ODUMUNC 39

UN Economic Commission for Africa

The Promotion of Industrialization Through Trade

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ODUMUNC 2016
Issue Brief for the UN Economic Commission for Africa

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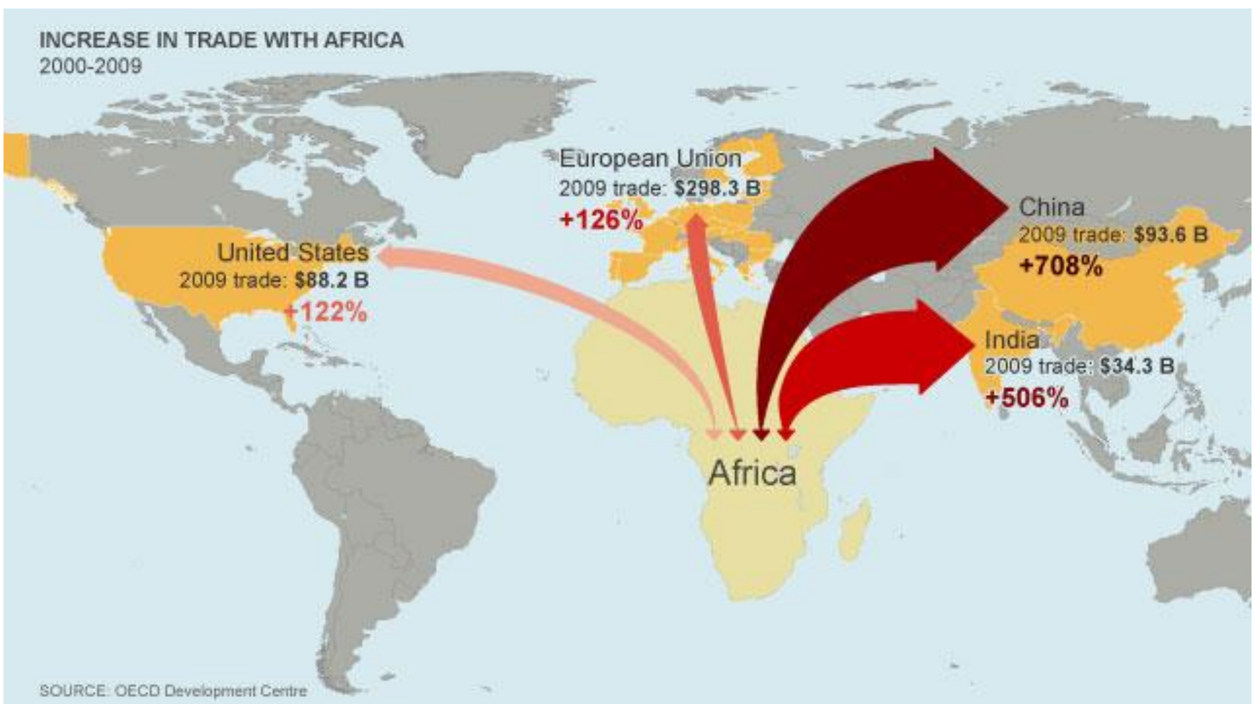
Introduction

Facing the dilemmas of poverty and rapid population growth, the most promising path for long term development in Africa has long centered on industrial development. Only by procuring greater wealth for more of its people can the entire continent be assured greater and more equal prosperity. But industrialization requires international trade. Trade assures the financing and expansion of industrial manufacturing. Only by overcoming barriers to international trade within Africa and with the rest of the world can industrialization achieve everything it promises.

Global trading has been and it is still today, a vital means for the growth of developed and developing economies and through it, global industrialization has "erupted", making the world a more efficient place. However, industrialization didn't spread equally across the planet. This is proven by our ability to differentiate more industrialized states and states labeled as less industrialized countries. Most industrialized states are situated in the northern part of the globe, including countries like the European Union member states, Japan and the United States.

