AFRICA'S PRIORITIES AMIDST THE "TRADE WARS"

The "trade wars" are here to stay and will impact Africa's trade relations via its key trading partners, the EU, US, and China, via bilateral relations, and the World Trade Organization (WTO). Africans have little leverage over what happens in the WTO but need to be part of the solution by supporting reform initiatives and smaller group negotiations. They have far more control over their own regional economic integration agenda and, recognizing that the medium-term future of their bilateral relations with external trading powers is reciprocal, they need to double-down on building meaningful market access arrangements and regulatory environments.

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To properly appreciate the implications of unfolding international economic conflicts centered on the US it is necessary to start with correcting a misnomer: "trade wars." As I have argued elsewhere,[1] this popular media term conceals more than it reveals; a more accurate but less appealing term is "investment, technology, security, and trade wars." This encompasses the objectives of forcing US companies to invest at home rather than abroad, especially in the US' pre-eminent "strategic competitor," China; re-asserting control over US origin technologies, both in markets where they are deployed and protecting them at home again, especially vis-à-vis China; as well as the use of both trade and investment instruments to achieve these objectives.

Overall, President Trump's approach to trade could be summed up as "geo-economic" which, together with his strong emphasis on the balance of trade, means mercantilism with modern characteristics. While world leaders hope for a course correction in the US, it is quite possible that "Trumpism," or some variant of it, will be with us for the next six years and possibly beyond. In recognition of these dynamics, US financial markets have repriced risks that are acting as a drag on US economic growth, compounding the structural factors pointing to slower US growth in the year ahead.

The other engine of global economic growth, China, finds itself in a deteriorating domestic economic growth scenario, in part fueled by US trade actions, but mostly owing to the export miracle having run its course. Not surprisingly, global financial markets are skittish, and increasingly focused on how the US-China economic relationship plays out. Since the Chinese leadership under President Xi Xinping is unlikely to bend too far in the face of US "brazen unilateralism,"[2] geo-economic uncertainty is now undermining already dimming global economic growth prospects.

For the same reasons and more, there is substantial uncertainty over the future of the global trading system. These tensions are most manifest in the WTO, which faces an uncertain future given US threats to withdraw from the organization while blocking appointments to the Dispute Settlement Mechanism's Appellate Body, thus threatening to paralyze trade disputes resolution. While a number of WTO reform proposals are now emerging, particularly from the European Union (EU) where levels of alarm concerning the US posture are rising even as populism increases at home, these are mostly centered on China's model of state capitalism. However, given that the Chinese leadership is in the process of doubling down on its state-directed development model, the prospects for reform are unclear.

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[1] Peter Draper "Where is Global Trade and Investment Governance Headed? A Tour d'horizon," *Institute for International Trade*, 13 December 2018, https://iit.adelaide.edu.au/news/list/2018/12/13/where-is-global-trade-and-investment-horizon-governance-headed-a-tour-dhorizon

[2] Simon J. Evenett and Johannes Fritz, "Brazen Unilateralism: The US-China Tariff War in Perspective," *Global Trade Alert*, 29 November 2018, https://www.globaltradealert.org/

Such is the external geo-economic landscape that African[3] countries confront. What strategic responses are emerging?

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Begin at the Beginning: African Development Trajectories

While each country has its peculiar development challenges and trajectories, some generalizations are necessary. Overall, Africans remain dependent, to varying degrees, on exports of commodities, rendering their terms of trade subject to the vagaries of commodities cycles. While many things determine commodities cycles, economic growth in key demand centers, notably China but also the EU, US, and Japan, remains critical. Therefore, in the short-term, the growth slowdown currently taking shape is of concern, and underscores the longstanding African objective to diversify out of primary production and into manufactures.

