Workshop Backgrounder: The Role of South-South Cooperation in Promoting and Deepening Trade and Investment in Africa

Background and Context

The United Nations Office for South-South Cooperation (UNOSSC) in partnership with the United Nations Development Programme and the United Nations Economic Commission for Africa is holding a workshop entitled "The Role of South-South Cooperation in Promoting and Deepening Trade and Investment in Africa" on 5 November 2019 in Antananarivo, Madagascar. The discussions and outcomes of the workshop would feed into the formulation of a research agenda that aims to inform better policy-making to promote and strengthen trade and investment policies, specifically South-South investments. The research agenda would also identify policy and legal issues that are enabling or hindering Southern countries in engaging in SSC within the region. This backgrounder helps contextualize the workshop.

The construction of the post-Second World War economic order and the institutions that undergird it were largely initiated without much input from countries that constitute the Global South today. Over the past seven decades, some countries in the Global South, especially Southeast Asia and Latin America have made significant progress in their share of global trade and investment. The percentage of value-added products in these regions, has increased significantly, with China assuming the position of a leading global industrial powerhouse. According to the World Trade Organization[1],

> In 2017 developing economies' imports grew faster in value than those of industrialized economies with imports increasing by 13 per cent. … exports from developing economies grew by 12 per cent, reaching a share in world trade of just over 43 per cent. More than half of this trade takes place with other developing economies, with an increasing share of trade in manufactured goods.

Southern countries have also built capacity for structural transformation through which they have been able to participate more meaningfully in the global value chains. The global economy is moving at a fast pace and undergoing seismic shift in form and in structure, with a strong potential to permanently alter how trade and investment are conducted.

According to the United Nations Conference on Trade and Investment's World Investment Report of 2018[2], 'the new economic age and the accelerating pace of technological innovation could also result in serious economic disruption and more inequality. Existing investment patterns, for instance, might go through profound and far-reaching changes, in terms of both flows and content'.

Despite significant structural challenges, Africa has made some important progress both in services and manufacturing. Intra-Africa trade has also made modest gain. As the WTO 2018 report shows, the share of Africa's merchandise exports within the continent has nearly doubled, jumping from 10.3 of total exports (by value) in 2010 to 19.6 per cent in 2017. With a projected population of 2 billion people by 2030 and a rising middle class, Africa has been described as the new economic frontier. The newly ratified African Continental Free Trade Agreement is aimed at achieving structural transformation on the continent. However, there are challenges with implementation in terms of the harmonization of macroeconomic policies, infrastructures, capacity for negotiation of the next phases, structuring of tariff regimes, mitigating against trade diversion from third countries as well as funding adjustment costs. The amount of $1billion announced by the African Export Import Bank[3] is very insignificant compared to what is required.

According to a report by the International Monetary Fund[4] 'removing trade barriers to foster intraregional trade may unevenly affect countries in the region. Fiscal revenue losses from lower tariffs are likely to be limited, on average, but they may be significant in a few countries that still apply high exports tariffs'. For the least developed countries on the continent revenue from tariff constitutes a chunk of their national budgets. There are other costs that may be associated with the African Continental Free Trade Area Agreement, which needs to be adjusted for to minimize the social costs of the disruptions that may arise from the implementation of the continental agreements

New South-South Trade and Investment Opportunities with the Implementation of the AfCFTA and Its Investment Protocol[5]

The general aim of the newly endorsed African Continental Free Trade Area Agreement (hereafter, AfCFTA) is the creation of a single continental market for goods and services, which will facilitate the establishment of a customs union.[6] Specifically, the AfCFTA seeks to achieve the following objectives:

- Progressively eliminate tariffs and non-tariff barriers to trade in goods;
- Progressively liberalize trade in services;
- Cooperate on investments, intellectual property rights, and competition policy;
- Cooperate on all trade-related areas;
- Cooperate on all custom matters and the implementation of trade facilitation measures;
- Establish a mechanism for the settlement of disputes concerning their rights and obligations; and
- Establish and maintain an institutional framework for the implementation and administration of the AfCFTA.[7]

If effectively implemented, the AfCFTA could increase intra-African trade by 52% by 2022,[8] thereby ensuring better harmonization and trade liberalization across the region.[9] With that, Africa should be more competitive internationally.[10]

In the next phase of negotiations, member states intend on introducing provisions to increase intra-African investment, protect property rights, and eliminate unfair competition practices, which should create the conditions to diversify exports away from commodities. This will be known as the AfCFTA's Investment Protocol. A draft of the Protocol is expected to be prepared for the January 2020 African Union Assembly, with a draft legal text being ready for adoption in January 2021.[11]

Beyond the future Investment Protocol, South-South investments will likely be increasingly significant in terms of socio-economic outcomes in Africa. Notably, the continent – particularly sub-Saharan Africa – saw foreign direct investment inflows increase year-on-year by 11% to US$46 billion in 2018, with China, South Africa, and India being among the top investor economies in Africa.[12] Multinational enterprises from Southern countries are expanding their activities. Intra-African trade and investment are also increasing with countries such as Morocco, Nigeria and South Africa taking the lead.

