

Diversifying Inclusive and Mutually Prosperous Trade: The Case for Africa

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Issue

Canada is aiming to diversify its trade and investment partnerships beyond North America and Europe in a manner that advances the inclusive trade agenda in a mutually prosperous way. Canada has an opportunity to pursue innovative approaches to trade diversification by strengthening trade relations with non-traditional partners in Africa.

Background

In 2018, the United States continued to be Canada's largest trading partner. Although the bilateral trading relationship is significant for both countries, Canada's dependence on the United States for trade is disproportionately high, which has increased its exposure to the risks caused by volatile and unstable conditions (Global Affairs Canada [GAC] 2019a). This was exemplified in 2018 through the unprecedented US imposition of tariffs on Canadian steel and aluminum (GAC 2019b). In addition, according to the International Monetary Fund (IMF), US economic growth is projected to decelerate in the short term (GAC 2019a). Therefore, Canada must engage in broader trade diversification to hedge against the potential risks of political uncertainties, trade tensions and protectionist policies.

Since 2017, Canada has diversified trade and supported its inclusive trade agenda with like-minded partners, such as the European Union through the Comprehensive Economic and Trade Agreement, but it has not been successful in the context of partners with divergent values.

For example, in 2018, Canada diversified trade to the Asia-Pacific region through the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (GAC 2020). While the CPTPP is projected to produce long-term economic gains for Canada and decrease Canada's reliance on imports from the United States, the CPTPP does little to advance the social priorities of Canada's inclusive trade agenda, aside from the gender aspect included in the preamble (GAC 2018).

If Canada wants to pursue trade diversification in conjunction with its inclusive trade agenda, it must either renegotiate agreements with existing partners or concentrate on establishing new trading relations in contexts of divergent values. Based on the complex renegotiation process of the North American Free Trade Agreement, which produced the Canada-United States-Mexico Agreement, our findings suggest that the most viable option for Canada is to pursue further geographic trade diversification (Macdonald 2019) by prioritizing greater trade with Africa.

Why Africa?

There are three prominent reasons why trade diversification to the African continent is a viable and beneficial option to pursue. First, there is a strong economic case for trade diversification to Africa. While advanced economies such as the United States and Canada have experienced decelerating economic growth, developing economies, including those in Africa, have experienced higher rates of economic growth (IMF 2020a; African Union and United Nations Development Programme [AU and

UNDP 2019]). This is evident at the subregional level in Africa, where East Africa experienced the highest economic growth (6.2 percent) in 2018, followed by West Africa, which witnessed economic growth of 3.2 percent in 2018 (UNECA 2019). In consequence of increasing economic growth, the International Trade Centre (ITC) has identified significant untapped potential for Canadian exporters in several African countries and subregions, including Ethiopia, Ghana and South Africa (ITC 2020). In addition, David Luke and Phil Rourke (2019) have also identified the African continent as having significant economic potential for Canadian exporters. The strong economic case for pursuing trade relations with African countries has also been realized by the Canadian private sector. In 2020, the Business Council of Canada projected that if Canada develops stronger trade relations with African states, Canadian exports to the continent could reach more than CDN\$92 billion by 2030 (Business Council of Canada 2020).

Second, the ratification of the African Continental Free Trade Agreement (AfCFTA) in 2018 signalled that countries in the AU are preparing to increase trade within the continent through regional integration. Although the AfCFTA has just entered into force, the IMF, the United Nations Economic Commission for Africa and the World Trade Organization predict that in conjunction with continued Aid for Trade (AfT), African countries will be able to address infrastructure gaps and reduce other trade barriers (IMF 2020b; UNECA and World Trade Organization [WTO] 2019). Further, although the AfCFTA does not contain specific inclusive trade provisions, article 3(e) identifies “inclusive socio-economic development” and “gender equality” as general objectives of the AfCFTA. The AU has also signalled its commitment to attaining inclusive development in Agenda 2063: The Africa We Want, which identifies the “empowerment of women, young people, and other disadvantaged groups” as a fundamental goal (UNECA and WTO 2019). Therefore, while the African continent presents an economic potential for Canadians, the AfCFTA and Agenda 2063 also suggest that African countries aspire to expand trading relationships with a focus on ensuring inclusive trade and development in the future.

Third, while Canada has not established trade agreements with African countries, under the Stephen Harper government, Canada acknowledged Africa as a potential region for trade diversification through developing

foundational trade infrastructure (Dawson 2013). While Harper was criticized for overemphasizing the development of trade relations with African countries, his administration’s diversification efforts included negotiating foreign investment promotion and protection agreements (FIPAs) with several African countries. Export Development Canada has also distributed substantial financing and insurance to Canadian exporters operating in Africa (ibid.). Although these developments created an existing trade foundation for Canadian companies, the research reveals that FIPAs provide little more than marginal economic benefit for receiving countries (Babic, Bernardo and Heemskerk 2019). Therefore, in pursuing future trade relationships with African countries, the disproportionate distribution of benefits from existing agreements must be addressed to achieve inclusive trade and shared prosperity.

Benefits

In addition to the identified economic benefits for Canada, trade diversification to Africa would also have significant political and social benefits for Canadians and Africans. First, diversification to Africa could provide the opportunity for Canada to lead as an exemplar and non-exploitative trading partner with African countries. While the United States has initiated the African Growth and Opportunity Act, as well as Prosper Africa, these initiatives are focused on economic benefits and neglect to address the potential social implications and benefits of trade (International Trade Administration 2019). The EU has also been criticized for its Economic Partnership Agreements (EPAs) with African states, as the EPAs have “imposed premature trade liberalisation” and hindered regional integration (Gronning 2019). By examining previous North-South trade relationships, Canada can examine lessons learned to ensure that diversification to African countries is indeed inclusive and prosperous for both partners. Thus, Canada would benefit further from obtaining substantial political clout by facilitating and maintaining equitable North-South trade relationships with African countries.

