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# A NEW U.S.-EUROPEAN APPROACH TO TRADE AND DEVELOPMENT IN SUB-SAHARAN AFRICA

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The German Marshall Fund of the United States

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# A NEW U.S.-EUROPEAN APPROACH TO TRADE AND DEVELOPMENT IN SUB-SAHARAN AFRICA

We are at a critical turning point in trade and development policy with sub-Saharan Africa. The vehicles for large-scale international policy change, including the Doha Development Round and developed country agricultural reform, have, at least temporarily, ground to a halt. The deadline for meeting the Millennium Development Goals is fast approaching, yet we are nowhere close to realizing them. Poverty alleviation is starting to show signs of success in some parts of Asia, but sub-Saharan Africa continues to suffer from seemingly intractable poverty on a massive scale, and hunger is increasing.

Setting sub-Saharan Africa on a different course will require creating the conditions for sustainable, regionally-focused, market-led development. Yet too often international economic policies fall short of their potential to help move Africa in this direction. With the overlapping crises of food insecurity, climate change, and global financial instability, the need for viable solutions is now more pressing than ever.

The health of the African agricultural sector is a critical part of the equation, and international trade and development policies could be a tremendous catalyst for positive change, instead of the impediment to agricultural growth in sub-Saharan Africa they have often been in the past. Without agricultural development, broad-based growth and poverty alleviation in Africa is not possible. Agriculture is the most significant industry in sub-Saharan Africa, with around 500 million people (or between 70 and 80 percent of the subcontinent's population) dependant on farming for their livelihoods. Many of these farmers are women who are responsible for supporting entire families, and many live on less than one dollar a day. Around 90 percent of African food production comes from the small farm sector, and most of these farms are located in remote areas with little access to markets. As a result, they are the first to be vulnerable in the face of change. These farmers will need reliable

sources of income and inputs, along with advice from other African farmers, in order to achieve sustainable livelihoods.

Food insecurity is becoming a growing problem in Africa, and the continent was hit hard during the global crisis of 2008. African food production has simply not kept up with population growth, and the underdeveloped nature of African food systems and markets has made it more vulnerable to global market volatility. The difficulties associated with getting crops to market has made it easier and cheaper for many people in cities to buy basic foods, including staple crops, edible oils, livestock and livestock feed, from abroad rather than from the interiors of their own countries. This is not sustainable, and Africa's farmers need to be equipped with the tools necessary to feed its population.

Increasing farmer productivity is the key to both achieving greater food security and increasing agricultural trade, but productivity will only increase if farmers are connected to markets and see tangible benefits from participating in them. The ability to achieve broad-based food security will depend upon how well markets develop and how widely these productivity gains are spread.

The global financial crisis has hit the most impoverished parts of the world the hardest, and sub-Saharan Africa has already seen a steep decline in sales, jobs, and remittances. African economic growth has fallen by two thirds.<sup>1</sup> Prices for the natural resources and agricultural products on which Africa depends have fallen, and incomes have declined sharply. Markets are shrinking, and sub-Saharan African producers, who did not have an easy time securing regional and international

<sup>1</sup> Edward Gresser, Briefing Paper on Global Financial Crisis for Change Agenda Forum, Washington, DC: Trade, Aid and Security Coalition (GlobalWorks Foundation), 2009.

*The difficulties associated with getting crops to market has made it easier and cheaper for many people in cities to buy basic foods from abroad rather than from the interiors of their own countries.*

markets when times were good, are in a very precarious position.

Simultaneously, because of climate change there is a closing window of opportunity to advance agricultural development and increase food security in Africa. The Intergovernmental Panel on Climate Change estimates that between 75 and 250 million people in Africa will be exposed to increased water stress by 2020, and, in some countries, yields from rain-fed agriculture could be cut in half. Farmers are not equipped to deal with this looming crisis, and they will need new information and extension services, new meteorological warning systems, new seeds, new fertilizers, and new pesticides in order to survive. Adapting to climate change will take regional and continent-wide solutions to develop better markets and help farmers adapt. Like food security, climate change adaptation must be dealt with now. If we do not fix the problem in a systemic, meaningful way, it will only get much worse.

Against this backdrop, policy debates that directly impact sub-Saharan Africa are unfolding within and among developed countries. The U.S. government is embarking on a comprehensive review of trade preference programs, including the African Growth and Opportunity Act (AGOA), in order to ensure that these programs yield better, broader gains than they have so far. U.S. foreign assistance reform is also the subject of extensive review within both the U.S. Legislative and Executive Branches. In Europe, the European Commission (EC) is determining how to move forward with the Economic Partnership Agreements (EPAs), since negotiations with the Africans, in particular, have not gone as smoothly as hoped.

On both sides of the Atlantic, significant political will and resources are being put behind initiatives to promote food security, and increasing focus is being placed on how to promote regional integration and development of markets in sub-Saharan Africa. In

July 2009, the United States and major European countries, along with other G8 partners, committed to provide \$20 billion over three years to support agricultural development and global food security. Going forward, the support given by G8 countries could be used as an opportunity to address the harsh realities facing Africa's farmers.

