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AFRICAN GLOBAL COMPETITIVENESS INITIATIVE

THE ECONOMIC ENVIRONMENT IN SUB-SAHARAN AFRICA

MARCH 2009

KNOWLEDGE SHARING AND ANALYSIS

CONTENTS

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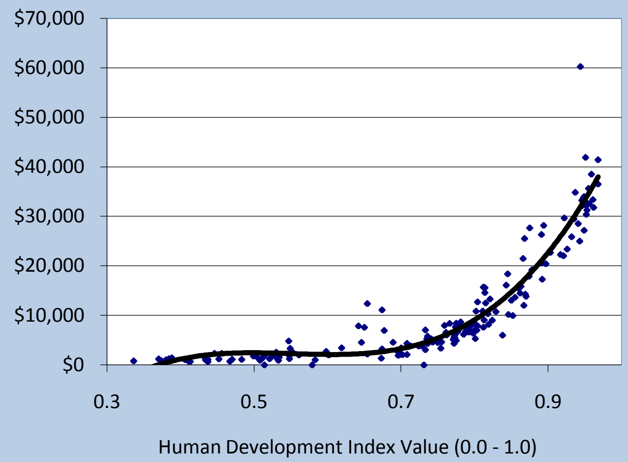
Sub-Saharan Africa is the poorest region in the world today. More than 40 percent of its 800 million people are living on less than one dollar a day.[1] *Child mortality rates for the region are the highest in the world with one in six children dying before the age of five.*[2] *The challenge for the developing world in general, and Africa specifically, is to identify and promote the means of reducing poverty and alleviating its effects.*

Donor agencies have done much to address the needs of the poor, including providing vital food aid, improving underserved peoples' access to education, and addressing public health issues such as malaria and HIV—diseases that disproportionately affect the poor. Now the prevailing challenge is to address the causes of poverty.

TRADE AND COMPETITIVENESS HELP ALLEVIATE POVERTY

In looking at global poverty figures, the United Nations Development Programme Human Development Index shows a strong correlation between increased level of GDP per capita and improved quality of life (*see Figure 1*). For African countries, a key driver of poverty reduction is promoting trade and competitiveness to achieve sustainable growth in income and prosperity.

FIGURE 1. WORLD HDI – GDP (PPP) CORRELATION, PER CAPITA, 2007



Source: UNDP *World Human Development Index* and IMF

How to achieve lasting economic growth in developing countries is a topic of debate among leading policy makers. The promotion of trade is one of the proven methods to increase GDP and, by extension, to alleviate poverty. Competitiveness is a key driver of trade. Competitiveness refers to the set of institutions, policies, and factors that determine the level of productivity of a country. By improving productivity and enhancing the efficiency with which goods and services are produced within a given economy, competitiveness along with trade can bring about increased prosperity. To compete in world markets calls for a strategy of removing trade barriers as well as increasing the workforce, productivity, and sophistication of a developing economy.

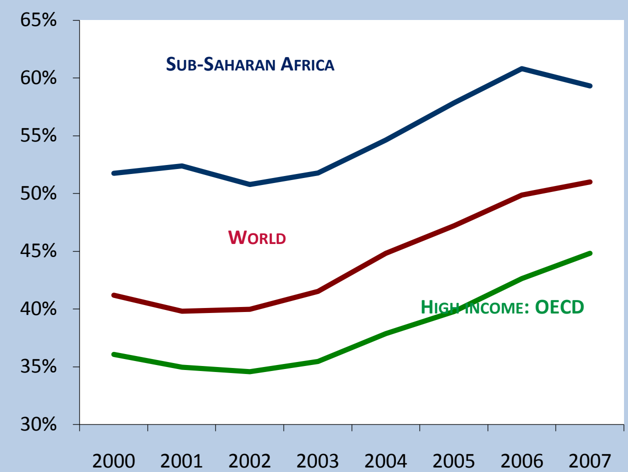
Nowhere is trade more significant to the economies of the developing world than in Sub-Saharan Africa. Although most countries in the world have seen their share of trade as a percentage of their GDP expand over the past few years, Africa has always had a much larger share—rising to 60 percent in recent years (see *Figure 2*).

Trade performance is therefore of special relevance for Africa, which exported 87.7 percent of the value of its exports outside of the continent in 2007. Even countries that are more integrated into the economies of the region, such as Kenya and Senegal, export only slightly more than 40 percent of their goods to other African countries. This signals that many economies in Africa need to be developed further so as to engage in more comprehensive trade portfolios that include African as well as non-African regions.

[1] United Nations Development Programme, *Human Development Report Statistics*, 2009
[2] UNICEF, *State of the World's Children*, 2008

Global evidence shows that trade is increased through a variety of means. This includes improving competitiveness, removing tariffs and other trade barriers, improving the environment for trade, increasing access to electricity, telecommunications, and transport, and directly assisting firms that are ready to export. It is also important to look at other methods of trade promotion, such as training, employment, and business development services. Above all, trade promotion should respond to the tailored needs of individual countries, industries, and firms.

