

*Review*

# Integrating Africa to global economy: Seeking a trilateral partnership of Sino-US and European Union

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This paper looks at the emerging presence of China in Africa along the parallel presence of U.S for raw materials and energy. While China's presence has been perceived in the west as colonizing Africa that of America is suspicious, even though their quests and strategies are at variance, U.S preaches "good governance with responsibility", transparency and accountability, China prefers the "soft power" and non-interference. At official levels, there is no "cold war" the mutual suspicions, is likely to endanger the sustainability of such resources, thus there is need for a collaboration in partnership between China, the U.S and the European Union, using Africa's Road Map for economic integration, especially effective use of oil revenues and agricultural reforms and trade liberalization for economic integration for the mutual benefits Africa and the partners. This would present formidable opportunities and challenges that would profoundly alter the process of economic growth of the continent.

**Keywords:** Economic integration, the continent, "soft power", responsible governance, production and consumption patterns.

## INTRODUCTION

In the past Africa witnessed neglect and isolation by its western allies who have often vilified it as risky, unsafe and backward for business. But current economic modernization and the search for raw materials and oil have thrown up opportunities and challenges for Africa's economic prosperity provided the economy is open to global market with upgraded infrastructure in agriculture and rural development, investment flows, technology and a right mix of product specialization. Africa is expected to receive US\$ 50 billion annually from the U.S development assistance by 2010; it is also expected to receive from the EU about 22billion by 2013, an amount that is likely to double by 2015, similarly, aid pledges from China to Africa is expected to increase from US\$2.3billion in 2006 to US\$10billion by 2009 (Baseda et al., 2008). But all these would pale into nothing as the region is projected to wallow in absolute poverty by 2030. And there are indications that climate change would impact negatively in Africa, creating droughts and flooding leading to a per capita food production declining (Usrey, 2008).

This scenario portends danger for Africa's economy that has been underdeveloped and lacks economic vitality to provide its 800 million citizens the dividends of democracy and good governance. The current situation has fueled debates suggesting the continent should harness its relationship with various trade partners, China, US and European Union for integration into the global economy that would spur growth and economic prosperity. The central thesis throughout this proposal is Africa's collaboration with its major trade partners and donors through values, challenges and opportunities based on shared ideas, expertise, technology, investment flows in agriculture and rural development to open up its economy which would benefit her and the partners rather than perpetual dependence on aids which has proved counterproductive. As Fues et al. (2006) note a harmonization in Africa for sustainable development and global market integration lies with the African countries as the key actors in their regional cooperation and not donor nations.

Africa is witnessing significant development profile which is sparked -off by the presence of China and the US in Africa, generating debate and positioning Africa as the bride whose development potentials are unlimited

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provided she plays her game well in what is seen as finally ending the west's complacency that Africa would always belong to their sphere of influence. It is asserted that in a global economy based on long drawn multilateral negotiations, individual partners and groups might enter into more bilateral agreements that offer them greater opportunities and more favorable terms (Dieye and Hanso, 2008).

But China's quest for energy and raw materials is fostering concern in the west as not matching promotion of good governance and sustainability in growth. This lack of concern for long term sustainability poses economic threats inimical to peace and stability in the region. China's emerging presence in Africa, occurring almost at the same time when the U.S expansion is also witnessed through increase of development assistance, calls for sober reflections if their parallel presence would not endanger a conflict on a great proportion, since their approaches are at variance: while the U.S calls for "governance with responsibility", China prefers "non-interference and "soft power".

To avoid a clash in Africa, Beijing's expansive presence demands Washington's and European Union's attention not only for its own interest but for Sino-U.S relations and for collaborative approach that would benefit Africa and its three major trade partners. This paper seeks to contribute to the understanding that a triangular relationship would eliminate the perceived "cold war in trade" between China and US and reduce the complacency of EU and the US in Africa as well as clearly keeping in check Chinese increasing presence in Africa which challenges sustainable consumption. Therefore a call for a trilateral partnership that would propel Africa for global market using its development initiatives and harmonized approaches that would profoundly alter Africa's economic process.

The objectives of this paper are threefold:

- i To provide a concise background of China, the U.S and E.U's economic assistance and trade relations with Africa against the background of their motives and interests.
- ii To provide Africa's road map to economic and development as priority of her people by ensuring that the revenues generated from the raw materials and development assistance are effectively applied to reduce poverty, scale-up Africa's agriculture through reforms, and trade liberalization, accountability and stability across borders.
- iii To present arguments why there is need for a trilateral partnership with China, the U.S and E.U to ensure Africa's integration into the global economy for production and consumption sustainability of her natural resources that would help to serve its people well.