There is real potential for a positive shift in trade and development policy with sub-Saharan Africa. Yet it is critically important that policymakers get the elements of the agenda right—including finding ways to create sustainable opportunities for African agriculture—and move forward in a coordinated, comprehensive, and systemic way.

This essay will explore the politics behind Europe's shift in trade policy with sub-Saharan Africa, summarizing the global implications of the EPAs. It will also examine U.S. and European trade and development policy, highlighting limitations in policy approaches and lessons to keep in mind going forward. The essay will then explore an option for meeting Africa halfway, i.e., how to solve Africa's problem of under-trading, including aligning international support around an African initiative for building infrastructure, regional capacity, and integrated markets that has become known as the "Development Corridors" movement. The essay will conclude by outlining concrete recommendations for a new, comprehensive approach to European and U.S. trade and development policy with sub-Saharan Africa that goes well beyond the EPAs and the limited policies of the past, and provides insight for new trade, aid, and food security policies.

### **Europe's change in direction: The politics behind the policy**

By the end of 2007, European policymakers were in a bind. The WTO waiver for the European Union's preferential trade arrangement with the African,

Caribbean and Pacific (ACP) countries was about to expire, but the strategy Europe had been pursuing to replace these preferences was coming under increasing pressure. On the one hand, there were still complaints from third-party countries, such as Latin American banana producers, who were excluded from preferential access because they did not have the same historic ties to Europe. On the other hand, the ACP countries were increasingly resistant to the alternative that the EC was seeking to put in place: reciprocal free trade agreements dubbed Economic Partnership Agreements (EPAs). Originally the brain child of Pascal Lamy during his time as European Trade Commissioner, the EPAs had been aggressively embraced by Lamy's successor, Peter Mandelson.

Contrary to Mandelson's hopes, the Doha Round was nowhere near a successful completion, and Europe's debate around agricultural policy reform was becoming more politically complicated. In this context, Mandelson saw the EPAs both as a way to solve the problem of WTO compliance while also leaving a memorable legacy behind. His new vision for the ACP countries actually tracked closely with the objectives of the Doha Round and was intended to represent a comprehensive approach to trade with developing countries that would promote local and regional trade, as well as trade with Europe.

Under Mandelson, the EPAs moved forward quickly with the 77 ACP countries, and the EC pressed to conclude negotiations with six regional groups—the Caribbean, the Pacific, and four regions in Africa—before the Cotonou waiver expired at the end of 2008. Differences between the six regional groups were clear from the start, however, and, within these groups, differences in countries' levels of development made negotiation of the EPAs particularly challenging. In late 2007, the East African Community (EAC) split out of the Eastern and Southern Africa negotiating bloc,

creating a seventh regional group with which Europe was negotiating.

CARIFORUM, the Caribbean countries plus the Dominican Republic, has been the only one of the seven regional groups to conclude an EPA; the sub-Saharan African regional blocs<sup>2</sup> and a subset of the Pacific countries have only concluded piecemeal “interim EPAs” that do not include all countries and, in some cases, include separate bilateral deals with different timelines and processes for implementation. Matching these up to form consistent regional commitments is proving difficult.

Part of the issue in sub-Saharan Africa has been that the subcontinent shares characteristics as a whole, and regional negotiations, while a laudable start, cannot fully address sub-Saharan Africa's needs. Further, the regional economic communities (RECs) involved in these negotiations do not have sufficient capacity as institutions. Most countries that are party to them have yet to implement the regional agreements fully and still maintain conflicting trade policies. To complicate matters further, the RECs with which the EC is negotiating overlap and often conflict with a web of numerous other regional institutions,<sup>3</sup> and, in some cases, the existing RECs may become part of new, larger regional communities. In addition, the five regional blocs involved in negotiations do not necessarily correspond with the Development Corridors described below, which are built around natural trade and transport routes that form regional

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<sup>2</sup> The five sub-Saharan African regional groupings negotiating EPAs are the Economic Community of West African States (ECOWAS), le Communauté économique et monétaire de l'Afrique centrale (EMAC), Eastern and Southern Africa (ESA), the East African Community (EAC) and the South African Development Community (SADC).

<sup>3</sup> The typical sub-Saharan country is party to four regional arrangements with conflicting requirements. See Paul Collier, *The Bottom Billion*, Oxford: Oxford University Press, 2007.

*The EPAs could actually cause trade diversion rather than trade creation and complicate, rather than facilitate, regional trade both within and across regions.*

markets rather than the political boundaries of trade communities.