Moreover, diversification to Africa that is inclusive and prosperous could assist African governments with the provision of social services and programs. While African countries have made substantial progress in education and health, other social outcomes, including inclusive growth, could be achieved if African countries increased

and mobilized public revenues (AU and UNDP 2019). Since exporting commodities is one of the most significant sources of public revenue in Africa, Canadian trade diversification presents the potential to increase revenues and assist with the provision of social services (UNECA 2019). Further, in the long term, this could “contribute to meeting national development objectives and global targets,” such as the Sustainable Development Goals (AU and UNDP 2019). According to the AU and UNDP (ibid.), as a trade and international development partner, Canada could have an influential role in improving the lives of Africans.

Challenges

While trade diversification to Africa presents economic, political and social benefits, there are three predominant challenges to establishing such a relationship. First, GAC (2019a) has identified that although free-trade agreements (FTAs) are beneficial for Canadian trade diversification, research suggests that in the context of developing countries, FTAs produce inconsistent benefits. For example, since value-added taxes and taxes on specific goods and services are the most substantial sources of public revenue for African states, it is possible that an FTA would reduce the revenues of African governments and hinder their ability to provide services (AU and UNDP 2019). Hence, it would be challenging for Canada to establish an FTA with an African state without jeopardizing the foundations of its inclusive trade agenda and its aspiration for a mutually prosperous trade relationship. While AfT offers the opportunity to mitigate reductions in tax revenues for African countries in the short to medium term, it remains uncertain whether these practices are sustainable or would be offset by the increased revenue from trade (Gnangnon 2016). Therefore, if trade relations with African countries are to be equitable and in alignment with Canada’s inclusive trade agenda, new strategies and agreement structures must be devised to address this challenge.

Second, trade diversification to Africa could be hindered by limited infrastructure across the African continent. Based on data from 2016, in Africa there is less than 50 km of paved roads per 1,000 square km (Thomas 2019). While countries such as South Africa have strong infrastructure, several other African countries, such as Ghana and Eritrea, have limited infrastructure (AU, African Development Bank [AfDB] and UNECA

2020). This presents a challenge for internal, regional and international trade. Although the COVID-19 pandemic has prolonged the implementation of the AfCFTA, African governments and the AfDB remain committed to continuing efforts to accelerate regional integration through infrastructure development (Mohamed 2020). In the long term it is possible that the infrastructure in African countries might improve from implementation of the AfCFTA and the AfDB’s Strategic Framework, but in the short to medium term, this challenge signals the importance of maintaining tax revenue for African states to ensure that social services and development efforts have adequate financing.

Third, while Agenda 2063 and article 3(e) of the AfCFTA provide examples of state initiatives to address social issues, Canada must be cognizant that locally based human rights notions might differ from the more universal ideals presented in regional documents (Pavlish, Ateva and Ho 2017). Therefore, in pursuing an inclusive trade agenda in the context of divergent values, Canada must ensure that it does not impose its values on its trading partners or jeopardize its own inclusive values. Although achieving such a balance is difficult, Canada’s Feminist International Assistance Policy (FIAP) has demonstrated that Canada is equipped with the knowledge and resources to address this challenge (Nathoo 2017).

Recommendations

- 1. Canada should develop a tiered approach to inclusive trade and shared prosperity.** The evidence suggests that while the social values of African countries at the regional level are beginning to converge with Canadian values, state and local values are diverse (Pavlish, Ateva and Ho 2017). Since Canada should not impose its values through trade agreements with African countries, initial negotiations and agreement should focus on ensuring that the economic foundations are established. In the context of African countries, this means ensuring that proper levels of value-added taxes are maintained to fund social services and infrastructure development. While such provisions might limit the traditional degree of trade liberalization between the partners, it would guarantee that the agreement would be prosperous for both. Further, in developing a tiered approach, it is imperative that all phases of trade be addressed, including potential investor-state dispute settlement

(ISDS) processes. Since ISDS mechanisms continue to be a contentious aspect of trade, due to their role in perpetuating inequalities, Canada must ensure that when establishing ISDS mechanisms with developing countries it employs an inclusive lens and remains cognizant of inherent flaws of such mechanisms (Jones 2018).

2. **Canada should maintain the long-term goal of establishing FTAs with African countries.** As discussed, FTAs are the current norm, and while Canada should maintain this objective, Canada must monitor each phase of diversification through stringent empirical ex-post assessments. According to Erin Hannah, Adrienne Roberts and Silke Trommer (2018), while states are committed to conducting ex-ante observations, there are few intentions to gather ex-post empirics to evaluate the outcomes of trade agreements. Since African governments are dependent on tax and tariff revenue to provide social services, it is imperative that ex-post assessments be conducted to ensure that all phases of diversification are inclusive and prosperous for Canadians and Africans. Further, due to limited resources, African governments prioritize the distribution of social services, which reduces their focus on collecting and reporting administrative data (AU and UNDP 2019). Thus, African countries might not have the capacity to implement ex-post assessments. In these situations, it is possible that Canada would be required to provide technical assistance to ensure the data is collected, retrieved and analyzed.

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