The paper discusses issues of interests and addresses the debate on presence of China and the US in Africa that has led to cold war on trade and the need for a third party (the European Union) for a collaborative approach

that would harness the economy and propel it for economic growth. Part I is the introduction, while parts II and III trace the economic and trade relations between Africa, the U.S, China and the E.U and the need for trilateral approach respectively, Africa's Road Map for Economic Integration is IV, Effective Agricultural reforms and Infrastructural investments and conclusion are V and VI respectively.

## **USA's economic and trade relations with Africa**

Washington's aids to African countries have been characterized by crisis with the passage of time. As the relationship progressed; the volume of aid became less; with more conditional ties. More especially at the end of cold war, there was a remarkable drop in economic and technical assistance, as changes in the US priority led by reduction in budget deficits, contributed to overall reduction in assistance to Africa. These reductions were particularly from security oriented programs: military assistance and Economic Support Fund (ESF), with the realization that security assistance to Africa had grown too large, rather more aids be channeled through humanitarian and development aids (Copson, 2005). After 30 years of aid and no meaningful progress, it became pertinent that aids to Africa need to be reviewed. Analysts posit that the ultimate goals of aid distribution as catalyst for effective development, must encourage economic freedom which is the most reliable and consistent determinant of economic growth. From 1980 to 2000 the US disbursed US\$167 billion to 156 developing countries, but among the 97 countries with reliable economic data, their per capita Gross Domestic Product (GDP) declined from US\$1076 in 1980 to US\$994 in 2000 (Pascicola and Fitzgerald, 2002).

Despite these records of non performance, the U.S preferred humanitarian aids picked up where Global Aids Initiatives (GAI) assistance to 12 countries receiving a total of US\$553.4 billion in 2004 reaching about US\$10 billion in 2005, while the obligation for Sub-Saharan African Project under the Development Fund for Africa (DFA) reached US\$846 million in 1992, but dropped to US\$800 million in subsequent years. Under the "prosperity and stability are essential to growth and stability in East and Central Africa region", which prosecutes war against terrorism, provided: US\$366.7 million in 2003, US\$561.2 million in 2004 and US\$549.6 million in 2005 with individual countries getting a US \$1 million. The African Trade Investment Policy (ATRIP) program, which provides technical assistance, training and other Sundry aids to Africa, got US\$4 million for African Coastal and Border Security Program and US\$3.7 billion in 2003 (51.1%) under International Development Association-the largest source of development assistance to Africa under the multilateral assistance, U.N and the World Bank; nearly, US\$3 billion went to SSA in 2004, while US\$3.4

billion was requested for 2005.

The most recent U.S signature assistance are the US\$15 billion President's Emergency AIDS Relief Plan (PEPFAR), the U.S malaria Initiatives and the millennium Challenge Corporation (MCA), in which US\$5 billion was to be provided over three years beginning from 2004, only 8 African countries qualified and two-way trade reaching US\$60.6 billion in 2005, an appreciation of 30.7% from 2004. The U.S official loan through the U.N multilateral agencies, like the World Bank and African Development Bank, amounted to US\$4.3 billion with an increase of US\$2.5 billion in MCA, US\$1.5 billion in ADC program and US\$500 million in Malaria Program and Africa is expected to receive US\$50 billion annually from U.S development assistance by 2010.

### **China—Africa Relations—A Historical Perspectives**

Arising from the celebrated Sino-African year 2006 in Beijing, analysts began to view China's strategic presence in Africa from scrambling for the continent's oil and mineral resources in a bid to colonize Africa and create opportunities for Chinese investors and product markets in Africa, but in reality, the relationship transcends a long history which also includes nations with little or no resources and dates back to Mao's anti – imperialism in the 1950s. China's quest into Africa can only be understood from the perspective that China's motivation in Africa is driven by its pursuit of diplomatic strategies as the fastest growing economy which China wants to share with Africa through infrastructure, aids and investment flows, that increased from US\$15 billion in 2001 to US\$18 billion in 2004 with lending from China Export and Import Bank in 2006, estimated at US\$12.5 billion, was expected to increase by US\$5.5 billion by 2007, with investments and loans benefiting at least 35 countries in Africa (Davis, 2007).

At the close of third Forum for China –Africa Cooperation (FOCAC) in 2006 in Beijing which signified "Friendship, Peace, Cooperation and Development", the Beijing Declaration-Action Plan of 2007 - 2009, reviewed five decades of diplomatic relations between China and Africa highlighting the exchange in cooperation and investments as follows:

- i. Expanding the lists of duty free African exports and setting trade cooperation in the zones.
- ii. Provide US\$2 billion as preferential credit to purchase Chinese goods and US\$3 billion as favorable credits.
- iii. Removal of tariffs through the Special Preferential Tariff Treatment (SPTT) which removed tariff from 190 items in 2003 to 440 items in 2007 exports to China from Africa.
- iv. A pledge to increase trade to reach US\$100 billion by 2009, set up economic zones, institute US\$5 billion in China-Africa Development Fund, build 100 new schools

and train 16,000 professionals from Africa.

v. To build 30 hospitals, provide US\$37.5 million malaria drugs, as well as increase the number of African students in China from 2000 to 4000 by 2009.