In the medium-term, the technological forces reshaping global production patterns threaten both continued reliance on commodities exports, and diversification into labor-intensive manufacturing. Materials science and genetic modification offer the prospect of replacing some exported commodities used in the production of industrial goods and food products. Technologies such as 3D printing are propelling on-shoring of manufacturing into developed countries, a trend exacerbated by US trade and investment policies, which can potentially change the geographic distribution of value chains at a time when Africa's "moment" to grasp a share of labor-intensive value chains relocating out of China has arrived.[4] While it is likely that labor-intensive manufacturing will continue to offshore and increasingly find its way into Africa, this will be a highly selective process, benefiting those countries with a comparative advantage in this endeavor.[5] Moreover, production and control over "big data" is the key driver of economic value in the future and African countries are far behind the curve. Instead, most are still struggling with basic supply-side problems, particularly connecting goods to markets via physical infrastructure, but also weak production structures and capabilities.

[3] In this article "African" refers to those countries located south of the Sahara desert. North African countries are culturally distinct, and far more economically integrated into the Mediterranean world, and thus deserve separate focus beyond the scope of this paper.

[4] Martyn Davies, Peter Draper, and Hannah Edinger, "Changing China, Changing Africa: Future Contours of an Emerging Relationship," *Asian Economic Policy Review*, Vol. 9, Issue 2 (July 2014), pp. 180-197.

[5] Peter Draper, Andreas Freytag, Sören Scholvin, and Luong Thanh Tran, "Is a 'Factory Southern Africa' Feasible? Harnessing Flying Geese to the South African Gateway," *World Bank,* Washington, D.C., 2016.

To compete in the modern "Fourth Industrial Revolution,"[6] the world economy requires strong, smart, adaptive institutions, and significant resource investments mobilized through flexible state-private sector partnerships extending to regulatory environments. Unfortunately, the African political economy generally cannot be characterized as such. Rather, pervasive state weaknesses combine with clientilistic politics to deliver ineffective, sometimes predatory, regulation and governance in the context of weak domestic private sectors. These private sectors are far more focused on survivalist activities than the exigencies of competition in a data-driven world.

Since many economies remain subject to the vagaries of the commodities cycle, fiscal indebtedness is on the rise again. That said, decades of structural adjustment economic policies delivered under the tutelage of the International Monetary Fund and World Bank have, by and large, resulted in more stable macroeconomic environments. Also, demographic trends (rapidly expanding and increasingly young populations) offer the prospect of larger consumer markets and more sustained domestic growth in the medium-term. This is encouraging market-seeking foreign direct investments to complement the resource-seeking investments that for so long characterized foreign penetration of the African continent. Consequently, while the medium-term future of commodities-driven growth is in doubt, domestic ballast is now visible on the horizon and increasingly offering the prospect of a different future.

The Regional Integration Drive

Given the small economic size of African markets, the consolidation of regional economic communities (RECs) across Africa is to be welcomed and boosts the growth potential noted in the previous paragraph. And, at least in intention if not always in action, RECs have developed corresponding market integration plans, which various donor countries but particularly the EU, are supporting through official development assistance (ODA). This offers the prospect of pooling resources to build cross-border connectivity and infrastructure, thereby alleviating domestic resource constraints.

Moreover, the RECs are increasingly consolidating and integrating amongst themselves. This has culminated in the ongoing negotiations to establish the African Continental Free Trade Agreement (AfCFTA). The primary objective[7] of the AfCFTA is to boost intra-African trade flows, and is nested within a more specific, if dated, goal of doubling intra-African trade between 2012 and 2022. A secondary objective is to harmonize African trade arrangements and institutions in order to enable trade to flow and be governed more effectively. This is reflected in the ambitious goal of establishing a single African common market and continental customs union.

[6] Klaus Schwab, "The Fourth Industrial Revolution," *World Economic Forum*, 11 January 2016.

