

UNCTAD XII
High-level Segment of Heads of State and Government

Trade and development for Africa's prosperity: Action and direction

Concept paper

Introduction

The surge in the rates of economic growth throughout the African continent has revived the hope that it may finally be emerging from its long period of stagnation. Over the last seven years, Africa has consistently outperformed the world economy in terms of growth rates: the average rate of growth in Africa has been 4.7 per cent a year, which is 1.7 percentage points higher than that of the world economy. Commodity trade has been the main driver of Africa's economic recovery: there have been commodity price hikes on the back of robust global demand. However, greater macroeconomic stability, debt relief and, in recent years, higher aid flows have also played a role.

Although Africa's growth rate has been relatively high, it has not been high enough and sustained over a long enough period to help the continent reach its development goals. For example, to reach the most prominent of the Millennium Development Goals, namely halving poverty by 2015, it has been estimated that African economies need to grow by 7–8 per cent a year, on average, for about ten years. The limited effect of growth on Africa's poverty is due to the fact that key commodities such as oil and minerals are produced in capital-intensive industries with weak linkages to the rest of the economy. As a result, growth generates very few local jobs. In fact, some have termed the current growth experience "jobless growth". The question, therefore, is what African countries and the international community should do to ensure that the type of growth Africa pursues is not only high and sustainable beyond the current commodity boom but also creates jobs and thus helps reduce the continent's high level of poverty.

Trade and development encompass a broad range of issues in a continent that presents the greatest development challenge of the twenty-first century. This concept paper highlights five of these issues, which, according to previous and ongoing research by UNCTAD, have emerged as the crux of Africa's economic development in general and trade in particular.

A. Investment

Discussions on investment in Africa have often focused on foreign direct investment, although it has been acknowledged that FDI lags rather than leads domestic investment. Hence for a self-sustaining and dynamic investment process the two types of investment must be seen as complementary. Despite the low levels of domestic investment, Africa has witnessed a rapid increase in inward FDI within the last four years, reaching a peak of about \$40 billion in 2006. However, the region's share of global FDI flows remains at about 3 per cent, below its share in the 1970s. These flows are very much concentrated in a few countries and a few sectors: more than

three-quarters of total FDI flow into the extractive sectors (mining and petroleum extraction). While there are signs of increasing investment in services, in particular in infrastructural services, the share of FDI in the manufacturing sector is on the decline, mainly as a result of the end of the Multi-Fibre Arrangement.

Issues

- *What policy measures are necessary for improving the environment for domestic investment? Are these different from those necessary for attracting FDI? How can Africa diversify investment into the services and manufacturing sectors?*
- *How can Africa maximize its benefits from FDI, in particular in the extractive industries? That is, how can it ensure win-win outcomes in terms of higher incomes, job creation, forward-backward linkages in the domestic economy, transfer of technology (or technological upgrading), transfer of skills and know-how, and other positive spillovers?*
- *How can FDI be used to enhance Africa's positive integration into the global trading system?*

B. Official development assistance

Official development assistance remains a major source of financing for a range of developmental and poverty-reduction policy programmes in many low-income African countries. Despite recent increases, however, total aid flows in 2006 dropped by 5 per cent relative to 2005. Flows in 2006 represented only 0.3 per cent of DAC members' combined gross national income – far below the level required to fully attain the Millennium Development Goals by 2015. Only five countries have met or exceeded the United Nations target of devoting 0.7 per cent of their GNI to official development assistance, and the challenge of meeting the G8 Gleneagles commitment to double aid to Africa by 2010 and reducing the volatility of aid persists.