Since 2000, the volume of trade between China and Africa has been on the increase from US\$5.043 billions to US\$5.53 billion for exports and imports and exports respectively. Volume of trade showed a dramatic increase with total of US\$106.8 billions as against the target of US\$100 billions projected for 2010. While China's foreign direct investments between 2001 to 2004 was from US\$15 billions to US\$18 billions, between 2000 and 2007, it has given a total of US\$5.5 billions in development aids to Africa and canceled more than US\$10 billions debt owed by African countries.

### **The EU-African partnership**

The partnership between EU- Africa dates back to the colonial days as most African nations were colonies of European Union member states. As the 5<sup>th</sup> biggest aid donor in the world, the EU is a major contributor to global aids and influences how aids are utilized through its agreements like the Yaoundé convention 1964 - 1975 and Cotonou agreement which was first signed in 1975 the same year African, Caribbean and Pacific Group States (ACP) was formed. The present EU-Africa Partnership rose from five successive home Agreements to Yaoundé and Cotonou Agreements of 2000 which addressed issues of cooperation and trade framework with some of its former colonies. The EU's multiple relationships with Africa are consistent with its dynamic role in promoting trade integration between the regions, which evolved over time and has dramatically improved since the 1990s, largely as a result of shifting economic and political interests in the post-cold war period. It has culminated in the promotion of sustainable development and good governance that promotes peace and security in the regions.

The EU has provided nearly 15 billion between 2008 and 2013 it specifically intends to allocate 20 billion and 35 million to peaceful engagements in Africa which address issues of conflicts. It has been able to provide several sources of funds to Africa through intergovernmental European Development Fund (EDF) amounting to 22 billion between 2008 and 2013, with 20 billion, slated for Sub Saharan Africa, 242 million for supporting peace initiatives in Sudan, 250 million for capacity building and stability in Africa. With a global assistance of 55% from its shareholders and a plan to double aids to Africa by 2015, presents the EU as the largest donor to Africa, particularly with a commitment to give Africa special priority through dedicating 50% of new aid to Africa. Between 2001 and 2004 the EU allocated 3 billion to developing countries to help them

successfully get integrated into the global economy, as provided in Africa-EU partnership strategy. It promises a better targeted aid that promotes sustainable economic development driven by its pledge of 0.7% of GDP aid to Africa to meet the UN's Millennium Development Goals and the need to make aid effective through proper coordination (Kotsiopoulos, 2007).

On its commitment to spur growth and promote trade relations with Africa, the Action Plan on Aid Effectiveness approach, will result in additional 23 billion for Africa by 2015, with 4 billion to be made available on annual basis for Sub-Saharan Africa under the post 9<sup>th</sup> European Development Fund (EDF) multi-annual financial aid, the EU's promotion of aids and economic integration takes into account the different political, economic, social and environmental trends in Africa based on three pronged strategy (i) to strengthen EU support in priority areas, (ii) to increase EU financing for Africa and (iii) to develop and implement a more effective EU approach. The strategy is aimed at providing least developed nations control over their individual development through peace and human security.

### **Need for a trilateral approach for integration of Africa to global market**

Globalization not only benefits workers, it also enables consumers to shop for consumption goods that are cheap and permit employers to purchase technologies and equipment that best complement the workers' skills. It also allows workers to be more productive as goods they produce increase in value. Therefore, workers in exporting economies appreciate the benefits of open trade system, which Weil (2005) notes also brings the challenge of opening the markets to international trade and foreign investments, with a mix of appropriate infrastructure, capacity for adoption of new technology are capable of providing growth. But anti-globalization activists have been apprehensive of rising unemployment, wage inequality and threatened job losses due to cheaper exports, low wages and lax environmental standards.

However, economists call for policies that would mitigate the potentially negative effects of transportation and provide stimulus for upgrading the local skills and technology without necessarily putting local retailers and producers in danger of displacement (Brisciani and Valdes, 2007). An open market, experts assert aligns domestic prices with international prices and wages tend to increase for workers whose skills are scarce internationally than at home and to decrease for workers who face increased competition from foreign workers. Unless countries match the productivity of their competitors, the wages of their workers will deteriorate. Weil (2005) cites the following three reasons why countries need to open-up their economies:

- i) That openness is good for economic growth as it leads to convergence, which enables poor countries to grow faster on average over rich countries, while poor countries that are closed grow more slowly.
- ii) Those countries that open their economies experience a speed-up growth, while closed market economies experience slow-down growth.
- iii) Isolated countries suffer from lower income due to their geographic position by not being able to integrate.

He concludes that the most important effect of openness is the expansion of productivity which benefits a country by facilitating technological transfer and exposing firms to additional competition which further improves efficiency and increases the incentives for technological innovation. But anti-globalization still assert that an open market integration tend to impose constraints on national governments as firms shop for most profitable country in which to operate, thus engaging governments in competitive bids to offer low tax which accounts for environmental degradation.