[7] Per the African Union website: https://au.int/en/ti/cfta/about

It is widely hoped that achieving the objective of doubling intra-African trade in goods will promote industrialization on the continent, since it will require the establishment of cross-border value chains in various sectors, thereby promoting a larger and more sophisticated range of investments, including in various services. By promoting industrialization, it is thought that enhanced intra-African trade in goods will also promote employment, social advancement, consumer choice, and thereby a range of other objectives closely associated with the Sustainable Development Goals (SDGs). At the same time, it will enhance the shared economic diversification objective, thereby alleviating the commodities constraint.

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While the AfCFTA has achieved significant momentum, the jury is still out regarding its market access content.[8] Currently, an emerging agreement with a substantial sensitive/exclusion list for goods tariffs, combined with strict product-specific rules of origin, and backstopped by evolution of trade remedies institutions that could be abused (as elsewhere) to protect domestic lobbies, points towards minimal goods trade liberalization given the low levels of intra-African trade. Furthermore, the regulatory content of the AfCFTA is "WTO-minus," although it does have the substantial benefit of bringing non-WTO members into the fold. Similarly, the level of ambition in the services negotiations is low. Offsetting this is the fact that the AfCFTA is best thought of as a platform on which to build. Assuming the political drive behind deeper African economic integration remains intact, it is likely that more liberalization will be pursued over time, as well as more regulatory integration encompassing new areas such as e-commerce. Whether this will keep pace with other developments in the trade terrain, such as in the WTO or relations with external trading partners remains an open question.

Africans and the WTO

Given the stresses on the WTO noted above, Africans have a clear interest in preserving the institution, even while they may chafe at its perceived inadequacies and injustices. It is a truism that the WTO is a rules-based trading system that offers stability and predictability in relation to the conduct of cross-border economic relations, while constraining the large trading powers from engaging in unilateral

[8] This paragraph draws on Peter Draper, Habtamu Edgiju, and Andreas Freytag, "Analysing Intra-African Trade – AfCFTA: Much Ado About Nothing?," *World Economics*, Vol. 19, No. 4 (December 2018).

actions. Africans also have some influence on how the system shapes up, not least over its development content, given the institution's consensus decision-making modus operandi. However, African negotiators continue to cling to the fiction that the Doha round, long dead, is the core of the WTO's work program, and use lack of progress on it to block initiatives by developed countries in particular. This has contributed to the US' frustration with the WTO and consequent resort to unilateral actions. A WTO without the US would be highly detrimental to the multilateral trading system, so Africans have to seriously engage with US concerns, much as they perceive the US does not take their own concerns seriously. In part, this means supporting the various smaller group, or plurilateral, negotiations underway such as e-commerce, or at least not blocking them by recourse to the consensus convention.

This is a difficult dynamic for Africans to deal with, and ultimately the solution may not lie in their hands, but rather in the US-China-EU labyrinth of conflicting interests and priorities.

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Key External Trade Partners

Since the darkening skies on the international trade relations front are substantially emanating from the direction of Washington, it is appropriate to begin there. For the US, Africa has historically been at the bottom of foreign policy priorities, as well as the object of ODA, unilateral trade concessions, and particularly the African Growth and Opportunities Act (AGOA). The Trump Administration is hostile to ODA, particularly when conveyed via multilateral institutions, notably the United Nations, whose budget it is squeezing. Currently, it is not clear how Washington views a key source of development finance and technical assistance to Africa: the World Bank. The recent sudden resignation of that institution's former President, Dr. Jim Young-Kim, and subsequent appointment of a senior Treasury official regarded as hawkish in relation to US involvement in international development finance has left many guessing as to US intentions. Furthermore, the Trump Administration is strongly in favor of bilateral trade "deals" and has announced its intention to pursue this approach with African countries, starting with a to-be-designated pilot country. This has led to concerns that the US may rescind AGOA, either selectively for countries that displease Washington, or wholesale. For advocates of AGOA's contribution to African development, this is potentially an alarming development. My view is that the Trump Administration is simply hastening a recalibration process initiated by the Obama Administration, and Africans need to accept that the future will be reciprocal and less ODA-driven.