ECOWAS, EMAC, ESA, EAC and SADC all contain countries at differing levels of development. As the EPAs have played out, these differences in development have sometimes pitted countries against each other rather than encouraging regional integration. For those countries not classified as least developed countries (LDCs) by the United Nations, the only existing non-EPA option is to revert to the limited preferential market access available under Europe's basic Generalized System of Preferences (GSP) program. For those countries that are classified as LDCs,<sup>4</sup> the EU's Everything But Arms (EBA) program continues to apply, so trade with Europe is already free of duties and quotas. This means that LDCs have little incentive to open their own markets to Europe in the form of an EPA, since they are already receiving duty-free, quota-free access to European markets. Non-LDCs, however, have powerful incentives to negotiate, since they do not have the EBA program to fall back on. As the regional negotiations continue, some of the poorest countries with the least negotiating power are finding that they will quickly face some of the steepest adjustment costs.<sup>5</sup>

If hard-pressed, most European negotiators would admit that the EPAs as they continue to be conceived are less than ideal. According to studies by Patrick Messerlin of the Groupe d'Economie Mondiale at Sciences Po in Paris and Antoine Bouet and his colleagues at the International Food Policy Research Institute (IFPRI) in Washington, the EPAs could actually cause trade diversion rather than

trade creation and complicate, rather than facilitate, regional trade both within and across regions. The "Sensitive Product" exemption under the EPAs, which allows ACP countries to exclude up to 20 percent of trade from liberalization, has effectively enabled countries to protect the products they currently produce, while liberalizing and reducing tariffs on everything imported. This could not only limit regional trade and lock countries into trade patterns that currently contain very little value-added trade, but lesser developed countries also face losing tariff revenues upon which they rely heavily. EU producers, meanwhile, could divert trade away from lower-cost, more competitive third-country producers, including U.S. producers.

The EPAs will not only cause trade diversion within sub-Saharan Africa, they will also affect trade with other partners. IFPRI's analysis shows that the EPAs would cause certain U.S. exports to decrease significantly, as would exports from Central and South America, China, Japan, Thailand and others. In addition, the EPAs contain a notorious "MFN clause" that will result in the ACP countries giving the EU the best trade access afforded any other trading partner going forward. A number of the countries that will face trade diversion because of the EPAs are currently developing plans to expand preferential market access to sub-Saharan Africa through duty-free quota-free initiatives. The commitment to provide duty-free quota-free market access is a central element of both the Millennium Development Goals and pledges made at the WTO, and the trade diversion the EPAs cause runs counter to this global commitment to increase opportunities for sub-Saharan Africa and

<sup>4</sup> 39 of the 77 ACP countries are classified as LDCs, with most of these LDCs in sub-Saharan Africa.

<sup>5</sup> For example, Mozambique will face particularly large and costly adjustment challenges as a result of the EPAs. See "The New EPAs: Comparative Analysis of Their Content and the Challenges for 2008," London: Overseas Development Institute and the European Centre for Development Policy Management, March 2008.

the world's poorest countries to trade more with as many partners as possible.<sup>6</sup>

The analysis by Messerlin and IFPRI also shows the implications the EPAs would have for regional economic integration in sub-Saharan Africa. The “Sensitive Product” exemptions do not overlap between countries and within regions, resulting in a situation where over half—and in some regions up to 92 percent—of the products likely to be excluded as sensitive would not overlap with any of the exclusions of any other country in the same region. Increasing and diversifying regional trade would, as a result, become much more difficult.<sup>7</sup> The countries in sub-Saharan Africa stand to benefit most over the long term by increasing trade with each other and capturing economies of scale and economic diversification. To be fair, however, sub-Saharan African countries have not offered any alternatives to the EPAs, and regional capacity needed to negotiate in a way that will preserve opportunities down the road is, as discussed above, limited.

Contrary to the EC's insistence, the fear of being out of compliance with WTO requirements, as the expiration of the Cotonou waiver loomed, may not have played out in a WTO challenge and dispute settlement. It is possible that Europe could have operated under the ACP program without a waiver in order to give adequate time to the development of new trade policies with the ACP countries. Other

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<sup>6</sup> Further, under U.S. law, in order to be eligible for preferential access to the U.S. market, countries must comply with a number of standards set by the U.S. Congress. One of these is the criterion that beneficiary developing countries should not grant preferential access to their own markets that has or is likely to have a “significant adverse effect” on the United States (Title V of the Trade Act of 1974, 19 U.S.C. 502 (2)(C)). Invoking this provision would send the wrong signal to sub-Saharan Africa in a time of great economic challenge, but it reinforces the tension between agreements like the EPAs and preferential market access.

<sup>7</sup> Antoine Bouet, David Laborde and Simon Mervel, “Searching for an Alternative to Economic Partnership Agreements,” Washington, DC: IFPRI Brief [48], December 2007.

preference programs that do not fall under the WTO's Enabling Clause, and thus require WTO waivers, have sometimes existed unchallenged without a waiver. For example, the U.S. trade preference program with sub-Saharan Africa, the African Growth and Opportunity Act, was only recently granted a WTO waiver despite being enacted in 2000.

Moreover, moving from the preferential Cotonou scheme to the EPAs effectively shifted EU-ACP trade relations from one murky area of WTO law to another. The legal basis for the EPAs, Article XXIV of the General Agreement on Tariffs and Trade (GATT), which covers free trade areas and customs unions, is not a clear or well-defined area of WTO law. Article XXIV requires that duties and other restrictions be eliminated on “substantially all the trade.”<sup>8</sup> Yet this standard has never been explicitly articulated.