As contentious as market integration is, pro-globalization activists posit that it permits new ideas, technology and free flow of goods and services that fuel economic growth and increase the living standard as increase in trade help to restrain consumer prices and offsets inflation that normally disrupts economic growth. Carbaugh (2005) infers that less skilled workers are more likely to oppose free trade; it is the tie between policy liberalization, the workers interests and individual opinions that form the people's apprehensiveness. While the jury is out on the costs and benefits of globalization, it is imperative to draw from summation of Norwood and Lusk (2006: 241) that "people often oppose globalization believing that it harms developing countries, but the real effect is otherwise. Globalization has served lift millions out of poverty. Some are concerned that globalization makes "the rich richer and the poor poorer", but the evidence points otherwise". And as indicated in the United Nations facts sheet, during the 1990s the economies of developing countries that were integrated into the world economy grew more than twice as fast as the rich countries. "The non-globalizers" grew only half as fast and continue to lag further behind (Easton, 2007: 30).

The justification for a trilateral partnership lies in the fact that it would enable Africa to rise to the global challenge of economic integration and the management of international interest and attraction to its natural resources and strengthen its political institutions for the promotion of economic growth through greater influx of investments and competitive high prices for her commodities. It is through good governance, responsible social services and accountability to her people that investors would have confidence to invest in areas that promote growth, rather than relying on donor-driven aids, which Erixon (2005) notes has failed in Africa as: "Very often, aid is spent on projects that benefit political leaders

at the expense of the citizens, almost always, the money crowds out investments by private sector and because government is not good at making investment decisions, it undermines economic development". Africa needs a kind of economic road map that would align economic and technical assistance to her articulated program that would serve her long term needs beyond the natural resources.

Furthermore, this collaboration becomes more logical and essential for realization of MDGs and seemingly, individual interests in resource sustainability. For EU this presents a unique opportunity to strengthen its partnership with Africa which "despite a consistent emphasis on "partnership" and EU declarations about post-colonial relationship, EU-Africa ties have often suffered from an expectation-capability gap, with European demands clashing with a lack of African capacity or willingness (at times) to meet them and vice versa" (Kotsopoulos, 2007). Its ties with Africa and its unique character as multilateral body where policies are developed by consensus, make it a potentially the most attractive partner for the continent in comparison to more self-serving interests like China and the U.S.

The EU would need to concretize its commitments through addressing Africa's special needs by being proactive in a coherent, genuine and constructive manner that is anchored on shared goals, clarity and transparency in partnership with China and the US, considering their volume of trade and engagements as Africa's three major trade partners. Their commitments and strategies that complement Africa's road map for a free market economy would require understanding of each others' policies and programs, so that those efforts do not undermine each other (Solana, 2007). On one side this provides Africa the prospects for development given the physical, historical and cultural proximity of Europe and Africa, while on the other side it meets the general consensus on development and the challenges posed by US –Sino perceived competition for energy and raw materials.

## **AFRICA'S ROAD MAP TO DEVELOPMENT: PRIORITIZING DEVELOPMENT GOALS**

### **Conflicts and insecurity in Africa**

Africa is in perpetual conflicts and insecurity to lives and properties, due to internal crisis that are mostly caused by competition for natural resources. These conflicts are heightened due to easy access to guns as a result of weapon proliferation across its borders. Africa is endowed with both human and natural resources but lacks capacity to deal with effects of weapons and wars, a case that could be likened to Lantis (1998)'s observation that: "when governments devote funds to build up large armies and weapons of mass destruction, they are also choosing

to divert funds from other programs like productivity and health care. Clearly citizens of the world experience these direct and indirect effects of proliferation everyday."

A robust relationship exists between arms build up and likelihood of conflict, it is argued that for Africa to experience stability, peace and development, arm buildup should be discouraged, as they are expensive and divert resources from much needed areas and most importantly, the continent lacks capacity to address conflicts that overstretch both human and capital. Hot spots like Darfur, (Sudan), Somalia, Niger Delta (Nigeria) etc, are conflict areas, where collaborative efforts through diplomacy and humanitarian concerns may resolve them. More importantly, harmonized efforts would provide the significant opportunity to improve investment climates as well as safeguard Africa's position as an alternative source of energy as opposed to the volatile Middle East.

