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Africans Need not Miss Out on the Benefits of Globalisation

(based on the *African Economic Outlook 2007**)

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- Strong commodity prices are driving Africa's growth, which should be about 6 per cent in 2007 and 2008.
- External vulnerability is a function of its limited integration into international trade and investment flows.
- Africa should mobilise external sources more strategically. In this respect, aid for trade can be important.

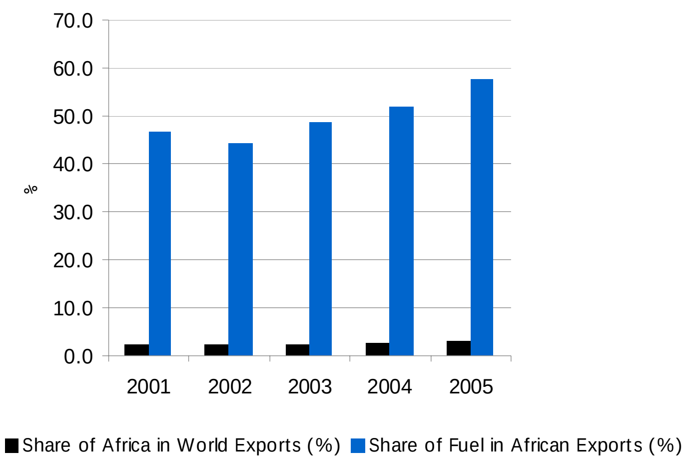
Does Africa benefit from globalisation? Yes, but passively

Globalisation – the deepening of financial and trade integration associated with technological progress and multilateral liberalisation – is creating unprecedented opportunities for developing countries to accelerate growth and lift millions of people out of poverty. African countries need to be among the beneficiaries.

The continent's fourth straight year of favourable performance, with per-capita growth averaging 3.5 per cent in 2006, and positive prospects for 2007 and 2008, is a good sign. Africa has significantly increased its openness to international trade: merchandise trade as a share of GDP rose from 43 to 50 per cent between 1980-95 and 1996-2005. FDI inflows have surged, growing faster than in other developing regions and tripling their level between 2001 and 2005 (reaching $30.6 billion).

Yet, Africa's share in world trade remains minimal, at about 1.5 per cent, and exports are concentrated in a narrow range of primary commodities (Figure 1). Albeit increasing in absolute terms, FDI heading for Africa accounts for less than 4 per cent of the world total and is unequally distributed, with Northern Africa, South Africa and the largest sub-Saharan oil producers being the main recipients by far (Figure 2). This reflects dependence on natural resources. The private sector is only marginally involved in international production networks, mainly in assembly at the bottom end of the value chain. The post-MFA closure of several foreign-owned clothing factories in Southern and Eastern Africa shows their vulnerability.

Figure 1. **Africa's Exports: Small and Concentrated**

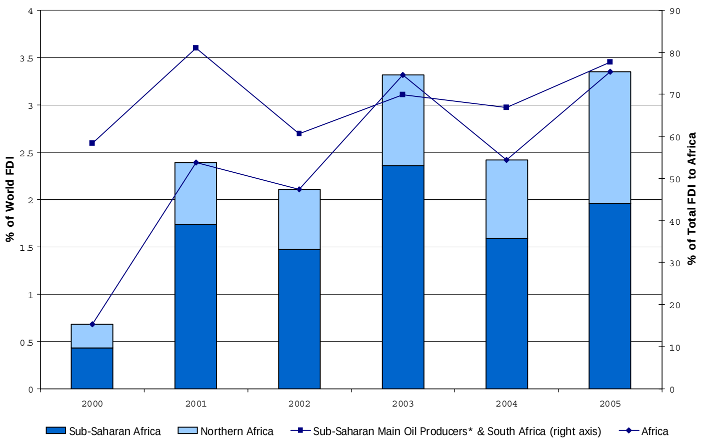


Source: UNSD Comtrade, SITC Rev. 3. "Fuel" corresponds to Group 3 of SITC. Rev. 3 ("Mineral fuels, lubricants and related materials")

Is history repeating itself?

