its economy and lowering its dependency on the export of primary exports and commodities, Africa can engage with new trading partners in other regions of the West *(International Trade Centre, 2012)*
- African countries should diversify their economies to avoid over-specialization and engage with the private sector in leading this initiative *(OECD, 2011)*
- Governments can prioritize regional integration to improve infrastructure, reduce transportation costs for shipping and eventually stimulate international trade *(WTO, 2012)*
- Reducing trade barriers including tariffs will increase foreign investment and stimulate growth *(WTO, 2012)*

- African producers and policymakers should figure out ways for the continent to diversify geographically and increase their export earnings by exporting products with higher added value. The transport equipment sector shows promising growth. The demand for processed foodstuffs and beverages has also increased. These involve a transformation and could be integrated in the higher end of the agriculture value chain *(International Trade Centre, 2012)*

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