

Africa's place in the New World of Trade ¹

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I. Africa: A continent still punching below its weight in world trade

For the moment, Africa's role in world trade remains modest. While the continent hosts 15 percent of the global population, it only represents 3 percent of the world's total commerce.

The primary explanation for Africa's imbalance in the circulatory system of world trade can be explained by the comparatively small size of its organs: Africa's gross domestic product is a mere 4 percent of the world's total GDP.

As always, there are other explanations to take into account. The various colonial legacies of Africa's present-day countries reflect the specialization preferences of the colonizers: a tendency towards the extraction of raw materials, as opposed to their transformation into refined goods for domestic consumption as well as regional and international exportation.

This focus on resources is clearly linked to the Continent's relatively feeble productive capacities. Meanwhile, those supply and value chains that do exist are hampered by substantial deficiencies in logistics and transport infrastructure, which routinely prevent goods and services from reaching markets.

African countries continue to exhibit numerous obstacles to trade. These include classical measures based on tariffs and quotas—specifically policies from the era of import-based substitution and the subsidization of domestic industry. But the Continent is also confronted with growing non-tariff measures (NTMs) based on precaution: the use of production norms and safety standards that restrict trade flows between countries and across regions.

¹ A summary of Pascal Lamy's remarks at ENA, Rabat, 30th April 2015

The combination of the above factors has resulted in a strikingly low level of regional and continental trade integration: African trade integration is routinely estimated at 12 percent, versus a global average of roughly 3 times more. However, it must be acknowledged that Africa also has significantly higher rate of informal trade than many other emerging and developing regions: 40 percent on the African continent versus 20 percent in Asia and 30 percent in Latin America.

II. Africa's ongoing trade evolution should boost its integration in globalization

While the above section paints a somewhat gloomy picture both for Africa's integration within continental and international trade flows, that picture belies promising signs on the horizon. At 5 percent, the Continent is currently experiencing accelerated trade growth in comparison with more developed regions like the United States and the EU, which are growing at 3 percent and 1.5 percent respectively.

African economies, and thus exports, are increasingly diversified as they gradually grow less sensitive to fluctuations in the price of raw materials. Growth and domestic consumption rates are also growing on the continent, and internal African demand now accounts for 60% of total growth. The rise of the African middle class has sparked the interest of investors, as evidenced by the growth of Foreign Direct Investment (FDI) inflows in new sectors: Northern Africa is developing its production of consumables, Sub-Saharan Africa in labor-intensive manufacturing.

Meanwhile, integration among various African regions is advancing, albeit at different rhythms. In nominal terms, intra-African trade grew by a factor of 4.1 from 2000 to 2011, from 32 billion USD to 130 billion USD. The various regions' comparative advantages are increasingly linked with globalization and the growing role of emerging economies—for example, rising wages in China and the related re-shoring, or reallocation of production chains to more economically desirable production sites.

These continental features should not hide that Africa remains highly diverse across the continent's many regions. We can take four different models as examples: Angola and the Democratic Republic of Congo, which focus on raw material extractions and the energy sector; Ethiopia and Tanzania, which are in the pre-transition phase; Kenya, Senegal, Rwanda, and Côte d'Ivoire, which are presently in their economic transition phase; and finally, South Africa, Morocco, and Mauritius, which already exhibit diversified economies.

III. Policy makers will determine the speed of Africa's continued and desirable progress

The evolution of Africa's role in international trade must be considered in the context of the transition between the old and new worlds of trade. In the old world of trade, production systems were national and obstacles to trade revolved around protecting a country's domestic producers from foreign competition. In the new world, production has become transnational along global supply chains of goods and services; while some old world trade barriers remain, new trade obstacles relate to precaution, or protecting consumers from risks.

This transition has numerous and important implications for African countries. The Continent is increasingly involved in global value chains, and numerous supply-side factors are in flux: the choice between specializing in services or manufacturing, the development of national and continental logistics chains, and varying approaches to trade facilitation. Meanwhile, many of Africa's export markets in the global North are increasingly adopting precaution-based non-tariff measures. Lastly, when considering Africa's role in world trade, it is important to move beyond the traditional concept of trade measured by volume of exports and imports to trade measured by value-added, which provides a more accurate picture of the role that trade plays in African growth rates.

African countries' success in navigating the nuances and vicissitudes of world trade comes down to domestic policymakers and the quality of their respective policy choices. Policies must be designed to

develop and strengthen infrastructure (both hard and soft), banking and financial systems, mutual recognition of national qualifications and standards, and spread of technological innovation. And as African economies grow more specialized and more integrated, preventative measures must be taken to ease the absorption of both Ricardian and Schumpeterian shocks. In particular, national social safety nets must be bolstered to support the construction of economic and social fabrics during such times.

Finally, the African continent's role in world trade is also dependent on the evolution of regulatory bodies and the classical *and* new obstacles that these entail. While some progress was made in Bali in 2014, the Doha Round remains incomplete. Many tariffs remain relatively high in developing countries, and particularly in emerging markets. High levels of agricultural subsidies remain substantial barriers to these countries' full integration with more developed countries.

On the other hand, new, precaution-based obstacles are developing rapidly: this is evidenced by the difference between the U.S.' and the EU's proposed Transatlantic Trade and Investment Partnership, which is highly focused on regulatory convergence (as opposed to the Trans-Pacific Partnership, which is a more traditional regional trade agreement). This growing focus on quality standards and protection-based norms makes clear the need to expand the WTO's regulatory mandate on technical barriers to trade (TBT) and sanitary and phyto-sanitary measures (SPS).

IV. The Kingdom of Morocco's evolution in this perspective

Within this perspective of Africa's growing role in world trade, the Kingdom of Morocco has many advantages. It has become a strategic commercial hub between the North and the South: while various sectors of the Kingdom's economy are integrated into European value chains—notably in the automobile, aeronautic, and customer service industries—it is also expanding its involvement in Sub-Saharan economies, especially in the service sector. Economic activity is better distributed in Morocco, with various poles of activity and a good investment-to-GDP ratio.

However, certain aspects of the Moroccan economy, including levels of competitiveness and human capital, require further improvement. Domestic policies still require substantial reform, including access to and levels of primary education.

These reforms could make the difference between a 4% growth path (which is insufficient to support the growing demands of Morocco's population) and a 6% growth path, which would guarantee the emergence and stability of Morocco's middle class – which could then serve as a consumer-based motor to sustain its continued growth.