Figure 1. Who Africa trades with

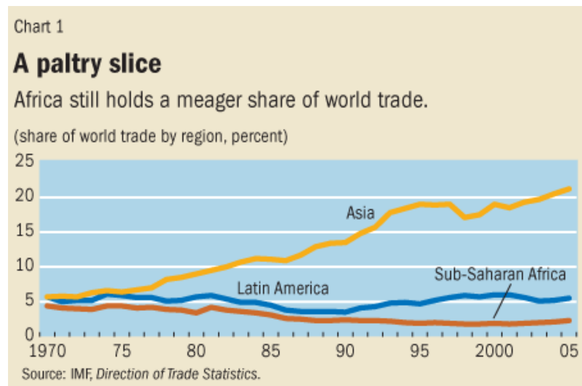


Many states in the Southern Hemisphere don't have strongly industrialized economies, such as many African countries. They find cooperation with each other on trade controversial, often impossible, and negotiate trade agreements with the rest of the world from a position of weakness. This North-South divide (the developmental gap between the Northern and Southern Hemispheres) exists due to mainly an inequity in terms of distribution of technology, centuries of colonization/exploitation, and differences in the efficacy of urbanization structure that translates into different benefits that trade and industrialization might yield. As a result of Africa's position in the global south, one must focus on policies that advance underdeveloped countries in order to improve African countries' economic positions and their role in global trade.

Figure 2.Africa's shrinking slice of world trade

Africa's share of world trade has declined over time. It faces serious barriers to greater industrialization. Some are well known and familiar everywhere, such as access to credit for investments and well-trained and educated people to work productively. Corrupt business and government practices also are a commonplace impediment to trade. Other barriers are more specific to Africa. They include poor trading infrastructures, especially underdeveloped or nonexistent roads and communications, limited port facilities, as well as trade barrier such as high excise taxes (taxes on imports and exports), the source of most government income for many African states.

Figure 3. Downward slope



Current Situation

Most agree that global trade can be considered a vehicle for development and sustained economic growth. There is some opposition from states that believes in neo-mercantilist policies, which try to avoid imports above all, believing that these give up national wealth, which flows out of the country in form of payments abroad. Neo-mercantilist states penalize or forbid imports, often through harsh foreign exchange controls, but allow exports, which bring foreign money into the country.

Most African states see the benefits of *balanced trade*. An equitable multilateral trading system can stimulate economic growth and development worldwide, thereby benefiting all countries at any stage of development. In reality, historical and current economic situations often diverge from the expected norm.

African states believe they suffer from *adverse terms of trade*; the products they sell (agricultural and raw materials) are undervalued, while their imports (industrial products and services) are overvalued.

Most African economies rely on *small-holder agriculture* and *natural resource extraction* (fossil fuels and minerals). Typically, the former is how most people survive. The latter finances much of the country. African manufacturing has benefitted greatly in the last 30 years as a result of trade agreements, especially with China, The European Union and the United States. Trade agreements, locally or internationally, reduce trade barriers to entry and the creation of trade policies that allowed the free exchange of value across developed and developing continents.

Most African trade arrangements are *bi-lateral*, between each African country individually and it's trading partners. There is widespread agreement they could do better *collectively*, but only if they first agree among themselves. This is hard because their economies are very similar, offering few opportunities from trade with each other. Or they compete with each other in light manufacturing, and benefit more over the short term from keeping the separate industries.

Figure 4. Africa's 5 leading trade partners

The growth in the manufactory sector does not only increase job and wealth conditions, but it positively influence others factors as public health measures, consumers consumption and birth rates. All these variables provide productivity inputs that give to the country a benefiting position in trading economies and policies. The manufacturing sector is just one example that we have provided, however our focus is on understanding how difference in development occurred among nations. First of all, regulations and agreements among nations or continents may already delineate a group of privileged countries with respect to others. Technology advancement and urbanization may not be enough, to fully benefit from trade and foreign investment. Government may favorably and unfavorably influence the delineation of a profitable trade agreement because of goal incompatibility or other unspecified issues.

With the creation of Geographic Trade Alliances as the European Union (EU), the North American Free Trade Association (NAFTA) or the South American free trade area (MERCOSUR), *tariffs* (taxes on international trade) and *non-tariff barriers* (quotas limited imports and exports) to trade are minimized or eliminated.

Regional free trade agreements always are controversial. They benefit the most cost-efficient producers, and force adaptation everywhere. They involve winners and losers, and complex formulas often are necessary to offset the losers and facilitate their support. But they also are the best way to accelerate regional trade and industrialization. Agreements like the EU or NAFTA are hard to negotiate, especially where economies are similar—they produce many of the same industrial products—and competition is threatening to local interests. Offset agreements for potential losers are essential to agreement. For Africa, the immense allure of greater regional and inter-continental trade encouraging great interest in free trade agreements, but entrenched local interests make progress tough and slow.