Europe's experience has also indicated that the same approach may not have been suited to all of the ACP countries. While the Caribbean countries negotiated an EPA relatively quickly, as noted above, negotiations with sub-Saharan Africa have been fraught with difficulty from the start, indicating that the countries are perhaps not ready for the more reciprocal trade policy the EPAs bring. While preferences have not always performed as well as possible, and their effects need to be better understood, a new form of demand-driven trade policy with sub-Saharan Africa that incorporates more expansive, transparent, preferential market access coupled with more comprehensive, systematic programs and policies to address needs and barriers on the ground, is the best alternative in the immediate term.

An enhanced preferential arrangement with all of sub-Saharan Africa could also be done consistent

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<sup>8</sup> General Agreement on Tariffs and Trade, Article XXIV 8 (b)(i).

*A new form of demand-driven trade policy with sub-Saharan Africa is the best alternative.*

with the WTO. The WTO Appellate Body has ruled that preference programs, while technically a deviation from the MFN principle underpinning the WTO, are permissible as long as the preferences are made available to all “similarly situated” countries that share “development, financial, and trade needs.”<sup>9</sup> Within the group of ACP countries, sub-Saharan Africa shares common characteristics and would be best approached through one common policy. AGOA deals with this challenge in an innovative way by bypassing the traditional distinction between LDCs and non-LDCs and largely treating most vulnerable sub-Saharan African countries the same.<sup>10</sup> Had this approach been inconsistent with the WTO, AGOA’s waiver would not have been granted. Treating sub-Saharan Africa as a whole best addresses the inter-connected nature of sub-Saharan African economies and minimizes distinctions between countries in order to build regional markets and achieve economies of scale.

Thus, despite Europe’s assertions that no alternatives to the EPAs existed when the agreements were proposed, several viable alternatives exist, including granting significant preferential market access to sub-Saharan Africa as a whole and, perhaps simultaneously, beginning to liberalize ACP trade multilaterally on a most-favored nation (MFN) basis. This alternative approach would satisfy the goals of both WTO compliance and regional integration in sub-Saharan Africa.<sup>11</sup> Enhanced preferences could have been established under a separate waiver similar to the one granted for the U.S. AGOA program. Moving to an enhanced preferential arrangement would avoid

<sup>9</sup> WTO Appellate Body Report on EC-India Panel on EC-Preferential Tariffs, April 7, 1994.

<sup>10</sup> Distinctions between AGOA countries that do exist are largely political, i.e. some countries chose to be treated as more developed even though they might have been eligible to be treated as lesser developed for purposes of AGOA.

<sup>11</sup> See Patrick Messerlin and Clair Delpuech, “EPAs: A Plan A+,” November 2007.

trade diversion and revenue loss from tariffs and, if coupled with strong commitments to build capacity and support regional integration, could help create the ability to integrate ACP countries into regional and international market systems over the longer term.

Catherine Ashton, Mandelson’s replacement as Trade Commissioner and the new European High Representative for Foreign Affairs and Security Policy, signaled a new willingness to show flexibility in the next phase of the EPA negotiations, opening a window of opportunity for Europe and the ACP countries to present strong alternative proposals for a new framework for collaboration. Her successor, Karel De Gucht, should continue to press for a new direction, particularly with respect to sub-Saharan Africa. More broadly, U.S. interest in trade preference programs, capacity building, and food security, and Africa’s increasing focus on the Development Corridors, present opportunities to increase sub-Saharan Africa’s participation in global markets and strengthen regional integration. If brought together, all of these elements have the potential to chart a new course for sub-Saharan Africa.

### **Transatlantic trade and development policy: Limited approaches and lessons for the future**

Up until now, developed country trade policy towards sub-Saharan Africa has focused primarily on one piece of the complex puzzle of sustainable development, granting access to international markets on the assumption that the ability to trade and take advantage of these markets would follow. Building capacity has been largely left to the development side of international policy, and, despite being very closely linked in real world economies and markets, the trade and development sides often operate on separate tracks in the policy realm. Strengthening sub-Saharan Africa’s regional markets has not yet received the focus that other

African development issues have, despite the power of these markets and regional systems to move goods, services, people, and information.

Aside from the EPAs, European and U.S. market access for sub-Saharan Africa has been governed mainly by preferential, unilateral market access programs, including, in addition to the expired preferential arrangements with the ACP countries discussed above, Europe's GSP, GSP-Plus, and EBA programs, and U.S. GSP and regional preference programs, including AGOA. These programs have produced limited successes concentrated in a few countries and sectors. This is partly due to product carve-outs and complex rules of origin and is compounded by complicated product standards and trade-limiting policies in sensitive industries like agriculture that intersect with the preference programs.

Moving forward, not all elements of preferential trade policies need to be set aside, and the current system can provide a foundation upon which to build. Existing programs do create important market access for the world's poorest countries. This market access could be expanded, made longer-term, and simplified to ensure that preferential trade programs can be fully taken advantage of.