FIGURE 2. TRADE VALUE AS PERCENTAGE OF GDP, 2000–2007



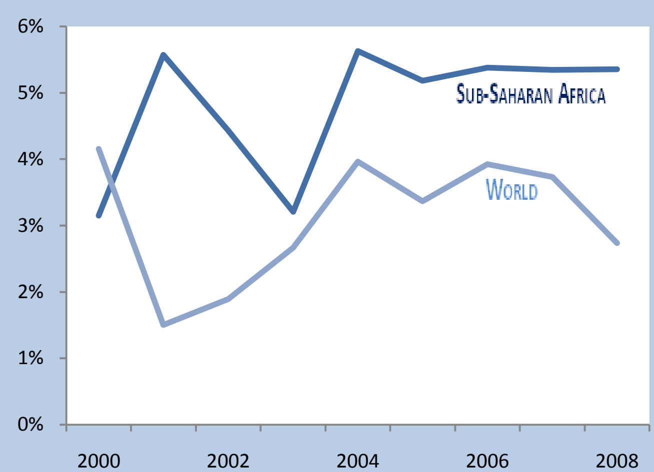
Source: World Bank

Trade and competitiveness are the keys to improving the quality of life for many Africans. The region as a whole has made great strides in promoting trade and increasing the overall competitiveness of its economies. These gains have resulted in tangible GDP growth and a very real reduction in poverty. If Africa is to maintain this progress in the coming years, it is essential that further steps be taken on the part of all stakeholders—private, nongovernmental, and public—to promote trade and continue its growth—especially given the current economic situation.

THE CURRENT ECONOMIC SITUATION

Although Africa has seen unprecedented growth in recent years, recent shifts in the global economic climate have made the future far from certain. The downturn in global growth, the declines in most commodity prices and tighter credit have significantly worsened the economic outlook for Sub-Saharan Africa. Furthermore, the food and fuel price shocks of 2007–08 that preceded the current global financial crisis weakened the external position of net importers of food and fuel, caused inflation to accelerate, and dampened growth prospects. Risks are rising and it is uncertain how long the crisis will last.[3]

FIGURE 3. GDP GROWTH AFRICA VS. THE WORLD, 2000–2008



Source: IMF

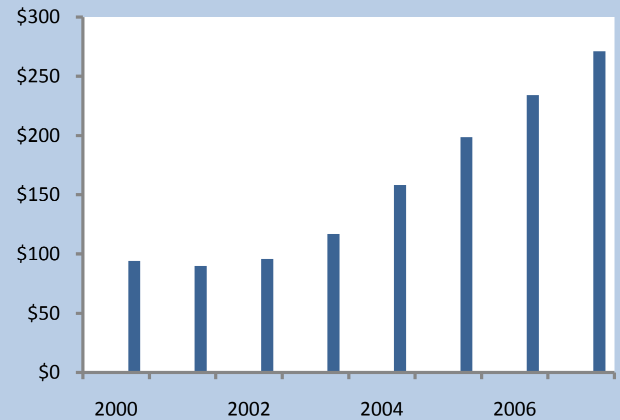
[3] IMF, Impact of the Global Financial Crisis on Sub-Saharan Africa, 2009

HISTORIC GROWTH TRENDS

Recently, the scope of Africa's growth has been remarkable. As shown in *Figure 3,* Africa's growth has consistently outpaced that of the world average over the past eight years.[4] This growth is due, in large part, to the increase in commodity prices seen in recent years, particularly in terms of petroleum revenues. Petroleum-rich countries like Nigeria, Angola, and Equatorial Guinea have seen their economies double and even triple in the past decade. This growth has not only benefited petroleum-rich countries but all the African countries, with the exception of Zimbabwe, have seen their GDP per capita purchasing power parity (PPP) rise in 2008.[5] In Sub-Saharan Africa, the median increase for GDP per capita averaged 5.7 percent from 2000 to 2008, as compared to an average of 3.3 percent between 1992 and 2000.[6]

As shown in *Figure 4*, exports from African countries to the rest of the world grew by an average of 19 percent from 2005 to 2007. Even non-petroleum-exporting countries saw considerable gains in trade, averaging more than 14 percent growth during the same period.[7] This boom in trade can be attributed to factors such as rises in the price of commodities, the lowering of trade barriers by African countries, and increased access to global markets—especially in Asia.

