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Africa, Trade and the Crisis : A Stimulus Package for Africa

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The current global downturn is a crisis emanating from advanced economies rather than from bad policies on the part of Sub-Saharan African (SSA) countries. African economies will nevertheless be affected through a variety of international trade-related channels, including reduced commodities prices and exports receipts, foreign direct investment and equity flows, exchange rate fluctuations, and remittances. Trade is already shrinking, growth declining, and unemployment rising. The associated losses for SSA countries are forecasted at over USD 50 billion in 2008-2009. Unless appropriate solutions are identified and swiftly implemented, the crisis risks undermining the achievements of three decades of policy reform, thus further reducing the possibility of achieving the Millennium Development Goals. Fortunately, such solutions exist that could even turn the crisis into opportunity for African countries.

This note reviews the critical trade-related challenges facing African countries as a result of the global financial crisis and shows how these relate to the multilateral trading system. It then identifies the trade-related threats and implications for African countries' sustainable development and suggests priorities for the G-20 leaders' deliberations. It concludes by presenting global trade governance priorities where assistance from G-20 leaders is essential.

Critical Challenges

African development is hampered by a four-component poverty trap. First, inadequate access to markets and growth poles is a major deterrent to growth and poverty alleviation. Landlocked countries face greater transport costs and are dependent on the transport infrastructure of their coastal neighbors. Secondly, poor governance nurtures an unfriendly business environment and is fertile ground for violent conflicts. Thirdly, Africa's natural resources have been of interest to many non-OECD Development Assistance Committee (DAC) members in recent times. Especially China's interventions have been source of

concerns as its aid and loan allocation could lead to new debt build-up hence could undermine the broad long-term development objectives of the aid recipients. Fourthly, climate change and environmental security are sources of concern. Spillover of the global financial crisis could worsen poverty on each of the above dimensions. The financial crisis therefore presents Africa with several challenges.

The first challenge is to sustain interest among African countries in market-friendly reform at a time when they see developed countries introducing inward-looking protectionist policies. The stalled World Trade Organization (WTO) negotiations further complicate the situation. While trade reform was assuming center stage in public policy discourse, particularly with respect to the Economic Partnership Agreement (EPA), with the global financial crisis, the incentive for continued reform of the last three decades or so could diminish or disappear; the momentum for proactive participation in multilateral negotiations risks dying out.

The second challenge relates to the competitiveness agenda. An important development challenge for Africa is the high transaction costs of doing business. Governments need to bolster their supply-side capabilities, diversify production, and add value before exporting. The global financial crisis weakens the vulnerable financial positions of African countries, making it impossible to finance such a competitiveness agenda.

Third is the reduced attention to macroeconomic stability. One of the key achievements of policymaking in Africa over the last three decades has been the steady improvement in the macroeconomic framework, which is the foundation for growth that can reduce poverty. The current financial crisis is fueling domestic inflation pressures. As such, one challenge is to maintain competitive exchange rate regimes and single digit inflation. Macroeconomic policies need to be coordinated with policies on the real side of the economy

with due attention to possible spillover effects at the regional or sub-regional levels, especially for those countries for which monetary, trade, and exchange rate policies are regional.

Developments in the multilateral system, particularly from the WTO and the International Monetary Fund (IMF), could have a direct impact on these challenges. In particular, concluding the Doha Round with due attention to the interest of African countries will create a conducive environment for continued reform.

Trade-related threats

The global financial crisis poses serious trade-related threats to African development. Firstly, the crisis threatens the consensus among monetary and other policy authorities. On monetary policy, limited shifts in policy regime is required since problems originating, for example, from the real estate sectors or stock markets in developed countries are only marginally transmitted to African economies. The situation is however different in other areas including trade-related issues, such as remittances and other external finances. Secondly, there has been discussion on reconsidering government ownership of assets in major economic sectors, or delaying/reversing privatization of publicly owned enterprises. Thirdly, households in African countries are much more vulnerable. The negative impacts will spread to the entire economy and the poor who have the most limited access to safety nets will suffer tremendously. The situation is further complicated by the low institutional capacity of Sub-Saharan African governments to provide timely assistance to vulnerable groups.

Key global trade governance priorities for SSA

The legitimacy of the G-20 leaders will depend on the extent to which they can integrate the interests of non-G-20 members. They should collaborate with Africa to create

the conditions for swift recovery and even higher growth. The overall approach shall build on a comprehensive reform program that enables countries in each sub-region to liberalize trade such as to engineer sustainable intra-regional trade and a smooth integration in the multilateral trading system. This would require increasing policy transparency and stability and enhancing policy credibility that in turn will make the region attractive to domestic and foreign investors. The G_20 could help on two broad areas: Support a pro-poor and holistic trade reform in Africa, and provide a stimulus package

A Holistic Pro-poor Trade Reform Agenda

The trade agenda for the G_20 shall ensure the Doha Round is completed in a timely manner with the interests of African countries properly reflected in the final agreement. A priority is to conclude the EPA negotiations in a manner that eases the integration of African countries in the international trading system. Countries that signed interim EPAs at the end of 2007 are currently finalizing the negotiations of comprehensive agreements. It will be essential that commitments agreed to in these EPAs are coherent with those entered into in other foray. Attention is paid here on the trade in services agenda. Trade in services and investment offers African countries significant opportunities, particularly if one pursues a holistic approach on both the import and export sides. There is a need to first mobilize the relevant stakeholders to ensure a proper understanding of the challenges and opportunities associated with the sectors and mode of supply of interest. Countries should also draw the regulatory reform implications that will in turn inform the decision on where the EPA negotiations are the best framework for pursuing trade in services reform. There is also a need to determine the readiness to supply the European markets. This would include developing the

relevant legal and regulatory frameworks that comply with the norms and standards of the export markets.

