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What can the G20 do with trade to benefit Africa?

African Development Bank

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AFRICAN DEVELOPMENT BANK GROUP

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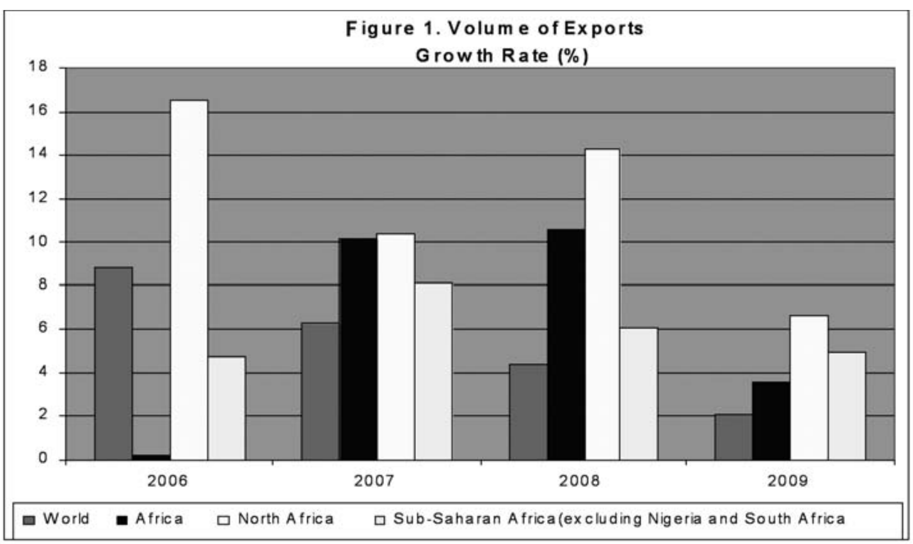
1. Weathering the Storm

The global economy continues to grapple with the impact of the financial and economic crisis, with global output growth in 2009 estimated to contract to about 0.5%, its lowest pace since World War II[(1)]. Africa's economic growth is expected to follow suit, declining to 3.4% in 2009 from 5.2% in 2008. This sharp global economic downturn has led to an immense contraction in international trade. Growth in export volumes on the continent is expected to decrease to 3.6% in 2009 from a buoyant rate of 10.6% in 2008, translating into a loss in export value of 45.4% (Figure 1). In countries such as South Africa, export growth declined from a buoyant 7.5% in 2007 to 2.1% in 2008 and it is expected to worsen to -1.4% in 2009[(2)] .

Liquidity constraints in the financial markets have also translated into a lack of credit for *trade finance*. Given that 60% of trade finance is handled by private agents and 90% of the US$ 14 trillion worth of global trade is financed by trade credits, further tightening of markets has dire consequences on trade performance. The WTO estimates that liquidity shortages and disproportionate aversion to risk have



Source: *African Development Bank estimates; World Economic Situation and Prospects*, Unctad, January 2009

(1)International Monetary Fund, World Economic Outlook Update, January 2009.
(2)National Treasury of South Africa, Budget Review, February 2009.

caused a shortfall in available trade finance of about US$25 billion, disrupting trade and growth performance, and possibly exacerbating the effects of the crisis.

Liquidity shortage has also affected trade in services, particularly due to declining *Foreign Direct Investment* (FDI) as investors retrieve their capital from emerging markets[3], with developing countries being the most affected. Egypt, for example, recorded a fall in FDI of about 44% in December 2008[4]. Africa's tourism has also not been spared by the effects of the global financial crisis. Globally, tourism figures are expected to stagnate in 2009 although a decline of up to about 2.1% is predicted, depending on the magnitude of the global contraction[5]. The growth rates of international arrivals to Sub-Saharan Africa in 2008 have already shrunk to 4.2% from 7.5% in 2007. Seychelles, Cape Verde and Mauritius are among the hardest hit, given that tourism receipts are greater than 20% of GDP in each of these countries.

The full impact of the financial crisis is still uncertain and countries will continue to navigate in uncharted waters. The major concern for African countries is the potential adverse impacts on major economic activities in the areas of trade and investment, which are feared could compromise gains already made towards poverty reduction and other development goals.