FIGURE 4. SUB-SAHARAN AFRICA EXPORTS TO THE WORLD
($ billions at current prices), 2000–2007



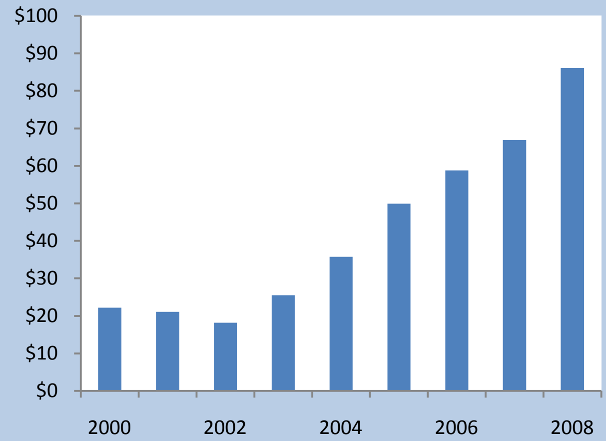
Source: WTO

Trade with the United States has followed similar patterns (see *Figure 5*). AGOA[8], which was established in 2000, removed many of the tariffs that had previously hampered exports. Exports from AGOA-eligible countries in 2001, the first full year of implementation, were approximately $20 billion. In 2008, the figure had risen to more than $80 billion with the majority of this growth from petroleum-exporting countries. In 2008, petroleum imports alone accounted for 78.7 percent of all the goods exported to the United States from Sub-Saharan Africa, up from 65.1 percent in 2001. This trend illustrates that although much of the growth is fueled by higher commodity prices, there has been a growing awareness on the part of African governments that diversification is necessary for sustained economic growth.[9] As a result, many countries have invested in value-adding industries, particularly in the textiles and clothing industries, and in more agricultural goods.

4 IMF, *World Economic Outlook Database,* 2009
5 Somalia is not included in this data
6 IMF, *World Economic Outlook Database,* 2009
7 WTO, *International Trade Statistics,* 2008
8 AGOA is a free trade agreement between the United States and several Sub-Saharan African nations. The act expands the list of products that eligible Sub-Saharan African countries may export to the United States subject to zero import duty under the Generalized System of Preferences.
9 IMF, *African Economic Outlook*, 2008

In addition, African countries have made great strides in reducing barriers to trade. Most African countries are part of free trade agreements with either the European Union or the United States, as part of the Cotonou Agreement[10] or AGOA, respectively. This is demonstrated partially in the increase in exported goods from non-petroleum-exporting countries, particularly through imports from AGOA-eligible countries. Many African countries have also undergone the strict austerity measures of the International Monetary Fund and World Bank, and/or have demonstrated a commitment to improve their standing in global benchmarking rankings such as *Doing Business* or the *Global Competitiveness Report*. These efforts also reduce official barriers to trade.[11]

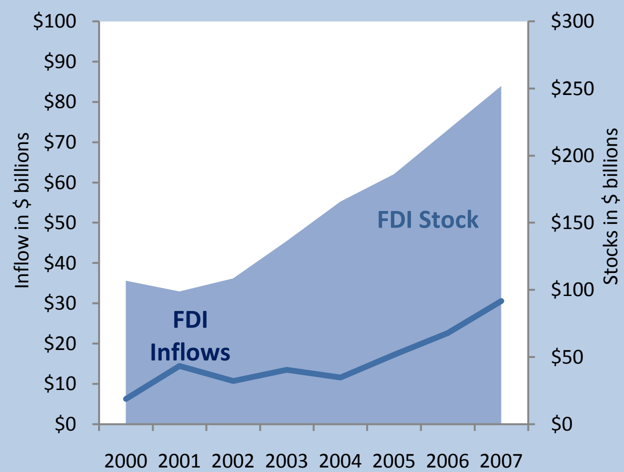
FIGURE 5. SUB-SAHARAN AFRICA EXPORTS TO THE UNITED STATES ($ billions at current prices), 2000–2008



Source: USITC

Certain factors have undoubtedly contributed to the growth of Africa's economies. Given the levels of poverty and stagnation that permeated the continent in the 1980s and 1990s, it is not surprising that once many countries had stabilized their economies or emerged from conflict situations, any growth was bound to be substantial, albeit from a very low baseline. One of the biggest drivers of recent growth has been the increase in commodity prices. Although petroleum-producing countries are the biggest and most obvious beneficiaries of recent price increases (and potentially the biggest losers in the current economic slowdown), other commodities, such as copper, gold, and agricultural goods, have led to an increase in export earnings for many African countries. This is linked to another factor in the increased growth of African economies—increased world trade. African countries as a group are more reliant on trade to drive their economies. Given this factor, it is not surprising to see that the increased level of world trade would have a disproportionately beneficial effect on African economies. Conversely, the current decrease in world trade will certainly have an adverse effect on economic growth in Africa.

FIGURE 6. FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA ($ billions), 2000–2007



Source: World Investment Report 2008, UNCTAD

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10 The Cotonou Agreement, entered in force in 2003, provides for reciprocal trade agreements between the EU and signatory countries in African, Caribbean, and Pacific (ACP) regions, meaning that the European Union provides duty-free access to its markets for ACP exports and that ACP countries also provide duty-free access to their own markets for European Union exports.