Despite efforts made by African governments in recent years to diversify inward investments away from a reliance on commodities, natural resources exports have seen continued demand, though non-resource-seeking investment also contributed to the aforementioned increase. According to United Nations Conference on Trade and Development Secretary-General Mukhisa Kituyi, "The African Continental Free Trade Area agreement will bolster regional cooperation. This, along with upbeat growth prospects, augurs well for [foreign direct investment] flows to the continent."[13] South-South investments should therefore be a complementary priority going forward.

One of the main objectives of the AfCFTA is to ensure structural transformation in the economy of the continent. This is informed by the dominance of commodity exports in the portfolio of international trade over the years. Thus, the AfCFTA is expected to ensure effective natural resource extraction and management through the Africa Mining Vision, the continental framework designed by the African Union, United Nations Economic Commission for Africa, and member states for how to best harness natural resources for Africa's sustainable development. The mineral wealth of Africa is never in doubt. The continent is rich in gold, diamond, bauxite, uranium, and oil and gas resources. What remains doubtful, however, is whether these resources have been transformed to equitably improve living standards for people.[14] Consequently, the Africa Mining Vision puts Africa's long-term development objectives at the heart of policy-making regarding mineral extraction.[15]

Regional integration constitutes a complementary governance architecture that could be use to optimize the management of natural resources. The pursuit of economic development through regional integration on the continent has a long history of mixed results.[16] The continent has experienced several setbacks in the past in implementing myriad treaties, agreements, and regional integration initiatives and programs. Such initiatives and programs have not achieved the desired results in the past largely because of failed target deadlines, capacity constraints, ineffective governance, and various political issues.[17] The implication is that there will be constraints and challenges to the implementation of the AfCFTA. For instance, there are fears that the benefits will not be evenly distributed as stronger economies will benefit more than weaker counterparts.[18] Deliberate policy initiatives will have to be put in place to protect the weaker economies in order to ensure evenness and fairness. This will encourage full participation and involvement of member states.

There are considerable trade and investment opportunities through digital trade. However, there are also constraints and challenges that may hinder the realization of these advantages. Digital trade is the use of the Internet as a tool to conduct business transactions, either nationally or internationally.[19] The World Trade Organization fully endorses digital trade and has several trade agreements related to it including General Agreement on Trade in Services (GATS) and the Information Technology Agreement (ITA).[20] Digitalization of the AfCFTA will ensure the survival of business transactions and investments between and/or among countries. A digital economy will not only reduce transaction costs, but will also enable the movement of goods and services from one remote region to another across the region.[21] Digital trade will also intensify competition among traders leading to low prices of goods and services for consumers.[22] Also, the opportunities that a digital economy will present to the economies of Africa are enormous, particularly in the context of South-South investments. For instance, a digital economy will ensure that African traders transact business activities with the rest of the Global South with ease. Such flow of economic activities will strengthen South-South cooperation and empower local private sectors.

The use of digital technology can foster the creation of a digital economy. This is one of the ways through which digital trade can be conducted aspiration of structural transformation achieved. Countries like Rwanda, Kenya and to a certain extent, Nigeria and South Africa are making conscious efforts to prepare the youth for the huge business opportunities that are embedded in the digital economy. These countries are establishing innovation hubs and providing support for digital financial products like mobile money such as M-PESA in Kenya. The moonshot vision of the African Union with support from the World Bank is to digitally connect every individual, business and government in Africa by 2030. This has a strong potential to unleash development outcomes through creation of jobs and capacity building
There is a geostrategic and economic imperative for an increased involvement of countries of the Global South in Africa. Africa is riding against the tide of the new turn in protectionism in industrialized countries to form the biggest trade agreement, second only to the World Trade Organization. This provides opportunity for emerging countries in the Global South to support the continent in achieving the expected transformation. Over the past two decades, countries such as China and India have made significant inroad to the continent with massive investment in infrastructure. According to the Chinese Investment tracker, Chinese investments and contracts in Sub-Saharan Africa total $299 billion from 2005 to 2018[23]. Other Southern countries such as India, Turkey, Brazil (until recently) as well as South Africa have also increased their investment profiles in different sectors of the continent's economy.

