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Expanding Trade and Investment Opportunities

Expanding Africa's trade and investment are key to sustaining economic recovery and growth in the continent. High rates of capital investment in the most productive sectors are necessary to generate the rapid economic growth needed to address poverty in Africa. Trade expansion has the potential to fuel growth of output and income, as has been amply illustrated by the strong growth performance of the continent over the past three years, which is attributable to buoyant export earnings.

Overview

Over the past decade, most African countries have undertaken macroeconomic stabilization measures and have embarked on far-reaching structural adjustment programs and institutional reforms. Although these efforts have improved the framework for expansion of trade and investment, the supply response has not been commensurate with the scope of the reforms. While export growth has exceeded that of GDP in Africa since the late 1980s, and is expected to rise to 4 per cent during the period 1995–2004, as compared to 2.8 per cent during 1985–94, it is not underpinned by growth in investment or improved productivity. Rather, it is largely due to greater utilization of existing capacities.

Despite the positive growth performance of the recent past, current rates of aggregate investments, particularly in sub-Saharan African countries, remain far short of what is required to sustain long-term growth at a level sufficient to re-

duce poverty. In fact, average investment as a share of GDP in these countries has been on a continuous decline—from 26 per cent in the 1970s to 20 per cent in the 1980s and to 16 per cent in the 1990s. The decline in investment/GDP ratios has undermined the ability of many countries to adjust their economies effectively. Furthermore, private investment in the modern sector, both foreign and domestic, has remained limited. The distribution of investment also remains heavily skewed towards public investment, which tends to be less efficient than private investment.

Less than 3 per cent of total direct foreign investment to developing countries reaches Africa. Among the reasons cited for this condition are (i) the risk of policy reversal; (ii) the high cost of doing business in Africa; (iii) weaknesses in legal, judicial, and financing systems; (iv) low labor productivity; and (v) inefficient and unresponsive physical and technological infrastructure, which are essential to long-term competitiveness of the economy.

Despite the recent growth of exports, Africa's share of global exports still remains small, declining from 3.2 per cent in 1985 to 2.3 per cent in 1990 and to 1.5 per cent in 1995 (the latest year for which the United Nations Conference on Trade and Development (UNCTAD) has published data). Moreover, the dominance of agricultural products (mainly primary commodities) as the major source of foreign exchange has rendered the continent's export-earning capacity highly sensitive to commodity price fluctuations.

For these reasons, Africa remains a marginal player in world trade and investment. With the establishment of the World Trade Organization (WTO)—post-Uruguay Round (UR)—trading framework, African countries face added challenges and opportunities in their bid to expand trade and investments. The post-UR period is expected to bring much more rapid integration of developing countries in world trade than has been the case to date. The WTO arrangements are estimated to result in a 1 per cent annual increase in world income over the next decade. But for Africa, because of erosions in preferences and its poor competitiveness record, the WTO agreement, once fully implemented in 2005, is projected to have a net negative impact on economic welfare—an annual loss in real income of one-tenth of 1 per cent.

The continent's regional integration is a key step in Africa's integration into the global economy. To date, integration has tended to focus on linking various countries within specific subregions, not continent-wide. While the share of intra-group trade to total trade of the main regional groupings has remained very small—2.7 per cent being the highest, under ECOWAS—future prospects in some regions look better, as shown by increasing collaboration in subregions such as the Southern African Development Community (SADC), a regional economic community devoted to promoting sub-regional cooperation and integration in the 12 countries of southern Africa. Nevertheless, the generally poor outcome of past integration efforts reinforces the need to adopt more outward-oriented trade regimes that can ensure efficiency gains and larger markets.

The Challenge

The rapidly changing global and regional environments present African countries an opportunity to enhance exports and economic growth, and a challenge to attain efficiency gains to offset the losses due to the erosion of preferences under the UR. Africa should take a hard look at internal and external policies and programmes, and implement the changes needed for higher investment, output, and exports, so as to take full advantage of the opportunities created by the UR. The challenges are, first, to translate the current recovery into sustainable, long-term growth, through enhanced competitiveness of exports and trade policies; and second, to revive private investment and foreign trade in order to increase market size, global market share, and visibility as a potential buyer and supplier in the global market. A crucial step is to address the underlying domestic policy challenges, as follows:

- To build and strengthen regional groupings to promote industrialization and intraregional trade and to enhance external negotiating clout. The integration agenda should be redirected to place greater focus on global competitiveness so as to better align the continent with the rest of the world order and increase its global market share;
- To remove most trade restrictions, as these create inward-looking tendencies by local entrepreneurs who do not seek export opportunities, thus preventing the economy from achieving attainable growth. High tariffs and non-tariff barriers can also significantly raise prices for production inputs in manufacturing activity and greatly diminish potential exporters' ability to compete in foreign markets;
- To reform the transport sector, especially in land-locked countries, where inefficient state-run railways carry goods to and from the port;
- To improve operations at the major ports, which are notoriously inefficient and costly. This could generate savings that could more than offset projected financial losses from loss of preferences.

In the area of trade promotion, some potentially important Africa exports are still hampered by import restrictions and tariff escalations, particularly in agricultural and processed products. In light of the World Trade Organization (WTO) framework, the challenge is for Africa to deepen the policy dialogue with the Organisation for Economic Co-operation and Development (OECD) countries. Priority areas of concern include:

- Maintaining a system of preferences for African exports, including processed commodities which are consistent with WTO agreements;
- Accelerating the phase-in of textile tariff reduction and eliminating the high tariff on agricultural imports, following the removal of non-tariff barriers;
- Granting African exports market access;
- Recognizing the special problems of land-

locked countries in the valuation of their imports; and

- Restraining subsidized agricultural exports.

The ECA Response

Policy-Focused Analytical Work on Trade and Post-Uruguay-Round and WTO Issues. As background to the May 1997 ECA Conference of Ministers of Economic and Social Development and Planning (see box 2) on the theme Trade and Investment Promotion, the Commission prepared two major reports on trade and investment: *After the Uruguay Round: Global Challenges and Africa's Responses in Selected Areas* and *Promoting Trade and Investment to Accelerate Africa's Development*. These papers discussed the challenge of promoting trade and investment in Africa through policies that increase private foreign investment, public savings and investment, international competitiveness, and regional cooperation and integration.

Other ECA technical publications have focused on issues of liberalization of world trade, globalization, and Africa's economic integration; regional economic integration in Africa and the multilateral trading system; and trade and competition policy in Africa in the framework of WTO. Four major studies are planned: (i) Mechanisms for Assisting African Countries to Benefit from the WTO Agreements and the Special Provisions for Least-Developed Countries; (ii) Export Diversification in Africa in the post-UR Environment; (iii) Cross-country Study on Required Changes in Domestic Policy Environment to Adjust to Globalization; and (iv) Connectivity, Electronic Communication, and Electronic Commerce. These studies are designed to raise awareness of the critical policy options available to Africa to improve its trading position in the global world, adapt its integration agenda to the challenges posed by the emerging multilateral trading system, and take advantage of the opportunities offered by globalization.

Assistance to Member States in Complying with WTO Provisions.

The rule-based post-Uruguay Round, WTO trading environment has specific provisions, including reporting requirements

United Nations



Removing trade restrictions will aid local entrepreneurs in seeking export opportunities.

with which member countries have to comply. Intensive and widespread training of ECA Member States' officials is needed to ensure compliance, and this is best carried out at regional and subregional levels. Drawing on in-house and partners' technical expertise—including UNCTAD, the World Bank, and WTO, which set up a technical cooperation fund for such tasks—ECA is preparing a far-reaching training program for its Member States in WTO legal and operational requirements.

Application of the Global Trade Analysis Project Results. In 1997, ECA collaborated with Purdue University to develop a simulation model to evaluate the impact of the UR on aggregate output, trade, and welfare in Africa. The findings of this exercise were reported in the background

paper on the impact of UR on Africa, prepared for the May 1997 ECA Conference of African Ministers of Economic and Social Development and Planning (see box 2).

The study found that Africa was likely to be the only major region of the world to lose from the UR implementation. That said, it also found that UR-induced costs would be far outweighed by potential gains from catching up with other low-income countries in agricultural productivity and transport costs. Furthermore, because of the continent's high and rising comparative advantage in agriculture, exports for agricultural products are likely to offer significant gains for Africa. Taking account of these prospects in designing policy and guiding investment is critical for Africa to realize its long-term potential in an increasingly integrated world economy.