In building on this foundation, several lessons from past experience should be kept in mind. First, experience has shown that the best policies are those that are the least complicated and do not attempt to determine how markets will develop. Constructing markets through complicated political compromises, or forcing choices before markets have actually developed, limits opportunities rather than creating them. Under AGOA, apparel manufacturing has blossomed in some areas, but value-added investment along the supply chain has proven to be difficult to encourage without addressing the underlying conditions

that have prevented integrated markets from developing. Capacity building and other measures (e.g. investment policies) targeted at the reasons underlying this limited development remains the best policy alternative. Under the EPAs, market choices are required before markets have actually developed. Despite the laudable goal of regional integration, the overlapping regional carveouts could actually limit rather than promote regional trade and may create narrow, entrenched African lobbies that will make future growth difficult.

Second, predictability is an essential factor in investment decisions and needs to be an underlying principle of all preference programs. Setting short expiration dates for preferences has created a disincentive for sustainable, long-term investment. When AGOA was enacted in 2000, it came with an expiration date, both for the program and for its special apparel rule of origin, the third country fabric rule. Both AGOA and the third country fabric rule have been extended over the years, but there has never been complete certainty that the benefits would continue. This uncertainty has caused instability for both existing and potential investment, and politically it has led to a dynamic that is focused on preserving the status quo, with longer-term gains often pushed to the side. With expiration dates looming, countries and industries must focus on preservation rather than long-term sustainable development.

Third, those sectors with the most economic opportunity need to be the centerpiece of preference programs. Under AGOA, African agricultural products remain subject to the complicated system of quantitative restrictions that governs commodity trade in a number of products, including sugar, dairy, and peanuts, and subjects very poor countries to miniscule or non-existent quotas and very high out-of-quota tariffs that approach several hundred percent. While the policy debate has often focused on developed

*Those sectors with the most economic opportunity need to be the centerpiece of preference programs.*

country agricultural subsidies as the main barrier to developing country agricultural trade, these trade barriers can actually be more of an impediment to trade than subsidies.<sup>12</sup> The European experience has shown that competitive producers of these products can see immediate gains once open market access is granted. For example, as a direct result of Europe's announcement of its Everything But Arms program, which granted LDCs duty-free, quota-free access to the European market, Mozambique's sugar trade with Europe went from zero in the year 2000 to over 130,000 metric tons in 2008, with steady increases each year. Investment and job creation quickly followed the announced change in trade policy, and South African-based investors have opened two new mills in Mozambique and plan to triple production by 2010 to take advantage of Europe's now-open market.

Fourth, trade preference programs need to be part of a "demand-driven" approach to trade policy with sub-Saharan Africa that effectively couples opportunity-based market access with targeted, systemic policies and assistance programs to address needs and remove barriers on the ground. Building functioning regional markets needs to be a primary goal of both preference programs and accompanying trade capacity building programs and other assistance. Preference programs can encourage regional trade by giving the same benefits to all similarly situated countries, e.g. all of sub-Saharan Africa, and by allowing for simple, transparent rules of origin that explicitly allow for regional cumulation.

Creating comprehensive trade programs for sub-Saharan Africa that treat the region as a whole and do away with product exemptions, complicated rules of origin, and frequent expirations could turn

<sup>12</sup> Todd Moss and Alicia Bannon, "Africa and the Battle over Agricultural Protectionism," Washington, DC: Center for Global Development, 2009.

preferences into predictable access to markets, rather than political bargaining chips, which help few rather than many. Building on the existing foundation, and taking lessons learned into account, Europe and the United States should go beyond the EPAs and the current preference programs to create a new, shared policy that plays a significant, constructive role in building sustainable markets within and with sub-Saharan Africa. As a critical complement to this new approach, however, the needs and barriers on the ground must be addressed in a much more comprehensive, systematic way.

#### **Addressing capacity challenges through a new demand-driven approach**

Ultimately, trade preference programs and other trade policies will not work without complementary policies to build capacity and allow for the creation of functioning regional trade routes in sub-Saharan Africa and sustainable commercial opportunities across sectors and along supply chains. Existing trade capacity building assistance can be better expanded, better utilized, and more explicitly and systematically linked to trade programs and refocused towards areas where Africa needs the help most.

The European Union, the United States and the other G-8 countries have pledged substantial resources to build capacity in sub-Saharan Africa through development assistance, food security initiatives and trade capacity building assistance programs. Despite these commitments, however, current programs do not come close to meeting the needs on the ground. This is due to a variety of factors on the donor side: limited resources, competing political interests, difficulty identifying and prioritizing barriers and needs in developing countries, lack of coordination within and between governments, etc. Both Europe and the United States stand to gain from greater internal coordination and transatlantic cooperation

when it comes to dealing with the significant capacity and infrastructure needs in sub-Saharan Africa.<sup>13</sup>

Building the capacity in sub-Saharan Africa to improve participation in markets and increase economic opportunities is not a simple undertaking and will require significantly enhanced coordination among all stakeholders. The challenges are many, and such an approach will take time. As noted above, regional institutions are weak, infrastructure networks spotty, and trade adjustments acutely felt. Capacity is lacking across regions to trade locally, regionally, and internationally. Infrastructure is poor and incomplete. Roads, railroads, and air links are often either woefully underdeveloped or non-existent. Weak capacity in areas like customs, transport, and storage further limit the ability of many producers to trade. Improvements in water facilities, telecommunications, and electricity and power services are also needed.