It is clear that solutions must entail intervention beyond national borders if they are to be effective and sustainable, making international coordination a vital step. From an African perspective therefore, a key question is: *what should the continent expect from the G20?* With its representation comprising countries from the developed and developing world, the G20 offers a unique opportunity to table practical solutions that are holistic and inclusive. To begin with, the specific circumstances of the developing world must be articulated in the G20's engagement in major discussions. The G20 can support African countries by ensuring that developed countries refrain from *protectionism* in responding to the crisis, and to adopt approaches that are inclusive, given the contagious nature of the problem. It is also critical that the G20 makes a firm commitment to conclude the *Doha Development Round* and to support the *Aid for Trade* agenda. African countries must also recognize that the goodwill from the G20 can only go so far. The onus is on them to craft short- and long-term strategies that can boost trade as a tool to

(3) Estimates by the United Nations Conference on Trade and Development.
(4) African Development Bank, Trade, Investment and Domestic Resource Mobilization", Background Paper presented at the C10 meeting in South Africa, January 2009.
(5) World Tourism Organization, January 2009.

drive the development agenda. This includes pursuing *domestic trade policy reforms* that support international rules (simplification, harmonization and standardization of rules, procedures and processes), unlocking opportunities in the *regional agenda*, and increasing their voice and participation in the Doha Development Round. All these actions will come at a cost and will require financing. As such, it is critical for Multilateral Development Banks (MDBs) to come up with innovative instruments to support the adjustment process in Africa.

2. What can the G20 do?

2.1 The G20: Alleviating Fears of Protectionism

Responses to the current economic crisis are now about preserving jobs and countries are using every available instrument to minimize economic distress. History testifies to the natural tendency for increased protectionism during economic crisis, particularly in industrial goods. Protection can take several forms, including tariffs, subsidies and trade remedies (safeguards, countervailing measures or safeguards). The 1930s should continue to serve as a reminder of how protectionism almost led to the demise of free trade, worsening the effects of the great depression. Similarly, during the Asian crisis, the number of anti-dumping investigations was the highest between 1996 and 1998 in products ranging from base metals, glass, textiles and machinery[6]. It is therefore important that countries find a balance between the use of tools that minimize the damage to the workforce while at the same time avoiding beggar-thy-neighbour policies or violating global trade rules.

So far, evidence of the use of glaring trade protectionist measures remains limited. However, there are some countries which have introduced support and imposed higher tariffs and non-tariff barriers or trade remedies. Most notable is the United States through massive support to its banks and other financial institutions, and to specific industries such as the automobile sector. Another notable instance since early this year is the European Union's re-introduction of export subsidies for butter, cheese and milk (whole and skim milk powder). Developing countries such as India and those of Latin America have also followed suit by protecting some specific products, but it is uncertain as to where all of this is taken us in terms of free trade, given the magnitude of the protectionist measures summarized in Table 1.

[6] N. Joubert, N., (2005) "The Reform of South Africa's Anti-Dumping Regime," *In Managing the Challenges of WTO Participation* (Low, P. and A. Stoler, eds), UK: Cambridge University Press.

Table 2: **Levels of Support and Protection since the Global Financial Crisis**

Country	**Type of Protection**
United States	Financial support to the banking Industry and automobile industry
European Union	(i) Re-introducing export subsidies for butter, cheese and whole and skim milk powder from January 2009 (ii) Support the auto industry – France, Germany
Russia	Introduced measures to support domestic car manufacturers including state subsidies, and in January raised import duties on cars and trucks
Canada	Aid package of short-term loans to the auto industry
Australia	Planning to set up a A$2 billion fund to provide liquidity to car dealer financiers
India	Increased tariffs on some steel products in November 2008
Republic of Korea	Tariffs on imports of crude oil will increase from 1 per cent to 3 percent in March 2009
Indonesia	Restricted the entry points for imports, such as electronics, garments, toys, footwear, and food and beverages to only five ports and certain international airports since December 2008
Argentina	Imposed non-automatic licensing requirements on products considered as sensitive, such as auto parts, textiles, TVs, toys, shoes, and leather goods
Mercosur	Members have proposed to raise their common external tariff by 5 per cent on average, on a number of specific items, including wine, peaches, dairy products, textiles, leather goods and wood furniture. Waiting for ratification

Source: *World Trade Organization*, JOB(09)/2, January 2009

These selected examples illustrate that the fears of a global return to protectionism are indeed real. Given that the European Union and the United States are key markets, especially for Africa, escalating levels of protection on key agricultural and industrial products of interest to the continent raises a serious concern. It is therefore timely that the G20 make concerted efforts to communicate these fears to policy-makers, the private sector and other stakeholders, and articulate the detrimental effects that increased protection would have on fragile African economies during these turbulent times.