### **A harmonized development approaches and investment initiatives**

As firm believers with shared commitments to the UN's Millennium Development Goals, security, human rights as well as sustainable economic development that reduces poverty, taking into account individual country unique characteristics, national problems and development objectives, a trilateral approach would require harmonized resources, aids, technical assistance and sharing of expertise with national and regional governments, as well as non governmental agencies that would ensure that their efforts are not counterproductive. The presence of U.S and China in Africa, poses a challenge for Europe as a traditional colonial power in Africa, as it still holds a strong position in the economy of African countries. It has to come away from its monopolistic stand and face the brutal awakening and realization that the world of trade has changed drastically and in the future it must pay a fair price for its consumption and it must do this in competition with others by joining the global drive to integrate Africa into the global economy. Therefore the current assessment of trade between Africa and China which has promoted growth in Africa and the presence of U.S would require a balance of power in which it is left for Africa to take advantage of these opportunities (Dieye and Hanson, 2008)

Furthermore, Kotsopoulos (2007) underscores Africa's importance to the EU as an alternative source of energy and raw materials. China has been strongly criticized for being less scrupulous about dealing with repressive or corrupt regimes in the region and using development funds to help Chinese enterprises in Africa. The presence of the EU and the US would provide a balancing equation of the economic powers that is shaped by international trade negotiated agreements to favor African countries in tandem with the EU's strategy of a comprehensive, integrated and long-term framework for relations with

Africa. It is argued that it would be to Africa's advantage to seize this opportunity to harness its development using institutions like the African Union, New Partnership for Africa's Development (NEPAD), Economic Community of West African States (ECOWAS), South African Development Cooperation (SADC) and other regional organs to ensure a meaningful and fruitful relation.

Similarly, the EU supports regional strategies for growth and poverty reduction in Africa that enhance macroeconomic stability, encompasses private investments and promote economic growth through direct participation of the poor and utilization of resources to remove the effects of exogenous shocks like sharp increase in commodity prices that undermine macroeconomic policies. Other initiatives like environmental improvement, creation of wealth, employment and business competition that reduces costs for consumers and increase revenues for individual governments is a welcome development and a preparatory ground for review of the west's past policies in Africa which have been considered unproductive. This should be aligned with the challenges presented by China in Africa based on common front and individual partner's Joint Plan of Action on Africa and UN's multilateral organs like Food Agriculture Organization (FAO), World Trade Organization (WTO) and prepare the ground for global market integration.

Consequently, call for a triangular approach would enable partners to appreciate each other's strengths and weaknesses and to dialogue on a regular basis on those significant and complex issues relating to Africa in a serious and constructive manner as well as appreciate the peculiarities of African countries as developing economies with cultural, social and economic differences; using NEPAD's integration to African Union structure for a more proactive stance on issues of development, diversifying the economies and increasing their exports. This requires engaging in effective regional trades and cooperation. The responsibility lies with Africa to make or mar the opportunity. Analysts infer that what remains of NEPAD is to demonstrate great political will and commitment that would ensure achieving Africa's development initiatives, which would yield results for individual nations. The differences in policy thrusts should not be seen as a deterrent but a catalyst for productive engagements in Africa.

Finally, this partnership is a timely one for the purpose of removing the perceived suspicion with which China and the U.S view each other's presence in Africa. In a global economy, competitiveness for resources are not only positive but healthy as it leads to job creation, reduced costs for consumer goods, increased revenues for the governments and partners and in the long run it is beneficial to all. This approach would present the U.S the opportunity to address the nascent issue that Washington is afraid of China as an emerging economy and investment power through its increasing influence in Africa, Asia and the international community. On the other

hand, this would enable China to be more proactive in her initiatives as opposed to her discreet engagements in multilateral organizations for fear that it would be wrongly perceived by the west as asserting a super power influence and for the EU this would correct the misconception that she had helped in the plundering of Africa's resources in the past and turned her back.

### **Effective use of oil revenues to reduce poverty and hunger**

Arising from the fact that past African oil revenues have never benefited the citizens due to poor institutionalized corruption and bad governance, overvalued currencies and poor macroeconomic policies in dealing with the "resource abundance" and "resource curse", African countries resorted to aids and borrowing. But, with all the aids and economic assistance the continent has not fared well as it is projected that by 2030, Africa would still be wallowing in absolute poverty. To achieve its UN's Millennium Development Goals and offer its nationals economic prosperity and pull them out of poverty it has to manage its new partnership in a strategic and responsible way and position the oil sector as engine for growth of other sectors, as well as prioritize development goals that would economically integrate it to the global economy.

The U.S oil demands are projected to reach 28.3 million barrels per day by 2025, but fluctuations in oil prices, production and sociopolitical crisis in the Middle East has led to speculations that its dependence from this region poses a security risk, deterrent to good governance, spread of democratic governance and war on terrorism. The U.S needs to look towards Africa for its oil source diversification that would remove her from the risk of depending on the volatile Middle East and ensure the war against terrorism and good governance is embraced by her partners--- China, EU and Africa. This argument holds that it is also to the interest of all partners, where security to the international community and oil extraction is concerned, since it is the common resource that benefits all.