Box 2. Conference of African Ministers of Economic and Social Development and Planning

The ECA Conference of African Ministers of Economic and Social Development and Planning (May 1997, Addis Ababa, Ethiopia) brought together ministers and other senior policy makers, private-sector actors, representatives of the UN, multilateral and bilateral agencies, and civil society organizations. The purpose was to conduct a high-level dialogue on promoting trade and investment to accelerate Africa's development. The Conference took stock of Africa's position within the emerging global economic system at the threshold of the 21st century, reviewed its investment performance, and recommended specific policy measures that African policy makers should undertake to meet the challenges and opportunities of a global and liberalized world economy. The Conference also included a special event, co-hosted by the Global Information Infrastructure Commission (GIIC), in the form of a high-level symposium on strengthening private- and public-sector partnership in building national information and communications technology to facilitate trade and investment in Africa.

The Conference assessed the post-Uruguay Round (UR) trade and welfare situation of Africa and highlighted two areas for improving Africa's international competitiveness in the post-UR period. First, stressing the continent's high transport costs, which hinder Africa's

exports (average nominal freight rates on sub-Saharan Africa's exports are about 20 per cent above those for other developing countries), the Conference underscored the need for transport-sector reforms to improve the efficiency with which goods are handled for international trade. Second, noting that all developing regions, except Africa, have been able to raise their grain yields dramatically over the past three decades, and that agriculture continues to be important for Africa's trade, the Conference called for concerted efforts to accelerate agricultural productivity growth to improve Africa's competitiveness.

The Conference concluded that in order to boost domestic savings and investment, attract substantial private foreign investments, and expand trade, African countries must (i) promote a positive image of Africa as a safe place for business and investment; (ii) maintain peace, security, political stability, and good governance; (iii) establish an adequate legal and regulatory framework and reduce the cost of doing business in Africa; (iv) strengthen institutional capacities of African countries; (v) improve information flow on economic development in Africa; (vi) modernize, expand, and diversify production; (vii) strengthen international competitiveness to better participate in the multilateral trading system; and (viii) strive for genuine regional economic integration.

Technical Assistance to Member States on Trade Negotiations. Support to the negotiating positions of the African Group within the African, Caribbean, and Pacific (ACP) Group has been a regular component of ECA's technical assistance activities since the inception of the Lome process in 1975. ACP/EU Lome Conventions constitute cooperation agreements between EU and the African (48), Caribbean (15), and Pacific (8) Group of countries. These conventions provide ACP countries grant development aid through the European Development Fund (EDF), risk capital through the European Investment Bank (EIB), and free access to EU markets for most ACP exports. The current Lome IV Convention will end in the year 2000.

Lome V negotiations have started and are expected to be worked out against the backdrop of the UR agreements. In preparation for these negotiations, ECA provided technical backstopping to the 1997 Conference of African Ministers (in Lome), which examined modalities for the future relations between ACP states and the EU. A study was prepared on *ACP-EU Cooperation: Issues on the Agenda of the Negotiations for Successor Agreement to the Lome Convention*. Additionally, a Joint OAU/ADB/ECA Panel of African Experts is being established. This will provide advisory and technical support to African countries in developing their strategies and negotiating positions for Lome V, and will backstop the Joint OAU/ADB/ECA Secretariat in its function of periodic reporting to various policy organs and forums. ECA will also continue to provide assistance in this area to Member States by organizing policy discussion forums and by providing advisory services for the major trade negotiations now in the pipeline.

Promoting Intra-African Trade. The equitable distribution of costs and benefits among countries participating in an integration scheme is funda-

mental to promoting regional integration and intra-African trade. ECA has an ongoing, policy-relevant work program in this area, including development of an analytical framework for cost-benefit analysis of regional integration for application in two subregional case studies. The premise of the work is that the success of trade liberalization and economic integration schemes often depends on how effectively costs and benefits are distributed to all the parties concerned. The subregional case studies will examine measures that could be considered within the framework of national and regional policies to minimize costs and maximize equitably distributed benefits. An ECA workshop on

"A policy framework to promote increased investment in Africa must address issues relating to the political climate, a conducive economic policy framework, increased public savings and investment, increased private savings, attracting foreign investment, and enhanced regional cooperation and integration." K.Y. Amoako, from "Opening Statement before the 32nd Session of the Commission/23rd Meeting of the Conference of Ministers Responsible for Economic and Social Development and Planning", Addis Ababa, Ethiopia, 5 May 1997.