2.2 The G20 in International Trade Support Frameworks

The Doha Development Round – The Doha Development Agenda (DDA) is an opportunity to improve global growth prospects from which all economies and societies can benefit. Most importantly, the negotiations offer a chance for Africa to catch up with other competitors by locking-in domestic or unilateral reforms and getting other countries to open up to their exports and thereby levelling the playing field with key competitors. DDA's failure to meet its objectives does not only undermine the importance of the World Trade Organization (WTO), but it will also jeopardize trade and growth prospects of developing economies, with Africa clearly standing out among the biggest losers.

With agricultural issues being central to the successful completion of the DDA, Africa should continue to push for more progress on agriculture's three main contentious issues: (i) agricultural tariffs;

(ii) the trade distorting and domestic support developed countries provide to their farmers; and (iii) export subsidies. The leadership role of the G20 cannot be timelier in ensuring the advancement of progress on these issues.

It is clear that the magnitude of economic gains that Sub-Saharan Africa (SSA) stands to make from the Doha Round is significant, although they remain a conjecture. The World Bank projects that SSA would see a modest US$4.8 billion increase in merchandise trade (some 1.1% of the region's GDP), with agriculture accounting for 78% of the total gain for SSA[7]. African cotton farmers are likely to boost their exports by US$1.9 billion. A more ambitious target of full merchandise trade liberalisation, with a supportive domestic policy environment, is estimated to result in gains of approximately 5% of income in developing countries, which would lift some 300 million people out of poverty by 2015. If a greater opening of the services trade were to occur, the benefits would be substantially greater. Should it accrue, such benefits will be unmatched by all other international economic cooperation, neither debt relief nor official development assistance. It is therefore critical that the G20 reaffirms its commitment to ensuring that these potential gains are realized.

Aid for Trade Initiative – Trade liberalisation alone is not enough. Trade barriers have come down a great deal, but trade performance in most African countries has not improved. Other factors such as investment opportunities, transport infrastructure, customs and ports reforms, competition policy, skills and macro-economic policies are also crucial for the success of efforts at scaling up trade in the region and the rest of the world. These reforms will require adjusting financing on which countries strongly rely on Aid for Trade. Under the WTO's leadership, significant progress has been made in mobilizing Aid for Trade, with a clear commitment from the international community. However, it is important that Aid for Trade be driven not only by donors and the international community. African countries should also be proactive in designing a coherent set of policy options targeted to their own development objectives.

The Aid for Trade initiative must also complement and strengthen Africa's regional integration efforts, particularly increasing the level of intra-African trade among others. This leaves a clear role for Pan-African institutions such as the African Development Bank (AfDB) Group; the African Union Commission (AUC) and the United Nations Economic Commission for Africa (UN-ECA) to ensure their prominence in this process. Through its increased focus on both physical infrastructure and private sector development, the AfDB recognizes its important financing role in Aid for Trade.

[7] Global Monitoring Report, 2006.

The G20, for its part, should continue to recognize that it takes decades to build productive capacity that is effective and sustainable. Aid for Trade therefore needs to involve long-term, predictable aid flows which can be fed into budgeting processes. More importantly, Aid for Trade must be a complement, not a substitute, for working towards a more progressive world trading system; one which does not prejudice the interests of developing countries.

3. The G20 and Africa's Trade Liberalisation Strategies

African countries now strongly recognize the need to include the trade agenda in their medium and long-term strategies to boost trade performance and, consequently, economic growth. For most African countries, however, the challenge is to determine the priorities in trade policy, and give them prominence among the competing demands in unilateral, regional and multilateral trade agendas. Improving Africa's trade prospects will, therefore, require concerted efforts at the national, regional and international levels.
Gains from international trade will be substantial only if countries carry out nationally- championed unilateral trade reforms, which could be used to inform multilateral, regional and preferential processes. Also, beyond tariff policies as instruments for liberalization, success depends on complementary improvements in the macroeconomic environment by addressing supply-side issues relating to the provision of adequate physical and soft infrastructure and communication, as well as developing targeted investment policies to support export diversification and access to finance.