11 IMF, *African Economic Outlook*, 2008

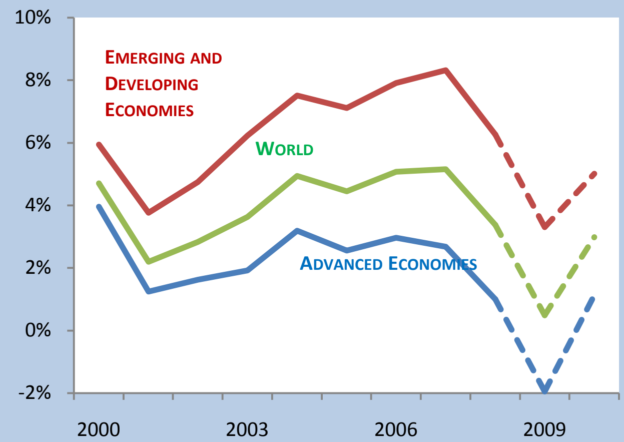
Finally, foreign direct investment has also been increasing across the continent. While much of this investment has been in petroleum-producing countries like Nigeria and Angola, countries such as Cote d'Ivoire, Tanzania, and Zambia have all seen their share of continental foreign direct investment rise. Overall, investment from the world has been increasing at a significant pace across the continent, growing by approximately 250 percent since 2000 (See *Figure 6*).

GLOBAL FINANCIAL CRISIS

The considerable growth of many countries in Africa in recent years, especially Botswana and Ghana, brought major hope that Africa's growth prospects would not be severely affected by the global financial crisis. African trade to the United States reached more than $80 billion in 2008, a 25-percent increase from the previous year. However, it is clear that Africa is facing a new challenge from the global financial crisis, which is rapidly becoming an unemployment crisis.

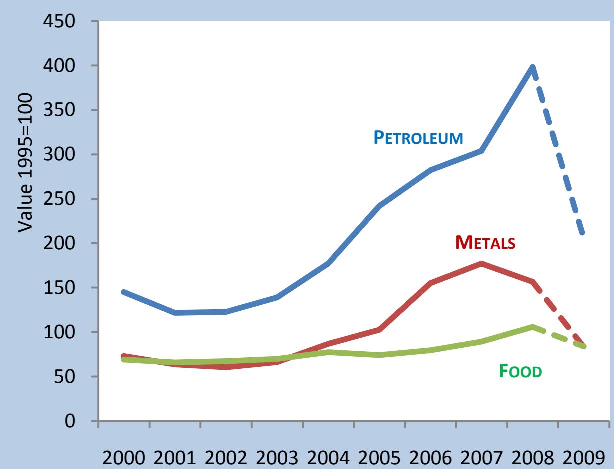
The outlook for economic growth in Sub-Saharan Africa in 2009 worsened in the first quarter of 2009. With the expectation of a more pronounced global downturn, lower commodity prices, and pressure on capital flows, the IMF projected in January 2009 that growth in all emerging economies would slow from 6 percent in 2008 to 3 percent in 2009— some three percentage points lower than forecast a year ago (see *Figure 7*).[12] For Sub-Saharan Africa, the dampening of growth stems in large part to the decrease in demand for exports in petroleum, metals, and food (see *Figure 8*).

FIGURE 7. PROJECTIONS FOR GDP GROWTH
Percentage change,2008–2010



Source: IMF World Economic Outlook Update, 2008

FIGURE 8. WORLD COMMODITY PRICE FLUCTUATIONS,
baseline index 1995 = 100, 2000–2009



Source: IMF World Economic Outlook Update, 2008

Although annual inflation has started to decline, it remains high in many countries, largely because of the fuel and food price increases through mid-2008. Fiscal balances are expected to deteriorate significantly as tax revenues decline, especially those that are commodity-related. For Sub-Saharan Africa as a whole, the fiscal balance could decline by about six percentage points of GDP, from a surplus to a deficit of approximately 4 percent of GDP. The negative

[12] IMF, *Impact of the Global Financial Crisis on Sub-Saharan Africa*, 2009

terms of trade shock to commodity exporters is also widening current account deficits, by some four percentage points of GDP to 6.75 percent in 2009, though with significant divergence between groups of countries.[13]

There are two main channels through which effects from the crisis are affecting Africa: the trade channel and the financial channel. Whereas the former produces the deep, sustained drop in income that could devastate many African firms and reverse recent gains in growth, the latter is immediate because of cross-border financial linkages or integration brought about by globalization,.

The trade channel. The trade channel has a lagging effect and will take time to be felt. Trade constitutes a significant part of Africa's economy, and the level of trade has been rising over the years. In the past few decades, global trade growth rates have consistently outpaced global GDP growth rates, so global trade-to-GDP rates have also been rising rapidly. Nonetheless, recession prospects in the United States and Europe will affect the ability of these markets to import from resource-rich African countries.