Issues

- *Does the Paris Declaration on Aid Effectiveness address all the issues involved in enhancing the development effectiveness of ODA? What actions can the international development community take to reduce the proportion of aid (e.g. tied aid) which does not address the priorities of recipients?*
- *How can the demands made by donors on weak and overburdened bureaucracies in Africa be reduced? Do we need a new multilateral organization to channel aid?*
- *Is there a need for a permanent forum of recipient countries and donors to discuss these common issues?*
- *What role can new donors play in supporting Africa's development efforts?*

C. Trade

Africa's share of global exports declined from about 6 per cent in 1980 to about 2.7 per cent in 2006. For trade to be a driver of economic growth and development, action is required on two fronts: the international community should facilitate a more

beneficial integration of the continent into the global trading system; and Africa, for its part, should strive to increase its share of global trade, particularly in new and dynamic sectors. Preferential market access schemes should aim to guarantee genuine market access, especially for least developed countries, by eliminating non-tariff barriers and addressing sanitary and phytosanitary standards, technical barriers to trade and contingency trade protection measures. This will require a successful conclusion to multilateral trade negotiations. Meaningful market-access offers during the third round of negotiations on the Global System of Trade Preferences would enhance South–South trade flows.

At the regional level, strengthening the regional economic communities could create new markets for domestic producers, even in non-traditional products and services. A proactive regional integration policy must be based on a mechanism that promotes industrialization and technological upgrading with the objective of raising competitiveness and participation in global production chains.

Issues

- *What are the costs and benefits of non-reciprocal market access for poor African countries? What would be the costs and benefits of the economic partnership agreements under the current proposals on the table?*
- *What guarantee is there that resources for aid-for-trade will be additional to resources allocated to existing technical cooperation programmes? How different is aid-for-trade from existing technical cooperation arrangements?*
- *How can the Doha Round maximize the benefits and minimize the costs of external integration for African countries? How can the impact of non-tariff barriers and contingency trade protection measures on African countries be mitigated?*

D. Commodities

The commodity sector is the mainstay of most African countries, especially least developed countries. Unfortunately, commodity prices are highly volatile. Improving African countries' development prospects is contingent upon the existence of a supportive international environment and their ability to diversify into higher value-added products by moving up the production-processing-marketing value chain in both traditional and new product lines.

Issues

- *How can the commodity windfall be used to achieve sustainable development?*
- *What measures can further strengthen the participation of African countries in South–South trade in commodities?*
- *What international commodity initiatives can be envisaged to assist African commodity producers?*

E. Migration

International migration from Africa to other regions, in particular to the developed countries, has increased strongly since the early 1990s. Migration has both positive and negative consequences for African countries. On the positive side, remittances, if channelled to productive investment, can contribute to long-term growth; while on the negative side, brain drain can have dire consequences for long-term development prospects. If properly managed by home and host country Governments, the negative effects of international migration could be minimized and its benefits maximized for both groups of countries.

Issues

- *How can both the home and host countries of migrants (legal and illegal) manage migratory flows in a more sustainable and humane manner?*
- *What policies can host countries adopt to reduce the costs of brain drain in Africa?*
- *How can commitments on the temporary movement of natural persons (under Mode 4 of the General Agreement on Trade in Services (GATS)) contribute to brain gain, brain circulation and knowledge diffusion in Africa?*
- *What measures can African countries and host countries adopt to maximize the development impact of remittances?*

F. Action and directions

The process of globalization has come under increasing scrutiny in recent years because of growing inequalities between the rich and poor countries and within countries. Questions have been raised about the ability of unfettered globalization to deliver millions of people, in countries such as those in Africa, from poverty, as was initially hoped for. The difficulties Africa is experiencing in taking advantage of globalization have been attributed in some quarters to externally imposed policy reforms, which have damaged nascent industrial sectors in several countries and resulted in economic stagnation. There is an emerging consensus that these countries need to design a development strategy that responds to their development challenges, and to implement this strategy within the framework of a “developmental state”. The strategy would be complemented by a policy of solidarity on the part of the international community to help Africa take advantage of the opportunities provided by globalization.

Issues

- *Is the “developmental state” the way forward for Africa?*
- *What would be the “building blocks” for a new development paradigm?*
- *How can Africa address the technological constraints it faces?*
- *How can a realistic and effective partnership between Africa and its development partners be brought about?*
- *What role can UNCTAD play?*