However, there are several offsetting factors. First, the US trade and investment footprint in Africa is relatively insignificant compared with China and the EU. Therefore, the economic stakes are not as high as is often supposed. Second, it is difficult to imagine the US ultimately seeking to replicate the EU's fraught experience of negotiating free trade agreements with all of Africa via various REC configurations (and beyond). Seasoned US negotiators, Africa "hands," and business lobbyists, know that the EU paid a high political price for relatively little gain and will advocate against pursuing this path. Third, the US has already announced its intention to re-engage with the continent in order to counter China's growing influence there. So, the "strategic competition" between the US and China will impel the US to offer more concessions to Africans, who could benefit from playing the large players off against each other.

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China is now deeply entrenched at many levels and in multiple countries across the African sub-continent. While its core focus has been on resource extraction and associated ODA of sometimes questionable provenance and purposes, China's presence has largely been welcomed by African elites, not least since China is regarded as a friend without a colonial past that does not impose difficult conditions or ask testing governance questions when extending its assistance. Nonetheless, China's trade and investment relations with Africa have attracted their own controversies, from allegations of neo-colonialism via land and resource acquisitions, through questionable loan and aid deals, to the impacts of the expanding diaspora of Chinese traders on African retailers.[9] Moreover, below the level of elites there is far more African skepticism of Chinese intentions than is commonly realized. Adding to these are concerns over President Xi's explicit intention to externalize China's state capitalist model of development, inseparable as it is from authoritarian governance. Democratic gains in Africa are hard won, so if China's leadership does look to undermine them in collaboration with African elites, it is difficult to see that passing unnoticed and without resistance. This would pose significant challenges for China-Africa trade and investment relations down the line.

[9] For a review of the dynamics and debates, see Davies et al. (2014).

That said, the generally negative Western media coverage of China's African footprint should be digested with a degree of caution. Many of those media outlets and the non-government organizations that supply analytical inputs are located in EU member states and reflect legitimate Western concerns with China's state capitalist governance model, particularly the absence of democratic political institutions and human rights protections. Given that such concerns are growing in Africa, the confluence of interests between EU civil society and their political representatives, and African civil society groups, bears watching. This finds particularly strong expression in the trade and investment environment via the proliferation of private standards governing how resources are extracted and goods produced as well as exported to EU markets. Given pervasive private sector weaknesses across the African sub-continent, the partnerships African firms forge with EU multinational corporations (MNCs) are increasingly critical to accessing the lucrative EU market. Against this backdrop, the conclusion of Economic Partnership Agreements (EPAs) between the EU and five African regions, no matter what one thinks of them, are critical instruments for regulating Africa-EU trade relations in the medium term. As presaged, though, the EPA process has been highly fraught and the success rate correspondingly low.[10] Nonetheless, in the absence of the EU abandoning its "Everything but Arms" unilateral preference scheme for least developed countries (most of which are in Africa), it will be quite some time before all African countries participate in EPAs, if at all.

Concluding Remarks

The factors shaping the "trade wars" are structural not cyclical, and likely to endure into the medium term. The US-China "strategic competition" is fundamentally geo-economic, and will drag other key trading powers, notably the EU, into its vortex. Since these three trading powers are the most consequential from an African trade and investment relations perspective, how this economic power triangle resolves itself matters enormously. However, there is very little that Africans can do to influence the course of the contest, which means they need to focus on what they can control, and leverage what they can from the three majors towards that end. Building regional economic integration via the AfCFTA and its core constituent RECs is largely within Africans' control. However, more needs to be done to ensure that meaningful market integration and regulatory frameworks are established. It is likely that momentum in that direction will accelerate once the reciprocity nettle vis-à-vis the US is fully grasped, although that day may lie in the medium-term future. Finally, Africans need to support momentum towards reforming the WTO, including establishing plurilateral frameworks for negotiations, or risk having the institution dissolve at their own cost.

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[10] The European Commission regularly publishes a "State of Play" document, accessible at http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/