The global slowdown in economic activity has pushed commodity prices down, with negative effects on African export earnings and the external current account, fiscal revenues, and household incomes. Commodity exporters face a major deterioration in terms of trade. IMF research shows that in the past one percentage point slowdown in global growth has led to an estimated half percentage point slowdown in Sub-Saharan Africa. The effects may be more pronounced this time because the tightening of global credit compounds the impact of the slowdown, exacerbating risks for trade finance and other capital flows.[14]

In the last quarter of 2008, most commodity prices declined due to reduced demand linked to the economic crisis. There are signs that demand for raw materials has decreased from so-called "new investors" like China and India, and there are reports that prices of futures on soft commodities such as sugar, soya bean, wheat, maize, and coffee have also seen some losses despite the ongoing world food crisis. This has both positive and negative impacts on Africa. For African countries that rely on exports of commodities to global markets, a reduction in export prices might affect their incomes. A reduction in the price of soft commodities, on the other hand, would come as a relief to African countries that rely on food imports to meet their food requirements and have been struggling due to the recent global food prices crisis.[15]

Given the current global economic slowdown, one can therefore ask what are the prospects for Africa's growth through trade? Commodity exports will still be an important component of African trade. However, this trade will not be at the same level as before, and prices of most commodities will decrease as global demand decreases. This will be further worsened by the predicted deep and potentially long-lasting recession in the industrial world. This situation is further exacerbated by the fact that the financial crisis is affecting the European Union more severely than the United States. The Europe Union is an important export destination for Africa and still dominates Africa's trade and investments. Hence, the impacts of the trade channel will depend on how long the current global financial crisis lasts.

The financial channel. The present financial crisis is affecting financial systems in African countries differently, depending on the quality of those countries' financial sectors. Through their financial links with other regions in the world, South Africa, Nigeria, Ghana, and Kenya were hit first, suffering falling equity markets, capital flow reversals, and pressures on exchange rates. Ghana and Kenya had to postpone planned borrowing, and in South Africa and Nigeria external financing for corporations and banks is becoming scarce. Some other observed effects include:

- Weakened local investor confidence in equities and bonds on African stock exchanges;

[13] ibid
[14] IMF, *Impact of the Global Financial Crisis on Sub-Saharan Africa*, 2009
[15] South African Institute of International Affairs

- Return to ultra-conservative lending practices;
- Losses arising from central bank reserve management practices;
- Renewed debate on the role of governments in the financial system; and
- Weakened balance sheets resulting from a downturn in the real economy.

END OF THE COMMODITY BOOM AND FOOD CRISIS

Commodity prices that are strategic to Africa have dropped recently, particularly for petroleum, but also in other minerals as well as agricultural goods. This decrease has the potential to reduce the value of exports for many African countries, and the heightened uncertainty of these markets may result in less investment in related industries. For example, oil prices fell by more than 50 percent in 2008, and the volatility of the market has yet to abate.[16] Other African commodities have also seen a large drop in world price. Copper and iron ores have decreased by more than 50 percent over the past six months alone.[17] Countries that rely on these mineral exports may be particularly vulnerable to this downturn in prices, particularly if the economic crisis persists. However, not all commodities have fallen in value. Gold and platinum have remained steady or even risen in value.

Shifts in agricultural prices have exposed underlying issues for Africa's domestic economies and their ability to meet the needs of their populations. Furthermore, Africa's reliance on traditional commodities such as petroleum and minerals has left it vulnerable to fluctuations in the world economy. As it navigates the global downturn, Africa will have to rely more on its non-traditional sectors. In this environment, development of non-traditional exports is more important than ever to the health of Africa's economies.

GIRL IN MALAWI. *PHOTO*: H. HARTMANN

Rising oil prices further heightened the costs of fertilizers, food transport, and industrial agriculture. The increased usage of biofuels in developed countries and the demand for a more varied diet (especially meat) across the expanding middle-class populations of Asia also contributed to a dramatic worldwide rise in food prices in 2008.

Food crises are a global challenge that affects poor people across the world. Sub-Saharan Africa is at the eye of the storm of the global food crisis. A third of Africans suffer from malnutrition, and more than 120 million Africans—Africa's "ultra poor"—endure chronic hunger. Globally, a majority of the countries facing food security crises and related demonstrations are in Africa. In West Africa alone, eight countries have experienced riots and demonstrations related to high prices, posing threats to peace and stability. The dramatic rises in world food prices have been linked to the 2007–08 commodity boom. Long-term causes include structural changes in trade and agricultural production, agricultural price supports and subsidies in developed nations, diversions of food commodities to high-input foods and fuel, commodity market speculation, and global climate change. The initial causes of the late-2006 food price spikes included unseasonable droughts in grain-producing countries and rising oil prices. As of the end of 2008, food prices have fallen significantly from their earlier highs, although some observers believe this decrease may well be temporary.

[16] IMF, *World Economic Outlook Database* 2009
[17] London Metal Exchange, *Price Graphs*, 2009

ENERGY POVERTY

An affordable, reliable energy supply is critical to competitiveness. Sub-Saharan Africa has made strides in expanding its manufacturing base, moving toward value-added production, and trading competitively in the global marketplace. Nevertheless, as noted by the African Development Bank, World Bank, and others, demand for energy far outpaces supply, and the continent faces a financing gap for infrastructure development.