Liberalising South-South trade should not be neglected, as 40% of exports from developing countries go to other developing countries. Trade barriers by low-income countries against other low-income countries significantly impact their own development, and can be more harmful than those imposed by rich countries. For example, Latin American exporters of manufactured goods face tariffs in neighbouring Latin American markets that are seven times higher than those they face in industrialised countries. In Africa's case, the average tariff rate is about 19%, which is still higher than the global tariff peak which stands at 15%. This results in developing countries foregoing enormous market opportunities. Therefore, ensuring effective export growth for African countries requires that the issue of trade barriers by both developed and developing countries be jointly addressed.

4. The Role of the African Development Bank

The G20 has called upon the international community to empower MDBs to help countries cushion the impact of the global financial crisis. The African Development Bank recognizes the need for it to act promptly in order to help mitigate the impact of the financial crisis and avoid *"reverse development"* in its regional member countries (RMCs).

The Bank and other MDBs can help African countries through short-term targeted interventions with a deliberate move to mitigate procyclicality. Two important targets that are within the reach of MDBs are: offsetting the decline in government revenues linked to falling trade volume, and compensating the decline in loanable funds in the banking sector. Budget support to governments and the provision of support to commercial and development banks are, in particular, recognized responses to these concerns. The Bank is strengthening its lines of credit and financing innovative projects in support of long-term private sector lending, and has initiated a process of establishing a trade finance facility to address issues resulting from liquidity constraints. Further undertakings by the Bank and other MDBs include efforts to establish an Emergency Liquidity Facility, and the Fragile States Facility which has been operational since 2008. The Bank will continue to relentlessly support trade facilitation activities through its commitment to focus on infrastructure investment and regional integration, which have the long-term objective of enhancing competitiveness as emphasized in Bank's Medium Term Strategy.

The Bank is also committed to supporting African countries in strengthening their voice and participation with a view to achieving a successful conclusion of the Doha Round, and encouraging solid domestic reforms that are not subject to a policy reversal. These activities will be accomplished through collaborative activities with UNECA, the WTO and other regional and international partners.

5. Conclusion

The global slowdown threatens to erode Africa's recent economic progress, and the G20 has a stake in ensuring that African countries do not retrogress in the development process. The use of protectionist trade measures that contradict the rules governing global systems should, in particular, be avoided. This would regrettably undermine the substantial process that has already made in the Doha Development Round. In April 2009, the G20 will be challenged to demonstrate strong leadership in order to give new impetus to the Doha trade negotiations so as to reach conclusions that offer countries better market access opportunities as the stormy weather recedes. These efforts should be complemented by revitalized support for the Aid for Trade initiative needed to address supply-side constraints to support the trade liberalization agenda. African countries, for their part, must continue to deepen their unilateral trade reforms and strengthen the regional agenda to make the most of the full benefits of free trade. The African Development Bank remains committed to supporting these processes.

Appendix

Table 1: **Trade Prospects**

	Rate of Growth				Loss of Growth		Rate of Growth				Loss of Growth	
	2006	2007	2008	2009	2008-2007	2009-2008	2006	2007	2008	2009	2008-2007	2009-2008
	Volume of Exports						**Value of Exports**					
World	8.8	6.3	4.4	2.1	-1.9	-2.3	14.9	15.6	18.9	-4.4	3.3	-23.3
Africa	0.2	10.1	10.6	3.6	0.5	-7	18.6	20.1	38.3	-7.1	18.2	-45.4
North Africa	16.5	10.4	14.3	6.6	3.9	-7.7	33.1	19.4	52.7	-5.4	33.3	-58.1
Sub-Saharan Africa (excluding Nigeria and South Africa)	4.7	8.1	6.1	4.9	-2	-1.2	20.7	21.2	42.1	-22.5	20.9	-64.6
	Volume of Imports						**Value of Imports**					
World	8.8	6.3	4.4	2.1	-1.9	-2.3	14.9	15.6	18.9	-4.4	3.3	-23.3
Africa	11.6	17.6	15.2	10.5	-2.4	-4.7	19.5	25.5	29.1	6.6	3.6	-22.5
North Africa	16	24.9	24.3	17.9	-0.6	-6.4	20.8	33.7	50.8	15.2	17.1	-35.6
Sub-Saharan Africa (excluding Nigeria and South Africa)	4.7	8.1	6.1	4.9	-2	-1.2	12	18.7	18.2	2.8	-0.5	-15.4

Source: African Development Bank estimates; World Economic Situation and Prospects, Unctad, January 2009

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