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the way to prosperity

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10 March 2016

Agbiz participates in the Global Trade Review Africa – Trade Finance Week

An estimated 300 executives from at least half a dozen countries converged at The Westin Hotel in Cape Town to attend the Global Trade Review (GTR) Conference from 2nd – 4th March 2015. Agbiz was in attendance, represented by its head for International trade and investment – Tinashe Kapuya. Among the delegates with several Agbiz members including Nedbank, Barclays Africa Group, Standard Bank, NWK, AFGRI and Tiger Brands. The GTR Trade Finance Week actually incorporated a training workshop on the first day, followed by two days of intense deliberations on various issues that ranged from regional trade, commodity price trends, and their implications on the trade finance in Africa. The event was chaired by renowned broadcaster and Journalist, Jeremy Maggs.

There are several critical questions of significance that were asked at the conference. Firstly, to what extent Sub-Saharan Africa was impacted by global events? Secondly, how long Africa's success story would last. Thirdly, whether the global decrease in commodity prices would provide the opportunity for diversification, industrialisation and structural transformation across Africa.
In relation to the first question was addressed by political economy analyst Daniel Silke who pointed out in his presentation the general effects on growth being attributed to a number of factors, which are both "domestic plus regional" and global in nature. From a domestic and regional perspective, Daniel noted that Africa had gone a long way in attaining a reasonable level of better governance and establishing better institutions. Notwithstanding the fact that there remains room for significant improvements the governance and institutions, Africa attained economic growth levels of above 6% per year in the first 2000's decade, mostly supported by Chinese growth and the country's general embrace for Africa. From a global perspective, China's underlying influence in fuelling Africa's growth was moderated by its low wages and competitiveness. This was also true for the rest of the Asian region. Daniel also noted that, China's slowing economy had seen Africa's exports to China declining by 38% in 2015, with Chinese investment in Africa falling by 84%. An additional factor that Daniel did not mention, but which also played a significant role was the devaluation of the Yuan. Beyond China, Daniel noted the interest rate hike by the US and the potential exit of the UK from the EU as further factors that have affected growth in the continent.

The negative impact of global factors above-mentioned led to the second question: how long Africa's success story will last. Average Sub-Saharan GDP has been revised downwards from around 4% to 3.5% due to the lower demand for commodities, with weakening currencies across the continent. The countries worst affected by the currency crisis are the ones that have been overly dependent on primary commodity exports, and these include, among others, Zambia, Angola, South Africa, Nigeria, Kenya among others. Analysts at the Conference noted that the best strategy to insulate Africa from major global shocks was to start deepening trade between African countries. Noted at the conference was the fact that Africa has very an exceptionally low level of intra-regional trade – only 13% of African trade is between African countries. In comparison, Europe trades 72% of its own products among European countries. While efforts are being made to that effect, mainly through the Tripartite Free Trade Agreement, Africa still has a long way to go in relation to increasing its levels in intra-regional trade. Notable success was highlighted in the East African Community (EAC), but major concerns remained around SADC and COMESA's levels of intra-regional trade.

The debate around how intra-African trade can become the engine that sustains future growth led to the third question – which related to the need for Africa to look beyond commodities, and diversify, industrialise and expand its manufacturing base. It was noted in the deliberations that while Africa contains 12% of the world's oil reserves, 40% of the world's gold, 80% of the world's chromium and platinum, it however only contributes 1% of global manufacturing and 2.5% of the value of world exports. The critical issue noted by experts at the Conference was that African countries had failed to meaningfully diversify their economies beyond primary commodity-based exports during the era of higher global prices. Evidence presented on Foreign Direct Investment into manufacturing showed that Ethiopia had made some form of progress, while the rest of Sub-Saharan Africa remained under-invested. The emerging question then was whether it is too late for Africa to reform, given that the bullish run of the commodity cycle appears to be over. Some analysts such as Dr Jackie Chimhanzi believe that economic reform in Africa is now a strategic necessity. These reforms will, however, be difficult and painful given the fiscal challenges that will arise from lower commodity exports.

ENQUIRIES:

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