According to the International Energy Agency in its 2008 *Global Outlook*, globally there are "two central challenges facing us today: securing the supply of reliable and affordable energy and effecting a rapid transformation to a low-carbon, efficient, and environmentally benign system of energy supply."[18] The price volatility seen in 2008 is expected to continue for the near term. Increases in oil prices in the long term are particularly challenging for those lesser-developed countries that rely on petroleum imports for energy production.

Compared with other world regions, Africa fares poorly in the cost, supply, and reliability of energy. According to the World Bank, the 48 countries of Sub-Saharan Africa (with a population of 800 million) generate approximately the same amount of power as Spain (with a population of 45 million).[19] World Bank business surveys have consistently ranked the cost and reliability of power among the top constraints for investors in most Sub-Saharan countries. Overall, Africa has significant potential for domestic energy production, including from coal, petroleum, natural gas, hydropower, and various renewable energy sources like solar and geothermal. However, these resources are unevenly distributed, leaving many countries unable to meet domestic power demands. The World Bank estimates that 21 of the 48 African countries are unable to generate the minimum threshold of 200 MW of electricity generation. Although progress has been made in integrating the continent's small national energy markets through regional power pools, the reality today is that only the Southern African Power Pool sees significant cross-border energy trading.

The potential for Africa to develop as yet untapped sources of energy—particularly hydropower, solar, wind, geothermal, and other renewable sources of energy—is considerable. However, to do so, a significant revitalization of the continent's energy sector is required to attract the necessary private investment. Not only does Africa need to continue to create viable regional power pools, but also the enabling environment for investment in the power sector requires reform in many countries. The deficit in investment in energy in Africa is larger than for other infrastructure sectors, estimated by the World Bank to be $42.6 billion a year in new capacity and operations and maintenance.[20]

