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Strengthening the AU-EU partnership *on the economic development and trade agenda*

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This report is part of a special series on Africa-EU relations in the run-up and follow-up of the 2022 AU-EU Summit.

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KEY MESSAGES

- Industrialisation remains one of the main priorities for Africa, including within the context of the ongoing AfCFTA
- The EU is an important economic partner with free access to its market for most African countries but unilateral preferences have brought limited results for their economic development, pointing to the need for an investment partnership to build productive capacities
- African firms need to be actively supported to become suppliers of higher value – added products to the EU, including with the help of coherent, robust and context-specific industrial and trade policies
- The long-term objective of industrial development needs to be appropriately matched by short term programmes and initiatives to ensure continuity and coherence, by also building on existing initiatives like the Boosting Intra-Africa Trade initiative (BIAT)

RATIONALE

This report is the outcome of a partnership initiative launched in 2021 by the European Think Tanks Group (ETTG) and the Africa-based Institute for Security Studies (ISS), with the support of the United Nations Development Programme (UNDP). Our initiative seeks to advance Africa-Europe relations in the run up to the 6th EU-AU Summit in Brussels (17-18 February 2022) and contribute to effective follow-up and implementation of the decisions taken there. Between November 2021 and January 2022 we jointly organised three virtual closed-door roundtables with leading African and European knowledge centres and independent experts focused on three key pillars of the AU-EU partnership:

(i) green transformation and climate change;
(ii) economic development and trade agenda; and
(iii) participatory and accountable governance, peace and security.

These roundtables identified areas of convergence and divergence of views between the continents on key priorities of the partnership. The three virtual roundtables were instrumental in producing three concise reports containing policy recommendations for African and European decision makers and for all stakeholders interested in strengthening the partnership. Each of the three reports has been made available before the Summit. Following the event, these will be revised into a single final ETTG-ISS publication that will be out in March 2022.

The ETTG and ISS thank UNDP for supporting the partnership, as well as all of the over 70 experts who dedicated their time to take part in the virtual roundtables and shape the content of the three reports.

INTRODUCTION

This brief identifies some of the shared priorities between Africa and the European Union (EU) as well as challenges in their partnership as it currently stands. It also suggests concrete ways forward to strengthen the economic development and trade agenda of the AU-EU partnership. It draws heavily on discussions at a closed roundtable on 26 November 2021 of policy experts and academics aware of the agendas and high stakes on both the African and the European sides. The brief looks first at Africa's economic development priorities and challenges, followed by areas of mutual interest with the EU and existing support measures. It then identifies some of the tensions and gaps in the partnership. These then form the basis for practical recommendations towards a more effective partnership.

AFRICAN DEVELOPMENT CHALLENGES AND NEEDS

One of Africa's main priorities is inclusive, sustainable and green industrialisation, to create quality jobs and prosperity for the continent's fast-growing population.[1] There is broad agreement that many of Africa's development challenges are linked to building sustainable productive capacities, meaning "the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop".[2] This includes raising productivity in the agricultural sector, developing manufacturing capacity and promoting a dynamic services sector. All this can be pursued through greater regional trade integration.[3] In the context of the COVID-19 pandemic, the objective of sustainable productive capacities is receiving even greater attention, as countries realise that overdependence on commodity exports exposes them to volatility, while excessive dependence on imports is dangerously unsustainable. Africa needs to produce more of what it consumes.