To further complicate matters, many countries in sub-Saharan Africa are landlocked, which only exacerbates these problems. Landlocked countries, for example, can face transport costs up to four times as high as those in developed countries.<sup>14</sup> This problem is perhaps most acutely felt in agriculture, as transport costs are relatively higher for many farm products, including cotton, fruits and vegetables. Delays and uncertainty in transportation can lead to spoilage, additional

warehousing or port payments, and the need to maintain extra inventory. Numerous checkpoints along transport routes, which connect landlocked countries to those with ports, only add to the delays, running up costs and hampering trade. An additional day's delay due to transport and customs issues can cause exports of time-sensitive agricultural goods to decrease by seven percent.<sup>15</sup>

Agricultural products must conform to very detailed sanitary and phytosanitary (SPS) standards, and, as commodities are transformed into higher value-added products, the standards become more exacting, and adequate transport and storage become even more critical and expensive. Internationally, SPS standards can be a significant barrier, due both to their complexity and the number of overlapping standards. EU and U.S. SPS rules and procedures differ significantly, and the private sector often imposes additional standards of its own. The science underpinning these rules is critical to food safety, but, in many cases, the processes for implementing the rules could be streamlined and made more transparent. Programs to train African producers in SPS requirements can make a big difference in creating meaningful market access for African agricultural trade. More investigation is needed in this area, but anecdotal evidence suggests that Europe may have some helpful experience with helping developing countries follow SPS rules that could be applied more broadly in the future.

While these challenges are pervasive, the solutions are very specific to products, industries, and regions. Effective use of resources will require

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<sup>13</sup> The Commission for Africa estimates that between \$20-40 billion is needed to build and upgrade Africa's infrastructure networks, with an additional \$40 billion per year needed for upkeep. "Our Common Interest: The Report of the Commission for Africa," London: The Commission for Africa, March 2005.

<sup>14</sup> Transport costs can account for up to one-third of GDP and can represent much of the export value for many landlocked countries. In Rwanda, for example, transport costs account for up to 40 percent of the value of coffee exports. See "Land Transport for Exports: The Effects of Cost, Time and Uncertainty in sub-Saharan Africa," Washington, DC: U.S. International Trade Commission, 2009.

<sup>15</sup> While the costs of transport delays are significant, the benefits of reducing transport times can be immediate and transformative. Mali and Senegal signed a border cooperation agreement that reduced the number of checkpoints from twenty-five to four, and transport time quickly went from seven to ten days to just one or two. "Doing Business in Landlocked Economies," Washington, DC: World Bank Group, 2009.

*Effective use of resources will require a “demand-driven” approach that links specific economic opportunities to targeted programs that address market barriers and capacity building or assistance needs.*

a “demand-driven” approach that links specific economic opportunities to targeted programs that address market barriers and capacity building or assistance needs. In other words, the economic opportunity, i.e., the product that has demand and markets waiting in the wings, must be the starting point, with policies and programs used in a targeted and coordinated way to remove the barriers or address the needs that stand in the way of realizing these opportunities.<sup>16</sup>

The link between trade policy and addressing needs on the ground through capacity building and other channels needs to be made much stronger.<sup>17</sup> Despite the fact that European institutions better integrate trade and development functions, the EPAs do not go far enough to lock in additional capacity building resources and deliver on their goal of being a powerful instrument for development.<sup>18</sup> On the U.S. side, AGOA has been accompanied by some capacity building assistance, but, again, existing capacity building efforts have not gone far enough. Lack of capacity to trade and barriers within regional markets are often cited as primary factors in the underutilization of AGOA. In the United States, the disconnect between trade and development policy is often due to jurisdictional issues in the U.S. Congress, since the Congressional committees with the responsibility for trade do not have the sole power to authorize funds for trade capacity building programs and, in

any event, cannot appropriate money.<sup>19</sup> While there is some coordination on trade and development among U.S. Executive Branch agencies, this coordination could be improved across the board.

Building local and regional capacity, and addressing barriers to trade on the ground, need to be part of this equation if U.S. and European policies are to have a positive impact. Meeting the Africans halfway and supporting their own goals is the final, and perhaps most important, step in making trade work for sub-Saharan Africa.

### **Meeting the Africans halfway: Unlocking trade’s potential and building on the Development Corridors framework**

The current state of trade with sub-Saharan Africa is just a sliver of what remains possible. According to IFPRI, Africa remains an under-trader, with the potential to go well beyond its current tiny share of world trade.<sup>20</sup> Trade with Europe and the United States remains low. Total U.S. imports from sub-Saharan Africa vary widely, hitting a low of \$18 billion in 2002 and a high of \$86 billion in 2008, and much of this trade is in energy products. Agriculture accounts for only about \$1.2 to \$1.4 billion per year. European trade with sub-Saharan Africa is significantly higher overall, with agricultural exports to Europe totaling around \$20 billion per year. As noted above, trade is now

<sup>16</sup> For a more detailed analysis of the “demand-driven” approach and a case study of five East African countries—Mozambique, Rwanda, Tanzania, Kenya and Zambia—see the author’s forthcoming work with the German Marshall Fund.