There are abundant investment opportunities in services, agriculture and manufacturing with industries in East and Southeast Asia relocating to parts of the continent to take advantage of lower labor costs. To unlock these potentials, Africa need investment in the areas of infrastructure, capacity building and trade facilitation. The African Development Bank estimates that Africa's infrastructure needs are between $130 and $170 billion per year; however, financing for African infrastructure currently falls short by between $68 billion and $108 billion per year[24]. Private companies from the Global South can invest in this sector in ways that can bring about opportunity to harness the business potentials. One of the major draw-backs to the revitalization of Africa's economy is the inability to add value to the vast natural resources on the continent. Traditional trade and investment partners have concentrated on mineral extraction and import of primary commodities to the detriment of value addition and beneficiation. The resultant effects have been vicious cycle of boom and recession arising from the volatility of the global commodity markets.

South-South cooperation can provide new direction in trade and investment regime in Africa by deliberately ensuring that trade and investment are no longer limited to the extractive sectors. This provides another opportunity for investors from countries in the Global South to engage with African countries. This workshop will focus on the various ways through which Southern countries could help deepen trade and investment in Africa. Amidst the growing rate of intra-African trade and investment, the Africa Private Sector Forum can form partnership with similar organizations in the South to forge higher level of cooperation. Recognizing the importance of the private sector to the realization of the objectives of

AfCFTA, the Afro Champions Initiative, is a set of public-private partnership, a set of public-private partnerships designed to leverage resources and funds to create more multinational corporate champions in Africa, has proposed a $1trn investment framework to support the goals of the African Continental Free Trade Area by 2030.[25] Nigeria, South Africa and Morocco provide clear examples of intra Africa investments with companies and banks from these three countries operating in more than a quarter of the countries on the continent.

<u>The Role of Evidence-Based Research and Collaboration in Promoting South-South Trade and Investment</u>

The dominant understanding is that research institutes and do-think tanks exist to help mobilize expertise and ideas to influence policy-making processes domestically and internationally. They serve as important catalysts for ideas sharing, promoting policy action and offer creative and practical solutions aimed at tackling international development issues. The role of policy driven evidence-based research to help promote and drive South-South trade and investment is undeniable. The South-South Global thinkers Initiative, (SSGTI) could potentially focus on studying, analyzing and advocating for policies and practices that can ensure development enhancing trade and investment regimes in Africa. The South-South Global Thinkers is a community where think tank networks from the global South and North can come together and engage in policy dialogues, and share knowledge, expertise, with focus on Southern perspectives. Through this community, networks involving more than 200 think tanks will have a platform to enable joint research and knowledge sharing that aim to inform policy dialogues and agenda-setting on South-South cooperation.

Indeed, the SSGI could help support the development of ideas, policy-oriented research and identify solutions geared towards the promotion of South-South cooperation, specifically as it relates to trade and investment in Africa. Differentials in the capacity and resources of countries in the Global South necessitates the involvement and contribution of Southern development actors, including academia and think-tanks. Central to the framework is the identification of and emphasis on the key enablers of the AfCFTA Agreement such as transportation and connectivity, removal of non-tariff barriers, low cost power to industry; and value addition and industrialization in a digital economy[26]. These sectors provide huge investment opportunities that be leveraged upon through South-South Cooperation.

The workshop will be held a day before the African Private Sector Forum in Antananarivo. The outcomes of the Workshop in Madagascar will provide useful materials for discussion at the Africa Private Sector Forum especially with respect to the role of this group in promoting increased investment and trade among countries in the Global South. The forum aims to offer useful insights, knowledge and information that could feed into forthcoming research reports produced by UNOSSC and Southern partners on the subjects of digital trade, digital technologies and South-South investments in a digital global economy, particularly in relations to how Africa can be well positioned to participate more actively in these emerging sectors. The workshop is also well positioned to address and tackle important developmental issues highlighted within Agenda 2030 for Sustainable Development and builds on the outcomes of BAPA+40 by emphasizing the role of South-South Cooperation in promoting sustainable economic growth and broad-based inclusive development.

Participants will be invited to contribute to discussions a variety of developmental issues, including:

- The Political Economy Imperative of South-South Cooperation
- South-South Digital Trade and Investments Facilitation
- South-South digital technologies in a Digital Economy
- South-South Cooperation and the Sustainable Development Goals in Africa
- Deepening Trade Ties and Investment Flows between Africa and the Global South
- Exploring Southern Private Sector Investment Opportunities in Africa
- Sectoral approaches to South-South Cooperation in Africa

Some Relevant Questions for Discussion

1. What are some of the policy, regulatory and legal issues that are enabling or hindering South-South Cooperation within the region?
2. Africa just signed the largest (outside the World Trade Organization) and most ambitious regional trade agreement in the world. It is aimed at the structural transformation of the continent's consumer market of 1.2 billion people. How can South-South Cooperation contribute to the achievement of the lofty objectives of the African Continental Free Trade Area Agreement?
3. How can the private sector in the Global South be mobilized and leveraged to effectively contribute towards the growth of the digital economy for broad-based sustainable socio-economic development on the continent?

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