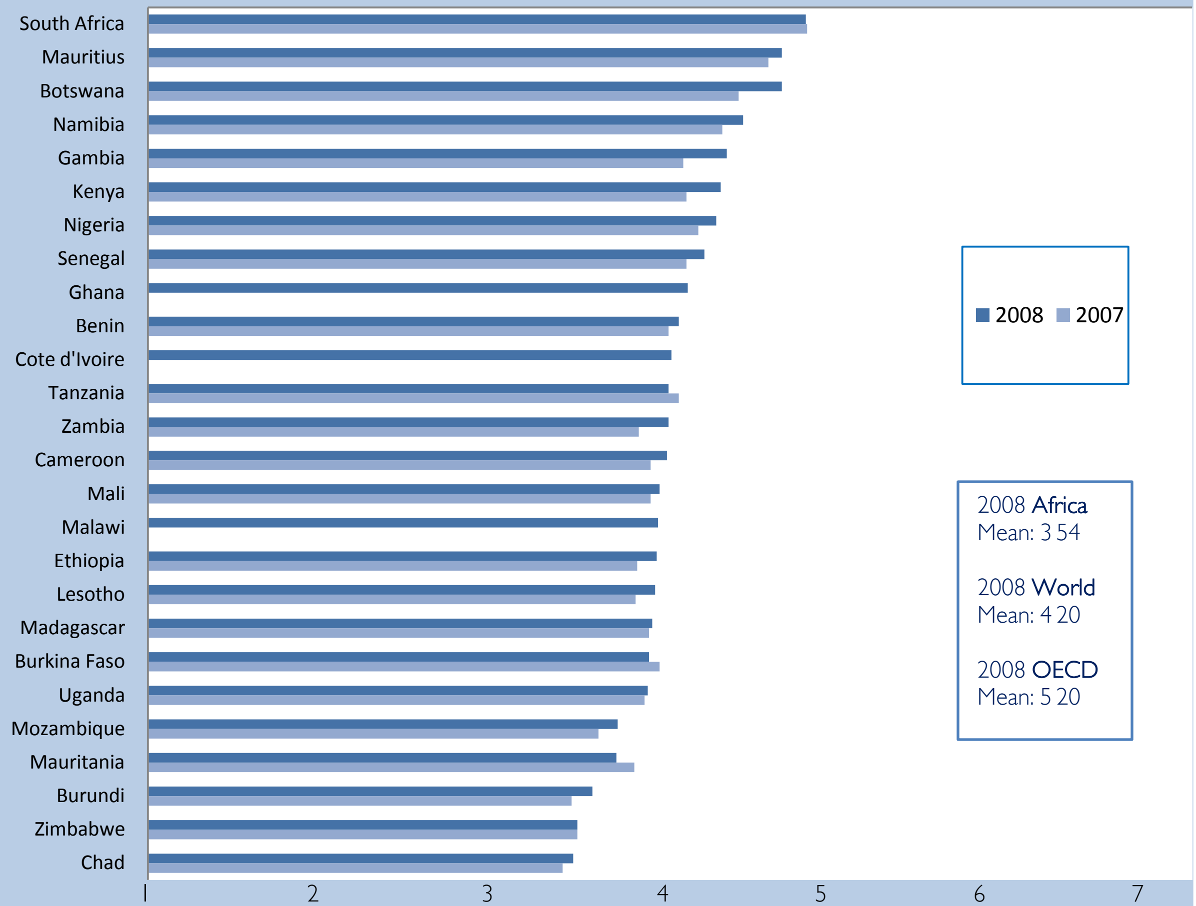
WHAT NEEDS TO BE DONE

A nation's level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens. National competitiveness is particularly important for small economies that rely on trade and foreign direct investment to provide the scale necessary to boost productivity to drive increases in living standards. Because African countries typically embody these characteristics, the ability to compete in the global marketplace is critical to economic growth and poverty reduction (see *Figure 9*).

Recognizing the urgency of enhancing Africa's competitiveness to improve living standards, the continent has benefited from a renewed focus and increased attention from several institutions from within the region and beyond. Within the region, the effort that has probably received the most attention is the New Partnership for Africa's Development. Such regional trade integration efforts are joined by the various institutions of the African Union and the African

[18] International Energy Agency, 2008, *World Energy Outlook 2008*, pg. 3
[19] The World Bank, 2008. *Africa Infrastructure Diagnostic,* pg. 2
[20] The World Bank, 2008. *Africa Infrastructure Diagnostic,* pg. 8

FIGURE 9. GLOBAL COMPETITIVENESS INDEX SCORE FOR AFRICAN COUNTRIES, *2007–2008*



Source: World Economic Forum, The Global Competitiveness Report, 2008

Development Bank, as well as a number of regional economic communities that are pursuing the economic integration of the continent's major sub-regions.[21]

To improve Africa's competitiveness and trade profile, it will be necessary to increase the number and variety of African firms and farms that can compete in the global economy. For those economies that are already close to global markets, this involves building capacity to export competitively. For those countries that are not yet globally integrated, this involves increasing their trade profile, primarily with their neighbors, through deeper regional integration. In turn, these objectives require support in three distinct, yet related areas: improving economic governance and institutional capacity, investing in infrastructure, and spurring the private sector to trade.

IMPROVING ECONOMIC GOVERNANCE AND INSTITUTIONAL CAPACITY

Africa has proven that it can compete on the global stage. It has seen a period of sustained economic growth, increasing democratization, and a reduction in the number of conflicts that have long plagued the continent. An important reason for these successes is improved economic governance in Sub-Saharan Africa. In 1995, USAID and the World Bank collaborated on the first investor roadmap—a thorough diagnostic of the administrative, regulatory,

[21] World Economic Forum, *African Competitiveness Report, 2007*

and procedural barriers to investment. Since then, the importance of improving economic policy and its implementation have gained widespread support within African decision-making circles. African countries have made significant strides in the past two decades to respond to the economic governance issues confronting them. The results in terms of increased investment, improvements in trade competitiveness, and reduced cost and time associated with trade and investment have been manifest.

Yet, more work needs to be done. As USAID's own research attests, even in some of the best-run countries like Botswana and Mauritius, there are opportunities for improvement in the policy, legal, and administrative frameworks that govern private sector activity. For many African countries, improving administrative procedures, regulations, laws, and policies remains a priority. Eliminating corruption and introducing modern information and communication technology systems are also important for many African states. As demonstrated in the annual *Doing Business* surveys, African progress on these issues is mixed. Although the indicators reveal an African "reform leader" year after year, many African states tend to remain at the bottom of the global rankings.

Increasingly, making regional integration work at the practical level is an important aspect of improving economic governance in Sub-Saharan Africa. With few exceptions, Africa comprises small national markets that are poorly connected with low levels of intra-regional trade. Through the continent's regional economic communities, much progress has been made in harmonizing procedures and policies to foster increased trade and investment, but more needs to be done. Building institutional capacity underpins efforts in this area. This involves strengthening the capacity of relevant public institutions to be able to take on the responsibility of acting as true partners to develop a country's or sector's trade and competitiveness profile.

Competition provides the most powerful incentive for producers to raise productivity. Where markets are open to entry by new firms, existing producers must continue to behave as entrepreneurs, working relentlessly to improve their products and reduce costs in order to stay in business and earn profits. Instead, governments in many developing (and developed) countries shelter established producers from competitive pressure, undermining incentives for higher productivity. It is in this arena—encouraging host country governments to adopt policies and practices of economic governance conducive to competition and productivity, and helping build the institutional capacity needed to develop and apply growth-supporting policies—that USAID can play the strongest role in supporting economic growth.