Marks and Evans (2007) cite five points to guide in this approach in which there is a mutual interdependence among China-U.S and Africa, with the first two becoming increasingly dependent on African oil imports and Africa relying on the revenues. For the industries to be well managed for benefits to all, these initiatives have to be followed: ( $\pi$ ) ensuring security of supply is very critical ( $\theta$ ) that generated revenues, go into provision of development in the extracting communities through job creation and provision of infrastructure ( $\rho$ ) promoting the ideals of International Extractive Industries Transparency Initiatives (TEITI), which promotes transparency in the dealings of revenues and encouraging oil companies to publish what they pay to governments ( $\sigma$ ) deepening corporate, social responsibility efforts of multinational companies to

commit US\$1 million for every 100,000 barrels of oil for projects in the communities and investments in micro-finance to resettle combatants and ( $\tau$ ) to avoid the “Dutch Disease” syndrome, governments should understand the implication of oil boom and address the inherent issues of diversification and investments to cushion its effects.

All parties should understand that good governance, transparency, responsible, infrastructure and human development are essential to development, security and sustainability of oil exports. An aggressive pursuance of these initiatives would provide the needed benefits of cooperation. Good governance remains essential in generating the needed productivity for attainment of MDGs and link governmental institutions and civil society in an effort to promote economic development and social progress; through freedom and participation of citizens. And since corruption which plagues the continent is estimated at \$150 billion annually and like a crime imposes significant taxes on development and impedes economic growth, the partnership should enshrine measures to eliminate it (Cedoz et al., 2005).

## **EFFECTIVE AGRICULTURAL, TRADE LIBERALIZATION AND INSTITUTIONAL REFORMS FOR POVERTY REDUCTION**

### **Agricultural reforms and investments in infrastructure**

Agriculture provides impetus for growth of other sectors of the economy through its powerful leverage in accounting for large shares in GDPs, revenue earnings and employment generation in developing economies. It has the potentials to energize and generate growth of the rural non-farm sector where the majority of the populace live and earn their living. Bresciani and Valdes (2007) avers that most national economies are linked to agricultural growth through poverty reduction which is at the center of strategies that seek to broaden the role of agriculture as an engine for overall economic growth for the following reasons:

- i) That agriculture accounts as a major source of income and at the threshold of poverty reduction in developing countries through multiple consumption and production links and the externalities with the rest of the economy in agreement with Diao et al. (2006)’s assertion that agriculture has a powerful leverage with the rest of the economy through its spillover effects.
- ii) That agriculture accounts for labor, employment and wages through its labor intensiveness for an integrated rural and urban labor markets as well as reservoir for other sectors through its impetus for poverty reduction as supported by Tutwiler and Straub (2005)’s arguments that agriculture’s direct impact on farm incomes form large shares of GDPs in developing countries and the spin-off

effects that aid economic expansion of other sectors.

- iii) That agriculture accounts for direct small holders income and growth multiplier effects which reduces poverty in highly populated economies as it raises incomes and generates multiplier effects in farm and non-farm sectors through its wealth creation which Tutwiler and Straub (2005) identify as an effective attack on poverty through stimulation of economic growth and positioning agriculture as an overall engine for economic growth.

- iv) That agriculture accounts for poverty reduction through food price channels, as the poor who are producers and consumers are also net food buyers. The importance of food prices is that they determine the levels of poverty in many countries due to the distribution of income as changing food prices can significantly shift poverty levels.

The implications for these reasons are that policymakers need to prioritize public investments on agricultural infrastructure which increases productivity and makes food available to the majority of the populace. This is significant if majority of its populace would be lifted out of poverty, analysts posit that national governments must recognize the significance of the role of agriculture in poverty reduction and the inherent liberal policies that encourage capital flows that promote investments both local and foreign aid which are often seen as critical for strengthening national forces as Mellor (1999) observed. Governments in Africa would need to borrow a leaf from their Asian counterparts, more especially those countries endowed with natural resources that cannot be effectively used for employment generation that reduces poverty, to invest such proceeds in agricultural led growth that has greater significance in reducing poverty through its multiplier effects.

To prepare their agriculture for global market, they have to engage in high value added commodities in horticulture and livestock that do not face land constraints as inherent in crop production. Mellor (1999) expounds that agricultural production program should satisfy three objectives: (i) encouraging rapid pace of technological change that in turn reduces production costs and increases production (ii) ensures rapid expansion of rural infrastructure that reduce transaction costs and assist in growth of high value commodities (iii) ensures broad participation by women and small scale farmers to provide large aggregate growth.

But considering the increasing awareness that the role of agriculture to national economy goes beyond food production—a realization that is combined with other critical issues of reduced economic subsidies, agriculture still needs to meet a range of socioeconomic and environmental services. There is an emerging concern for the protection of the environment and for production to meet consumers’ taste for quality and healthy foods. For the continent’s agriculture to meet the challenges of global market, policy scale-ups that favor industrial,



export, organic model, infrastructural investments in agriculture and trade liberalization at regional and national levels for reducing food scarcity and poverty reduction. Unfortunately, the continent's resources and development prospects are far stretched due to socioeconomic characteristics: poverty, poor infrastructure, low inputs and poor productivity levels which would further be heightened by climate change and consequently, increase its vulnerability due to the poor state of technology and low investments (ERA, 2008).