<sup>17</sup> See Bouet, Laborde and Mervel 2007.

<sup>18</sup> See Overseas Development Institute and the European Centre for Development Policy Management 2008.

<sup>19</sup> The U.S. House Ways and Means Committee and Senate Finance Committees have jurisdiction over trade policy. Authorizations for development assistance, including economic growth funding which covers trade capacity building assistance, must be coordinated with the House Foreign Affairs and Senate Foreign Relations Committees, and the House and Senate Appropriations Committees are responsible for actually committing funds.

<sup>20</sup> Africa’s share of world exports has declined sharply, going from about 5.5 percent in 1975 to about 2.5 percent in 2002. These losses in world trade have cost Africa almost \$70 billion per year. See Saswati Bora, Antoine Bouet and Devesh Roy, “Research Brief: The Marginalization of Africa in World Trade,” Washington, DC: IFPRI Brief, 2007.

declining due to the global financial crisis, so 2009 will show less trade than previous relative highs.

Africa's trade has been limited for several interconnected reasons. It has failed to diversify into new products and has seen falling market shares for traditional exports.<sup>21</sup> As discussed above, sub-Saharan Africa lacks infrastructure, regional markets remain weak, and many products have difficulty reaching regional and international markets. In many cases, African policies limit opportunities for trade and investment, and numerous local and regional barriers persist. As a result, Africa's markets are often unable to generate sufficient economies of scale to attract the sort of private sector investment needed to fuel growth, increased exports and, ultimately, poverty alleviation. Small producers, in addition to lacking technical knowledge and capacity, often remain cut off from the established commercial enterprises that could provide a link to larger, more profitable markets, and many continue to operate largely outside of a functioning market system.

European and U.S. trade and development policies undoubtedly have a significant role to play,<sup>22</sup> but international policies will not have as great an impact as is possible unless they address industries most important to Africa, including agriculture, and complement the Africans' own initiatives to build regional markets and address needs and barriers on the ground. The main constraints to trade, including intra-African trade barriers and weak infrastructure, are within sub-Saharan Africa,

not in international markets.<sup>23</sup> Policy change internationally has to be met with internal policy change, and African political will is a critical driver.

The only real solution is to meet the Africans halfway. Given the size of the continent and the scale of the infrastructure and capacity gaps, a comprehensive framework around which to align developed country and African interventions would help achieve more significant results and economies of scale. As mentioned above, this framework exists not in the RECs but in an African movement around unlocking the development potential in trade and transport corridors, often referred to as "Development Corridors."

The Development Corridors movement consists of building out existing roads and railways that link mines and other investments to regional markets and ports in order to bring farmers and other small producers into a system that can move food, goods, services, and information. There are 26 official corridors as identified by the New Economic Partnership for African Development (NEPAD), and they criss-cross the continent. In many cases, as Development Corridors, they may hold the potential for true sustainable development, similar to corridors that spurred development in ancient Rome, industrializing Europe, and 20th-century United States.

At a recent meeting of the WTO General Council, the top trade official of Zambia intervened and asked WTO members to make the Development Corridors part of trade and development policy with sub-Saharan Africa. While the Development

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<sup>21</sup> Bora, Bouet and Roy 2007.

<sup>22</sup> Over the long run, open global trade would have a significant impact on developing country income. One estimate predicts possible gains of around \$200 billion per year. See William Cline, *Trade Policy and Global Poverty*, Washington, DC: Center for Global Development, 2004.

<sup>23</sup> Weak infrastructure and intra-regional trade barriers particularly impact agricultural trade, as do low technology, poor skills, high internal taxes, continued dependence on a small number of commodities, high transport costs, the spread of HIV/AIDS and pricing and marketing policies that penalize small farmers. See Todd Moss and Alicia Bannon, "Africa and the Battle over Agricultural Protectionism," Washington, DC: Center for Global Development, 2009.

Corridors have the backing of the Africans, they will require additional resources to modernize and expand infrastructure and build capacity to connect remote rural areas to markets. Given the importance of agriculture to sub-Saharan Africa's future, particular attention will need to be placed on linking poor farmers with commercial markets. The Development Corridors could help build regional integration, more value-added production, and greater economic diversification. Ros Thomas, an expert in African spatial development and a former senior official at the African Development Bank, estimates that trade could expand by \$250 billion over the next fifteen years if the Development Corridors receive adequate support.<sup>24</sup>

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<sup>24</sup> Rosalind Thomas, "Trade Corridors in Africa—Connecting Markets: Development Corridors and SDIs—an African Private Sector-Led Growth Strategy," presentation to the Paul Nitze School of Advanced International Studies, Johns Hopkins University, Washington, DC: October 2008.

# RECOMMENDATIONS

A new approach to trade with sub-Saharan Africa is within reach and could complement new directions in African policy. The following recommendations summarize the suggestions contained in this essay.

## 1. Establish open, transparent international markets for all trade from sub-Saharan Africa

Access to international markets should be comprehensive, simple to use, and reliable, and it should complement, not complicate, regional trade opportunities. Developed countries have already shown leadership in this area, so expanding and maintaining market access for sub-Saharan Africa should be within reach. Open international markets across sectors, including agriculture, are critical if sub-Saharan African economies are to grow and diversify.