INVESTING IN INFRASTRUCTURE

Regional infrastructure integration remains an important priority for Africa. The continent today continues to be largely fragmented and poorly interconnected in terms of energy markets, transport corridors, and fiber optic connectivity. At the administrative and policy level, trading among neighboring African states can be as expensive and cumbersome as trading with distant countries in Asia. The challenges facing Africa require new investment in infrastructure. Taken as a whole, the World Bank estimates that 12 percent of Africa's GDP would need to be spent each year to close the infrastructure gap in energy, telecommunications technology, transport, and irrigation and wastewater.[22]

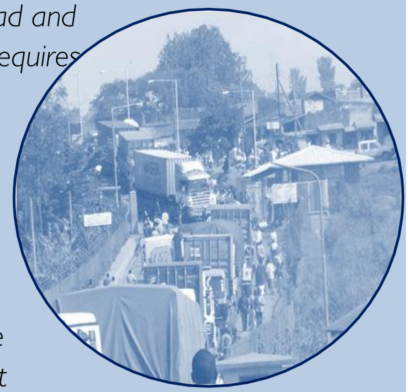
It is widely accepted that closing Africa's investment gap in infrastructure cannot be accomplished through public and donor funding. The private sector must help underwrite the cost of energy, telecommunications, and transport in Africa. Today, largely through indigenous and foreign private investment, Africa is closing the gap in access to telecommunications technology, especially in urban centers.

[22] World Bank, 2008 *Africa Infrastructure Country Diagnostic,* pg. 8.

Africa has also seen several examples of successful private investment and management of the continent's ports. However, private investment in energy and transportation infrastructure has lagged behind demand, prompting many countries to adopt policies, regulations, and procedures to encourage private capital flows into infrastructure.

A critical challenge for Africa is creating favorable conditions that will enable it to compete for private investment in infrastructure. According to the International Energy Agency, the current global financial slowdown is not expected to affect long-term energy investment but could delay planned projects. USAID's own research suggests that investment in Africa's energy sector could be negatively affected as multinational energy companies scale down new investment and focus on established and less-risky markets.

Despite good progress in Southern and East Africa, as a whole, Africa's transport sector remains underdeveloped. In addition, given its size, the continent's road and rail density is sparse. Linking productive centers with seaports and airports requires continued investment and improvements in policy and administration, especially as more goods flow across national borders. According to the World Bank, average road freight tariffs in Africa are approximately three times those found in other developing regions. Although there have been measurable improvements in recent years, container-processing times in many African ports are about twice the world average. Given the relatively low volume of goods traded between Africa and its trading partners and the imbalance between exports and imports, waiting time due to inefficient port operations or inadequate infrastructure further reduces an already uncompetitive cost structure for trade.



TRUCKS HELD UP AT BORDER CROSSING. *PHOTO: ECA HUB*

The World Bank estimates that Africa will require $23.2 billion in new investment and $19.4 billion in operations and maintenance annually to close the gap in power supply. The Bank estimates Africa will need $500 million a year in new investment through 2015 in 28 GW of interconnections to make Africa's existing power pools function effectively. At present, only 16 percent of Sub-Saharan Africa's energy generation is traded across borders, and most of this is among the Southern African Customs Union countries.[23]

Increasing access to modern information technology directly affects the competitiveness of firms and governments. Africa has made great progress in opening telecommunications markets to private investment and, today, one in eight people in Sub-Saharan African has mobile phone service. In post-war countries like Liberia and Sierra Leone, mobile phone providers were among the first to invest.

To meet Africa's information technology investment needs, the World Bank estimates new investment would need to reach $800 million and operations and maintenance would cost $1.1 billion a year.

World Bank estimates suggest that rectifying Africa's transport deficiencies would require new annual investment of $10.7 billion and $9.6 billion in operation costs and maintenance, respectively, through 2015.

[23] Op cit, pg. 5.

SPURRING THE PRIVATE SECTOR TO TRADE

Spurring the private sector to trade will require investment in strategic sectors and skill formation (higher education) to enhance productivity and competitiveness and make the transition to manufactured export-led growth.

Some African economies can realistically hope to follow the main Asian model, in which a central component of growth is manufactured exports. This strategy has the advantage of generating broad-based benefits because it creates many jobs. One small African country, Mauritius, has already transformed itself from an impoverished sugar island to a middle-income, diversified modern economy exporting apparel and jewelry through this strategy as well as sugar and tuna. Others, such as Ghana, Kenya, and Madagascar, could follow.

Enterprise development spurs the private sector to trade by accelerating the response to an improving business climate by facilitating the flow of knowledge and expertise to firms and industries that would otherwise adjust slowly. Developing a local capacity to provide business services and education to local firms can help enterprises adapt to changing environments.

Trade capacity building complements and integrates many other economic issues, assisting countries in participating in the global trading system. Training and technical assistance help countries analyze and participate in international trade negotiations, implement commitments made in trade agreements, facilitate the efficient import and export of goods and services, and build the supply-side capacity needed to participate in the global trading system. Trade enhances the competitive forces that drive productivity change and growth. Opportunities in trade capacity building are the focus of a complementary USAID strategy, issued in 2003.

Given the economic environment in Africa, the success of AGCI depends on the ability to reconcile the needs to overcome these economic challenges with proven best practices in fostering economic growth.❖