Commodity booms and busts have driven most of African post-colonial development, but a new landscape is emerging and globalisation is bringing new actors to Africa and opening up new markets, which could benefit the continent and prevent a rerun of the past. There are still risks and uncertainties but they can be reduced by strengthening the internal capacities of African countries and nurturing the private sector better in order to fully realise the opportunities that globalisation creates, while adequately coping with its risks.

Figure 2. **Africa economies, marginally and unevenly benefiting from FDI**



*Main sub-Saharan oil producers are Sudan, Angola, Nigeria and Equatorial Guinea.
Source: UNCTAD (http://stats.unctad.org/fdi)

The rapid growth of the Asian emerging economies is raising demand for Africa's commodities (oil, metals and precious stones) and has resulted in improved terms of trade (exports to China reached around $25 billion in 2006, twelve-fold their level in 1995). The downside is that African exporters could be pushed further into specialising in exports of raw materials. Asian domination of labour-intensive industries, which are often considered potential avenues for the diversification of African economies, poses an additional challenge.

Africa must seize new business opportunities in a changing world

In agriculture, despite high potential and market opportunities, sluggish productivity growth hinders the ability of Africa's producers to feed its people adequately – 42 countries are classified as net food importers – or respond to the opportunities now available in global markets. Africa's share of global agricultural trade is less than 6 per cent.

With new investors, including Chinese, Indian and Southern and Northern African operators, patterns of FDI have started to diversify into agriculture, manufacturing, construction and services. Also, portfolio investors have started to regard Africa as a promising destination because of the higher potential yields on investment compared to traditional emerging markets. The real story, however, remains in minerals, partly because poor governance and difficult business environments hamper FDI in other sectors than extraction.

From a passive to an active player in globalisation

For African economies to realise the full benefits of globalisation, conventional policy prescriptions, such as maintaining macroeconomic stability and improving business environment, still hold. But, equally important, external resources must be used more strategically. On one side this implies capitalising on oil and mineral windfall gains. On the other, the potential of aid as a catalyst should be explored more systematically, especially as aid is expected to increase in the coming years (aid to Africa is expected to reach $51 billion by 2010 from $40 billion in 2006).

"Aid for trade"[1] should be used more effectively as an instrument for strengthening productive capacities and promoting private-sector development and trade-related infrastructure, thereby facilitating Africa's integration into the global economy. Funding for this has significantly expanded since the 2001 WTO Ministerial Conference in Doha. In 2005, Africa was the largest recipient of trade-related technical assistance, receiving $1.03 billion (about one third of the world total) and the second largest recipient, after Asia, of aid to infrastructure $3.8 billion. "Aid for trade" represents a fifth of global Official Development Assistance (ODA) – 2001-04 average – but it needs to be expanded further and its effective implementation requires stronger actions by African governments in identifying priorities and better co-ordinating the efforts of donors.

Supporting "Aid for trade" initiatives in Africa is especially important, as the continent is in the final stage of negotiating with the European Union the critical Economic Partnership Agreements (EPAs). EPAs represent an important opportunity to further integrate efforts at promoting trade development and regional integration in Africa. At the same time, they also challenge African countries to tackle structural weaknesses in their economies.

1. "Aid for trade" refers to aid that is aimed at helping developing countries to benefit from trade liberalisation at multilateral, regional and unilateral levels. Its scope has been broadened by adding to the traditional categories of trade-related technical assistance (trade policy and regulations and trade development) four new categories: *1)* trade-related infrastructure, *2)* building productive capacity, *3)* trade-related adjustment and *4)* other trade-related needs.

Further reading:

African Development Bank/OECD Development Centre, *African Economic Outlook 2006/2007,* Paris.

OECD Development Centre (2007), *Business for Development Fostering the Private Sector*, Development Centre Perspectives series, Paris.

Goldstein, A., N. Pinaud, H. Reisen and X. Chen (2006), *The Rise of China and India: What is in it for Africa?,* OECD Development Centre Study, Paris.

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