A comprehensive, duty-free, quota-free program for the region as a whole, covering 100 percent of trade that contains transparent, simple rules of origin and allows for regional cumulation would work best as a first step for encouraging trade within sub-Saharan Africa and between the region and the rest of the world. Such preferential access to developing country markets is only a beginning, and it should pave the way for further liberalization on local, regional, and multilateral levels.

## 2. Focus on developing regional markets in sub-Saharan Africa by coupling market access with demand-driven assistance

Functioning regional markets in sub-Saharan Africa would open up opportunities for Africa's farmers and businesses along entire supply chains and would help Africa meet the challenges of food security and climate change. Improving regional markets involves facilitating the connection between supply and demand and focusing on specific needs in addressing many of sub-Saharan Africa's capacity gaps, e.g., improved infrastructure, transport, customs

and storage, and targeted training for farmers and other businesses in areas like standards and SPS. Better regional markets would also create meaningful opportunities for developed country businesses in the short- and long-term.

As countries implement Aid for Trade commitments, and as the WTO continues to work in this area, the focus should be both on creating functioning regional markets that allow the broadest economic participation and on responding to the specific needs and opportunities identified by developing country market participants. U.S. and European processes that integrate trade policy with development goals should be part of this leadership. The United States and Europe should also work with the private sector in these efforts in order to leverage financial resources and expertise, integrate smallholder farmers into existing and sustainable supply chains and commercial systems, and support the transfer of best practices from successful businesses to smallholder farmers.

## 3. Make African agricultural markets a key component of global food security initiatives

Africa's potential lies in agriculture, and poverty reduction and increased food security will not succeed without focusing on linking smallholder farmers to commercial systems and connecting farmers to open, functioning markets. In order to be sustainable, trade and food security efforts must focus on increasing agricultural market capacity within Africa itself. However, this must go beyond subsistence farming. In order to feed a growing and increasingly urban population, African farmers must have an incentive to increase their productivity—and just like any other business, productivity will not increase unless markets are available in which to sell surpluses.

Ultimately, a secure food supply for Africa will come from a combination of regional

*Comprehensive approaches that address all steps in getting products to market will help ensure that farmers can take advantage of opportunities to trade.*

intra-African and domestic food trade, as well as imports of certain foodstuffs from abroad—exactly the way that populations are fed in other regions of the world. This flow of food, as well as the necessary incentives for increasing productivity, will only happen as a result of improved infrastructure all along the value chain that connects producers to markets in a reliable way. This means roads, cold storage, ports, electricity, and other infrastructure investments must be a central policy focus.

In the international policy realm, the United States and Europe should support initiatives to increase food security and can simultaneously open their markets to African agriculture at little cost to domestic producers. Europe's relaxation of its sugar program for LDCs through EBA has already shown the immediate job-creating potential of a change in policy. Comprehensive approaches that address all steps in getting products to market will help ensure that farmers can take advantage of opportunities to trade.

#### **4. Support African initiatives, including the Development Corridors**

African political and economic leaders are behind the Development Corridors, and the political will is growing to bring about real change. By supporting the Development Corridors, donors could better prioritize and leverage their investments, and the common framework the Development Corridors provide would bring stakeholders together in a targeted and systemic way. As major donors, Europe and the United States can take the lead, working closely with the Africans, the private sector, and public-private partnerships. Through the Development Corridors, barriers to trade on the ground, including infrastructure deficiencies, transport links, storage, the lack of economies of scale, and local and regional trade policies, can be identified and addressed, creating the force multiplier for change that could open up

opportunities within sub-Saharan Africa and between Africa and the rest of the world.

#### **5. Coordinate transatlantically and within U.S. and European governments**

Coordination between the United States and Europe should increase wherever possible, including on food security initiatives and dialogues on regional integration in sub-Saharan Africa. Within U.S. and European governments, dialogues that bring diverse expertise to the table on all sides, like the U.S. Trade and Investment Framework Agreements (TIFAs), are good models that should be prioritized and more extensively used. Working across government agencies is also important; for example, the United States could comprehensively promote sustainable development and regional markets in sub-Saharan Africa by coordinating resources and programs across agencies, including the U.S. Department of Agriculture, the U.S. Agency for International Development, the U.S. Department of State, the Millennium Challenge Corporation, the U.S. Export-Import Bank, the U.S. Overseas Private Insurance Corporation, the U.S. Trade and Development Agency, the U.S. Department of Treasury, and others.

#### **6. Continue to work through the WTO**

Europe, the United States, and other countries could implement a comprehensive strategy to trade and development policy with sub-Saharan Africa that would complement an eventual Doha deal and help African countries see the benefits of open trade. A package that includes duty-free, quota-free preferences, aid for trade/trade capacity building, and trade facilitation would make a big difference and would give the African countries a stake in the process. Doing this now would show sub-Saharan Africa that trade can have a positive impact, and extra market access would become a meaningful tool instead of a painful concession.



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