A focus on smallholder agricultural trade is another alternative. This benefits the very poor most of all. Maybe for this reason it has little support from leaders, major manufacturers, or city constituencies which would be forced to pay more for food. The alternative for agriculture is large-scale commercial farming. This is much more cost-efficient, but leaves huge numbers of rural people without a source of income.

Direct foreign investment is a third general approach. Foreign firms will invest when they can extract profits. Local partners benefit from cooperation, even if most profits are exported. In recent years China has become a leader in foreign direct investment. By exchanging almost USD160 billion-worth of products annually with China, with related African infrastructure built by Chinese firms, Africa is becoming heavily influenced by Chinese policy. Chinese firms usually export raw materials to China, and sell manufactured products back to Africa. This undermines African manufacturing, which can compete equally. However creating trading programs and operations with partners that insure a fairer balance of trade is costly.

Figure 5. Africa's leading exporters

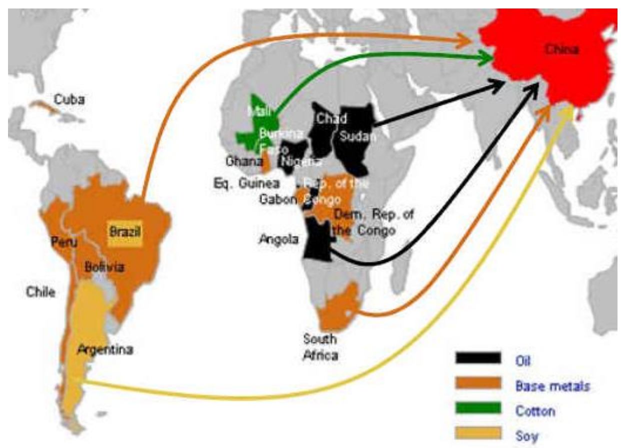
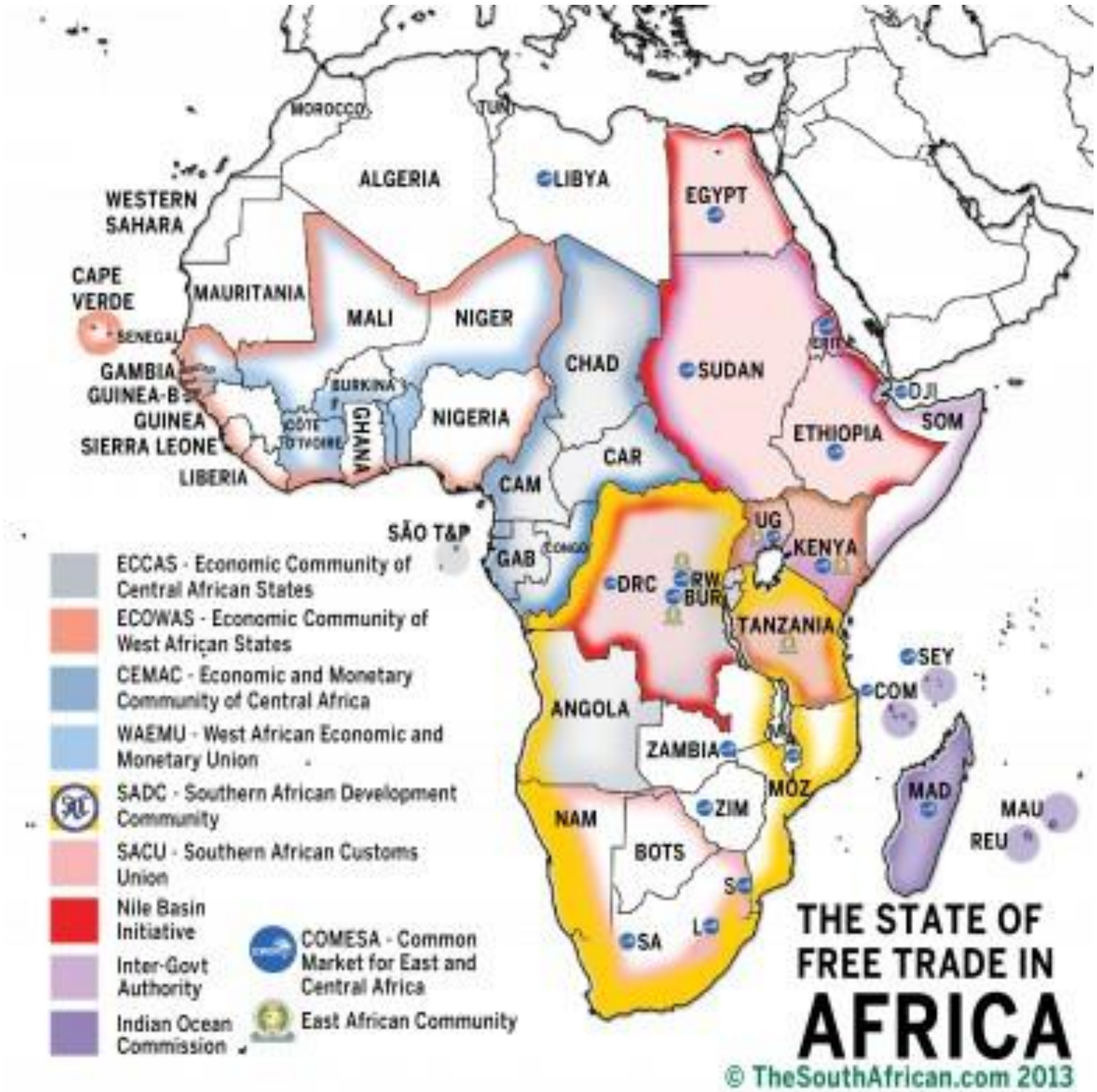