The African Continental Free Trade Area (AfCFTA), which entered into force on 1 January 2021, if effectively implemented, is expected to enhance Africa's productive capacities.[4] It can provide the basis for an integrated continental market and development of regional value chains (RVCs).[5] The AfCFTA Secretariat has identified a number of priority value chains to boost the "Made in Africa" revolution.[6]

There are, however, impediments to fulfilling this important African development priority.[7] Most commonly cited among them include lack of appropriately skilled human capital, a shortfall in both soft and hard infrastructure (including electricity, transport and logistics), low levels of capital and investment in high value-added segments of value chains, and limited availability of technology, among many others. Infrastructure development is key. The African Development Bank estimates the continent's infrastructure needs at US $130-170 billion a year, with a financing gap of $68-$108 billion.[8] Africa also suffers from a deficit in high-end services, including financial intermediation, which are needed throughout value chains.[9] This is a key impediment to businesses, especially small and medium-sized enterprises (SMEs) which are the

1. Almost one in every four people globally will be sub-Saharan African by 2050 (https://bit.ly/3f9PnYr).
2. See the Productive Capacities Index (https://bit.ly/3tcuRyF). The latest Industrial Development Report (2021) shows how industrial development contributes to the SDGs, while also introducing greener operations. Industrial development has in fact played a major role in boosting countries' resilience to weather the COVID-19 pandemic through greater digitalisation (https://bit.ly/3zNDuB9).
3. https://bit.ly/3neQxGJ
4. Regional trade favours structural transformation, as processed and semi-processed goods account for 61% of intra-Africa trade compared to 37% of trade with other partners, including Europe. Yet, intra-Africa trade is only 14% of Africa's overall trade, which is low compared to other regions (e.g., 25% in ASEAN and up to 65% in the EU) (https://bit.ly/3zIKeA8).
5. These value chains connect countries in the region to supply inputs for the production of goods and services, while allowing them to strengthen specific stages of the value chain depending on their comparative and competitive advantage. See also https://bit.ly/31K068O.
6. These include automotives, leather and leather products, cocoa, soya, textiles and apparel, pharmaceuticals and vaccine manufacturing, lithium-ion batteries, mobile financial services, and cultural and creative industries (https://bit.ly/330jHCA).
7. While there are numerous challenges, progress has been made in addressing some of these impediments in certain value chains, for instance, in services, especially digital services in Rwanda and Kenya; in textiles and apparel in Ethiopia and Egypt; in wood processing in Gabon; and in the meat industry in Namibia, to name a few.
8. https://bit.ly/3r8Ci7q
9. A significant recent development is the launch of the Pan-African Payments and Settlements System (PAPSS) https://bit.ly/3lTI9V8

backbone of production on the continent.[10] Digitalisation is an important vehicle to unlock new opportunities. In many African countries, digital solutions such as mobile money are already helping to scale up cross-border trade by reducing the cost of transactions.[11] In order to overcome the above-mentioned challenges, Africa needs to be able to mobilise domestic resources and attract international capital at scale. Within this mix, sustainability, inclusivity, equity, gender-sensitivity and environmental considerations need to play a role in a proactive industrial policy to guide Africa's transformation.[12] There are significant opportunities for Africa and the EU to engage through the framework of the AU-EU partnership to pragmatically address some of these issues.

THE EU - AN IMPORTANT ECONOMIC PARTNER FOR AFRICA

International partnerships are important and should be based on mutual interests and respect. Europe is still Africa's closest partner in economic (trade and investment) and development terms.

Access to the EU market has traditionally played a critical role in the Africa-EU partnership. Most African countries enjoy preferential access to the EU market, often duty-free and quota-free, through the generalised system of preferences (GSP), including the Everything-But-Arms (EBA) scheme for least-developed countries (LDCs), and through free trade agreements with the EU, including economic partnership agreements (EPAs). Overcoming the rising technical and regulatory barriers to access the EU market will be key for African exporters of (especially processed) goods, and services.