To meet the challenges of globalization, the continent would need to build into their development plans infrastructural investments and prioritize agricultural development practices that provide food security, ensure overall growth of their national economies through national, regional and international integration of agriculture and trade liberalization using the AU in partnership with China, US and EU in tandem with WTO members agreement that trade should be more beneficial to developing countries. This would not only integrate South Sahara Africa that has been by passed by globalization but the whole of Africa to the global market and pull millions out of poverty.

But pessimists would opine that to subject the continent's agriculture to the same standards with those of developed economies would be asking too much. It is however, pertinent to note that with globalization comes consumer awareness and food safety as they are conscious of the environmental effects of agriculture. And since these nations are vulnerable and lack capacity to deliver due to their human and institutional inefficiencies, they should build their decisions on infrastructural investments, which Juma (2006) notes, represents an untapped potential for the creation of productive employments as evidence point to the fact that by investing a stock of infrastructure by one percent in developing country is capable of increasing GDP by one percent and particularly investments in sustainable agriculture is vital for the fact that roads, storage facilities, water supply, electricity, ports, health centers, regional ports, railways and communication networks reduce farmers' vulnerability, increase returns to labor and capital as well as reduce transaction costs, promote agricultural trade and help to integrate to market through economic liberalization and product specialization.

Availability of infrastructure is a critical determinant of the destination for foreign direct investments and is a key factor investors consider in deciding on location, scope and scale of investments. Infrastructure are strategic in reaching the poor farmers who need them to improve their competitiveness, access to markets and expanded opportunities; which are fundamental to peace, stability and instrumental to farming systems that reduce environmental effects of agriculture on the quality and quantity of air, water and soil which have consequently led to global warming that poses a challenge to sustainable development.

Apparently, a deteriorated environmental quality can significantly affect economic development of many countries since economic development can not occur in the absence of environmental improvement. Kahn (2005) infers that the quality of environment can affect economic productivity through two ways: (i) that environmental degradation has the capacity to adversely affect human health which in turn inhibits labor productivity and consumes resources in tackling the adverse effects and (ii) environmental resources serve as inputs of production processes, therefore a deteriorated environment can significantly hamper production activities.

Interestingly, poverty has been noted as one of the contributing factors of environmental degradation as the poor in trying to make a living tend to exploit the environment unwisely through destruction of forest and intense cultivation of the land which has often resulted in soil infertility and the attendant poor yield. Therefore, Governments at all levels must act now by building into their policy incentives that would correct market failures by allocating resources to combat pollution that degrade public health, reduce agricultural productivity, deplete industrial production, fisheries, forestry and generate social cost that are capable of reducing the income of farmers.

For African nations with low external inputs, low technology, poor infrastructure and high risks, to be able to meet the increasing socioeconomic and environmental challenges as well as the needs of the millions whose survival depends on small scale agriculture, would require a degree of intensification to meet the goals of sustainable and vibrant agriculture that serves as a model for globalization. Moreover, the impacts of agriculture on the environment are major public concerns, which demand for agricultural policy reforms, trade liberalization, international environmental agreements and the achievements of sustainable development that meets the needs of the NOW and the FUTURE generations. Since there is a significant linkage between agriculture and poverty reduction through rural markets, farm incomes and food prices, any improvement in agricultural productivity using the shared expertise in agro- technology and scientific innovations with investments and working with multilateral agencies, would greatly improve the scope of agriculture in the continent and position it as the engine for overall development..

Equally important is the observation that developing countries can increase their food productivity output to surpass their increasing population through sharing of technology of the developed economies and opening up their markets provided the developed countries are willing to remove trade barriers that restrict markets, which is achievable through use of food purchase subsidies (Tietenberg, 2004). This reduces poverty through bolstering non-farm employments and enhances prices of small farm holders enabling them to compete effectively if given access to credit and improved technology, as empirical



evidence show that a reduction in distortions and increase in market access with an enabling policy instruments for agriculture and rural development would significantly lead to economic growth that reduces poverty.

Finally, since poverty is a major source of conflicts in Africa and is consistent in areas with mineral and oils which results in scramble for the resources, where the government is corrupt and the people do not receive the benefits through investments on infrastructure, herein lays a problem. Africa needs to pull out of aid dependency and embrace business oriented approach to issues of investments that would promote agricultural productivity and institutionalize reforms that improve macroeconomic policies, develop national and regional infrastructure, assist in capacity buildings and facilitate growth of the continent's production and manufacturing sectors that would guarantee her citizens a better livelihood and integration to the global economy. It should open up the economy to international private investors to reinvigorate the sectors and offer incentives through trade liberalization and tariff, rather than wait for foreign aid, which according to Erixon (2005) should be given to governments who factor reforms and limited aids into their development programs on health, malaria, HIV/AIDS and training of personnel.