Economic Integration Cost Benefit Analysis was held on 28–30 October 1998, to familiarize participants with the techniques for analysing related issues and their policy implications.

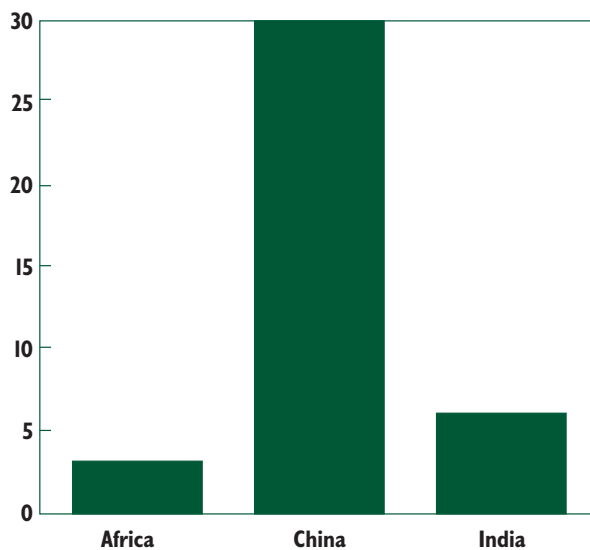
Trade and Investment Promotion through Improved Physical Infrastructure. Building and efficiently operating national and regional transport and communications systems are key to promoting trade and investment in Africa, where prevailing high transport costs contribute to non-competitiveness. The 1997 ECA Conference of African Ministers of Transport and Communications—convened in Cairo and attended by sector ministers, senior government officials, and sector experts from around the world—reviewed the state of transport and communications in Africa and explored measures to accelerate implementation of the Second UN Transport and Communications Decade in Africa. The Conference also recommended measures to address the problem of inefficient, high-cost transport infrastructures and to promote regional transport planning and coordination. These measures included deepening ongoing reforms in the transport and communications sectors, modernizing the technological base for the development of efficient systems and

strengthening institutional and human capacities. Ongoing and future ECA work programs include studies on the impact of non-physical barriers on integration and improvement of transport services, promotion of the Trans-African Highway, and a regional seminar on transit corridors.

Promoting Private-Sector Development in Africa. ECA organized an international conference on “Reviving Private Investment in Africa” (Accra, Ghana, 24–27 June 1996). The aims of the conference were to promote networking among African business persons and foreign investors; to provide a platform for African governments to outline their policies for creating an investor-friendly climate; and to organize and create a forum for exploring investment opportunities in several sectors. The conference employed a path-breaking format that included thematic breakout sessions organized to facilitate high-level dialogue between African policy makers and private-sector actors, on the one hand, and foreign business partners, on the other hand (see box 3). Similar conferences have since been held—the Addis Ababa Forum; the Oxford Forum on Investing in Africa; the South Africa Trade and Investment Summit; and the Corporate Council on Africa—all emphasizing the importance of the role of the private sector in Africa’s development. A major outcome of the Accra conference was the establishment of the African Capital Markets Forum, which serves as a clearinghouse for the exchange of views on the development of capital markets in Africa, provides related training, and promotes relevant research.

In collaboration with a World Bank affiliate, the Multilateral Investment Guarantee Agency (MIGA), ECA has developed a program aimed at strengthening the operations of selected African Investment Promotion Agencies (IPAs) through work programs tailored to the need of each IPA. In addition, ECA collaborated with MIGA in sponsoring a symposium on “Investment and Business Opportunities in the African Mining Sector”. The meeting took place in Marrakesh, Morocco, 15–18 November 1998. Representatives from 26 African countries, 40 mining companies, and 13 partner institutions attended the symposium. Issues dis-

Figure 5. Private Capital Flows Per Capita (\$US)



Source: ECA Secretariat.

cussed included the challenge of achieving regional cooperation in African mining; the social impact of mining activities and the effect of mine closures; environmentally sustainable mining; and financing mining development in Africa. Follow-up actions are underway to disseminate information on possible investors, build partnerships with agencies and consultancy firms, support Member States in negotiations, and review cooperating modalities with MIGA for future joint activities.