Figure 6. Too many small clubs? African free trade agreements



Issues to be addressed

Where will the money come from? This always is the big issue in Africa, even with trade. Trade agreements inevitably favor the most efficient manufacturers. Since much of African industry is old and inefficient, or hindered by difficult transportation or distance from ports, its manufacturers tend to require protection from competition to survive. Free trade will be very disruptive, with lots of losers. Thus free trade is impossible without deal to offset loses as industries decline or close. Money is essential to ease adjustment and insure agreement. Where the money does comes from? How is it allocated?

Large scale versus small scale development: This is an old and unresolved debate, whether to use government guarantees to secure major loans from international organizations (the World Bank and various development banks and private banks) to support large industries, or bundle development credit and distribute in small scale loans for regional and even micro-credit businesses, especially women? Basically it comes down to theories of development—a very old debate—and questions of who wins in the development race, a few favored supporters of the government, or more distant regions? Large scale projects pay off political supporters, pay off government leaders, and insure lots of tax revenue. Regional and small stuff benefits people who don't vote, and it they voted, would favor your enemies. Since UN delegations represent governments; guess who wins?

Western globalization versus indigenous culture: A lot of governments resist anything that might disrupt the social order. That is to say, upset their supporters. Everyone talks good now, but they resist spending anything on anything but their supporters and supporter pet projects. Ignore the rest, throw them a crumb. Instead they promote local, national or indigenous solutions, a way of justifying ignoring meddling outsiders.

Preferred partners: Many leaders in Africa think it will be impossible to negotiate beneficial trade arrangements with the rest of the world until Africa has a continental trade region of its own. Negotiating individually without foreign powers means emphasizing their weakness. This shows most in Africa's love/hate relationship with China. China is easy to work with—no human rights or democracy demands and they pay off whoever wants it—but they also want total control of everything, especially profits, and have a reputation for bringing in all their own people, and only hiring locals for jobs that kill. The Americans and European make huge demands for good governance and such, and they alienate African leaders by opposing corrupt practices and stressing projects that help the poor.

Ethnicity issues. Always the barely concealed agenda in Africa, where all anyone cares about is who benefits? State leaders have to worry about maintaining support among their ethnic supporters, directing trade where they can get to it, versus national goals that might mean dividing public wealth, sharing with political adversaries and antagonistic groups. Basic problem is leaders do not benefit from helping their enemies. Very sticky stuff. Often international engagement is the only way to give domestic political leaders the cover they need to engage everyone, even adversarial ethnicities.

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