There are two main elements. First element is the needs assessment studies that review production and export opportunities, constraints and complementary actions. In particular such needs assessment would documents the main regulatory impediments on services markets, and would identify gaps in laws and regulations. This needs assessment would also be an essential guide for shaping the reform to be initiated at the regional level and the timing for making binding commitments in the negotiations context. As such this would be the opportunity for designing regulatory strengthening program and the associated technical assistance that could be accommodated in the aid for trade program. Second element is to ensure ownership of the outcome of the negotiations. One reason for inadequate mainstreaming of trade in development strategies in Africa is the low institutional capacity for stakeholders' consensus building. Stakeholders with a range of interests and perspectives need to be assisted in better appreciating the opportunities and challenge of trade in services. Properly undertaken, the consultation would therefore determine the readiness of the country to pursue reform regionally or as part of the negotiations. It will also determine the process that safeguards the development objectives of each member state.

Overall there is urgency to account for the most important obstacles to trade. A clear link needs to be established between the trade in services and trade facilitation agenda. Research has shownⁱ that increased port efficiency, improved customs, and regulatory environments, and upgrading services infrastructure have a lasting impact on growth and poverty. African countries and regions should give special emphasis on improved efficiency and competitiveness along transport corridors. For each corridor attention could be on the streamlining and harmonization of transit and customs regulations, particularly towards

greater cooperation on border crossing, visa procedures, transport modal standards and regulation. The stimulus could therefore focus on strengthening regional regulatory framework; harmonizing customs operations. Lack of trust among various stakeholders implies redundant inspections and poor facilitation of transit cargo clearance leading to long port clearance processes, costly escort systems to prevent excessive controls or smuggling, and border crossing delays. Facilitating stakeholders' consultations shall therefore be an important focus of the stimulus package.

Focus on infrastructure is especially important for landlocked countries. Improved coordination of stakeholders particularly enabling healthy interface between the public and private sectors could help remove the operational issues that hamper trade. The stimulus package could therefore nurture a longer-term process of capacity building and smooth movement towards international trading norms and practices.

Research at the London-based Overseas Development Institute and the National Institute of Economic and Social Research shows that the road to African recovery depends on the size and focus of the stimulusⁱⁱ. Debt relief would be helpful but have no direct effect on demand and hence growth and poverty. If the stimulus is spent to cushion the impact on the vulnerable it will have short-term positive impact on growth as it helps smooth income losses. In case the emphasis is on productive investment it will have short and long-term impact by preserving the pre-crisis growth prospects. Finally in case the stimulus finances investment in infrastructure, Africa would see growth in productivity that can nurture long-term growth beyond pre-crisis growth potential. The same research shows that growth in Africa will in turn contribute to swift worldwide recovery, especially in countries with significant trade links with Africa such as Europe and China.

A Stimulus Package for Africa

African countries need a stimulus package to mitigate the contagion of these internationally originated problems. The stimulus shall have properly integrated sets of trade, monetary, and fiscal measures. It could provide assistance to facilitate economic adjustment and nurture investments in human and physical capital, such as to minimize long-run costs. The stimulus should support appropriate safety nets for those most vulnerable and most exposed to the crisis; it should be consistent with long term sustainable levels of indebtedness. The private sector and particularly the Small and Medium Enterprises (SMEs) that will be creating wealth necessary for poverty reduction should receive particular attention.

Unfortunately, African countries cannot internally mobilize the necessary resources. Various proposals have been floated recently. One example by the World Bank is to devote 0.7 percent of the stimulus of developed countries to a “Vulnerability Fund for Africa.” This Fund could fund projects that would help mitigate the consequences of the crisis, including safety nets programs, investments in innovation, technological upgrading, and infrastructures that can provide the foundation for future growth. The Vulnerability Fund for Africa would also undertake those actions that governments would have undertaken with funds diverted from current reform program.

Effective implementation Aid for Trade would assist African countries affected by the financial crisis to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access. It would help distribute the global benefits more equitably.

So far most of the suggestions have been coming from outside Africa. The G-20 leaders could facilitate collaborative efforts aimed at bringing forward a common African

response to the crisis through an Africa-led stimulus package that is properly funded, free from un-necessary bureaucracy, and not diverting resources from existing programs.

ⁱ See Njinkeu, D. Wilson, J.S. and Fosso, B.P. (2008) Intra-African Trade Constraints: The Impact of Trade Facilitation. ILEAP Background Brief. See www.ileap-jeicp.org

ⁱⁱ See Barrell, R. H., te Velde, D. W. (2008) A Fiscal Stimulus for Address the effect of the global financial crisis on Sub-Saharan Africa. ODI and NIESR.

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