### **Research and technical assistance**

Research has shown that sustainable intensification of agriculture in degraded and unimproved farmlands and the protection of the natural resources through regenerative agriculture has been able to help farmers increase yields at low production and marketing costs, as farmers are better encouraged to use organic materials and fertilizers that are environmentally friendly. What is needed is a follow-up on the farm training of farmers in Africa with techniques that can easily be adopted when presented as programs of agricultural sustainability that promotes healthy environment. A number of resource conservation techniques that encompasses: Pest management, soil nutrient and water management have been developed and are at the forefront of conservation techniques in developed and developing economies as new approaches and farming systems that tend to add value to the resources which in combination have helped to reduce costs and adverse effects, yet offering consumers a variety of choices.

On how to engage in sustainable agriculture without endangering the environment, Miller (2006) suggests three ways to reduce hunger and malnutrition and the harmful effects of agriculture: (i) slow down population growth, (ii) reduce poverty to enable people grow or buy enough food for their survival and good health and (iii) develop a phased out system of sustainable agriculture through less inputs cultivation, otherwise known as green agriculture, which he asserts produces approximately the

same yield with lower carbon dioxide emission that uses 30 – 50% less energy per unit of yield, improves soil fertility and reduces soil erosion and tends to be more profitable to the framers as opposed to high input farming.

Advocates suggest environmental policies should be put in place to improve the farmers' economic needs as well as safeguarding generational integrity by sharing from developed nations' whose agricultural research and environment has improved their productivity; particularly the Global Positioning Systems and Precision Farming which introduces use of computers in agriculture through geographic information systems that makes appropriate management decisions based on crop production yields, moisture content, harvest rate, soil fertility and weed density that are site specific, provides opportunity for technology transfer that could enable African farmers decrease input costs and reduce risks that have been associated with unsustainable agricultural production using remote sensing technology which could stem environmental pollution through improved efficiency. These and other body of information, techniques and expertise can be locally generated or training of extension agents that would share such with farmers on the continent, thus providing the industry with more ecological and services to society (Warren et al., 2008).

Where nations lack capacity and expertise in handling environmental issues, it is suggested that a partnership in the provision of on farm information, training and technical assistance to adopt and implement beneficial practices that help to induce them to embrace voluntary changes and management practices. They should be positioned to appreciate private benefits which include: decreased production costs, soil productivity enhancements and improvement in water quality, which experts see as the best approach that provide farmers with technical assistance in planning and implementation of strategies that seek to conserve soil, improve quality of water and management of nutrients for the wildlife and biodiversity. This would require developed nations to pull resources and aid to help such nations develop their short and long term prospects for economic development through the following approaches:

- i) Developed nations should partner with developing nations to reduce short term income gap, accommodate more and better human made capital, improve their human capital and the preservation of the environmental resources as suggested by Kahn (2005).
- ii) Debt relief for developing countries to overcome the burden of high expenditure on servicing debts. Debt forgiveness by developed nations and lending agencies would provide relief and offer them the ability to meet urgent needs.
- iii) Developed nations should open up their markets to imported goods from developing countries; this would ensure the removal/elimination of subsidies, tariffs and quotas that protect their domestic industries.

iv) Increasing development aids to help developing nations meet current needs that ensure intergenerational integrity. These aids would be invested in human capital and the management of the environment.

v) To further strengthen the partnership there is need for promotion of environmental compliant products through a global climate treaty that promotes and compensates developing nations that are compliant, and since most of the African nations lack adequate resources to monitor and enforce environmental laws, collaboration under the international community would provide a veritable opportunity.

## Conclusion

Economic integration remains the most contentious element of globalization, yet it is the most viable option for rapid economic growth that permits free flow of goods and services, ideas and technology that fuels economic growth which benefits both developed and developing nations. The costs and benefits of open markets that helps to restrain consumer prices and offset inflation which disrupts growth, depends on the ability of a nation to effectively interact with other nations. For Africa that is witnessing current volume of trade would require harmonized efforts of China, EU and the US as its major trade partners and donors in consultation with African union using NEPAD agenda, national and regional agencies, investment flows, improved infrastructure and trade liberalization in agriculture that can profoundly alter its economic growth and prosperity.

Equally, significant is the fact that using this model of partnership through shared values, technology, research and expertise in agriculture along with open trade which is noted as one of the strongest forces that stimulate economic growth, would dramatically increase food production from existing land without putting pressure on the soils and other natural resources. Since it is anticipated that variability in climate change would affect livelihoods and where there are limited choices, could adversely affect crop yields, threaten famine and cause migration across borders, experts perceive it would significantly affect development in both developed and developing countries, therefore a concerted effort through this partnership would stem the damage.

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