Major ECA analytical studies and other activities planned over the next two years centre on institutional and policy issues and strategies for improving Africa’s private sector competitiveness. They include studies focused on strengthening enterprise formation, promoting privatization of state-owned enterprises, creating awareness of the role of micro-financing to private-sector development, and promoting the development of capital markets in Africa. Specific activities include organizing a high-level workshop on private financing of infrastructure; publishing a sourcebook on best practices in private-sector financing of infrastructure projects; and convening of a high-level

Box 3. International Conference on Reviving Private Partnerships For Growth and Development

The Conference, held in Accra, Ghana, from 24 to 27 June 1996, was attended by about 650 participants from African public and private sectors, as well as business executives from outside the region. Hosted by the Government of Ghana, the Conference was a collaborative effort among ECA, the United Nations Development Programme (UNDP), the Global Coalition for Africa, the African Business Round Table, the World Bank Group, and bilateral donors such as the governments of the People's Republic of China, Japan, and the Republic of Korea, the Swedish International Development Cooperation Agency, the Overseas Development Administration (United Kingdom), and the International Development Research Centre (Canada).

The objectives of the Conference were threefold: to exchange experiences between African policy makers and business persons, on the one hand, and foreign business executives, especially investors interested in Africa, on the other; to provide a platform for African governments to outline their adopted or planned policies for creating an investor-friendly climate; and to organize a forum for exploring investment opportunities in several sectors in African countries.

Regarding the first objective, the Conference afforded an opportunity for African and foreign business executives as well as government officials to examine the potential but also the problems of attracting private investment to Africa. In particular, the Conference highlighted what African countries should do to stimulate private investment—foreign and domestic. In this regard, the Conference discussions emphasized a composite of measures, including strengthening partnerships between government and the private sector in Africa as a key prerequisite; fostering an investor-friendly environment; accelerating the pace of privatization, which will signal increased public policy commitment to and opportunities for private investment; creating and strengthening capital markets as vehicles for mobilizing savings for investment; fostering political stability buttressed by good governance; pursuing sound macroeconomic policies to sustain the confidence of current and would-be investors; and enhancing the commitment to regional integration as a means of overcoming the disincentive to significant inflows of foreign investment posed by the small size of the economies of many individual countries.

In exploring investment opportunities in Africa, the Conference discussions focused on four major sectors where the allure of investment and the emphasis of African countries have converged. These are infrastructure and energy, agribusiness, telecommunications, and

financial services. Although the opportunities for private investment vary from country to country, the Conference recognized that privatization has opened avenues for increased private investment in these sectors, adding to the opportunities that existed in the natural resources, mining, and minerals that have been the beacon for the first generation of foreign investment in Africa. The large number of foreign business executives that attended the conference was evidence of significant and continuing foreign investors' interest in Africa. The other evidence is the increasing number of foreign firms that have joined the U.S. Corporate Council on Africa and the African Business Round Table, two associations for corporate direct investors interested in or operating in Africa.

A key event at the Conference was a round-table summit meeting that brought together heads of state and government or senior political leaders from eight African countries and six business leaders from within and outside Africa. Through the summit, the government leaders and business executives offered their perspectives on issues of private-sector development and the role of private investment in Africa's development. Most significantly, government leaders emphasized their commitment to political and economic reforms, including eliminating many policy and institutional barriers to private investment.

An important initiative taken at the Conference was the launching of the African Capital Markets Forum, a multi-country advocacy group bringing together members of stock exchange, leasing companies, and financial institutions such as brokerage firms and investment funds. Another major initiative was the formation of the Corporate Council for Women in Africa, which will be composed of African women entrepreneurs whose enterprises have an annual turnover of \$1 million and higher. The aim of the Council is to provide financial services to and a network for women entrepreneurs in Africa. The Council will establish a fund to support its operations. The formation of the Council gave a practical expression to one of the major themes of the Conference—economic empowerment of women in Africa.

Overall, the Conference provided a platform for government leaders from various African countries and business executives from the private sector from Africa, Asia, Europe, and North America to reaffirm a shared commitment to reinvigorate private investment as key to sustained growth and accelerated development in Africa.

roundtable discussion on building strategic alliances for linking selected African business management institutions to their North-South counterparts.

ECA is launching a major project to promote private-sector development in Africa through South-South cooperation to stimulate domestic and

foreign investment, facilitate networking among African, Asian, and Latin American enterprises, and enhance sharing of experiences through study tours. The Africa-Asia activities, which will be undertaken in collaboration with the Economic and Social Commission for Asia and the Pacific (ESCAP), will be the first phase of this program.