The EU has made resources and support available to Africa. It is Africa's main aid provider – including aid for trade[13]– and it recently scaled up its efforts to stimulate investment in Africa, through mechanisms such as the External Investment Plan (EIP) and the European Fund for Sustainable Development (EFSD).[14] These instruments seek to mitigate investment risk through financial guarantees and blended finance to boost public and private sector capacity, as well as technical assistance and policy dialogue to help improve the business environment.[15]

AU-EU PARTNERSHIP AS AN INSTRUMENT OF TRANSFORMATION

According to the Commissioner General of the African Union (AU) and Head of AU Strategic Partnerships, Levi Uche Madueke, Africa's sustained economic transformation remains one of the greatest opportunities for increased collaboration and impact of the AU-EU partnership.[16]

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10. https://bit.ly/3l9RLuX
11. According to a GSMA study the cost of sending US $200 in mobile money was 1.7% in 2017 (https://bit.ly/3A7b2do). This is substantially lower than the average cost of remitting the same amount via other remittance service providers, which stood at 9.4% (https://bit.ly/3FD0sMx).
12. According to Arkebe Okubay, a leading expert on industrialisation and industrial policy, after much focus on industrialisation in Africa's post-independence years, industrial policy was deprioritised under the Washington Consensus. However, since the recent, largely jobless growth episode in many African countries, which furthermore did not lead to any substantial diversification, there is now a new appreciation for the role of export-promoting industrial policy which coordinates public- and private-sector interventions to bring about sustainable economic transformation.
13. According to the EU Aid for Trade Progress Report (2021), the bloc provided €17.9 billion in 2019 or 38% of the global aid for trade funds, with the largest share, 43%, going to Africa (https://bit.ly/3qd9Lyi).
14. While there is some information on the investments that have taken place so far (see https://bit.ly/35lk45E), an independent evaluation of the implementation and actual impact are to be carried out (see https://bit.ly/3lUvul0)
15. https://bit.ly/3K2imeO
16. https://bit.ly/3HRAHcP

A recent analysis of developing countries in Africa and beyond found that the overall effect of unilateral trade preferences has been positive, but not sizable enough to bring meaningful development. Disaggregated analysis shows that, despite increased exports, poorer countries tend to benefit from trade preferences by exporting simpler and less sophisticated products in which they already have a comparative advantage, rather than entering newer product space (which may require other support in terms of client relations, overcoming non-tariff barriers and so on) or upgrading within the value chain. Importantly, beneficiary countries capture a limited share of the value of the final product.[17] Indeed, despite preferential trade regimes for access to the EU market and investment support measures, African countries' productive capacities and exports have remained overly concentrated in primary commodities and low-value products, with insufficient diversification.[18] The EPAs also remain a sensitive issue in many African circles. These are sometimes perceived as a stumbling rather than a building block to Africa's own integration, for example, due to their most favoured nation treatment requirement.[19] It is important that the AU-EU partnership explicitly seek to identify and build on potential synergies, and deploy accompanying measures to contribute to the African priority of sustainable and green industrialisation.

African exports to the EU are increasingly subject to a range of stringent technical and due diligence standards. Many African producers and exporters find these difficult to meet. There is also trepidation that the European Green Deal will further inhibit value-added exports from Africa to the EU. Meeting higher standards can arguably contribute to higher value of, and higher price for, African exports by catalysing modernisation and upgrading of production systems. However, these standards can also constitute a de facto barrier to exports from Africa. In addition to a review of the requirements, active support is needed to assist African firms in meeting the standards. SMEs are especially important in this regard, as they are a motor for job creation and, through active support, can be successfully integrated into value chains, by becoming important suppliers to larger firms.[20] This process can be revved up by investments that facilitate African- European business-to-business connections. Thus, beyond trade partnership, there is a need to forge a stronger investment partnership that can foster African productive capabilities with greater value addition and ability to meet higher standards requirements. These capabilities will serve domestic markets as well as trade, both within the African continent and beyond, including with the EU. In particular it is essential to encourage investment from Europe into Africa to serve the African market, following the example of Chinese investment.

While market access and investment promotion are important dimensions in building African production capacities, they are not sufficient to ensure structural transformation. The current organisation of international production systems and global value chains, with market power often concentrated in a few firms, may perpetuate investments mainly in raw commodities and low-value production in African countries, keeping them at the bottom of the ladder.[21] The dominance of a small number of transnational corporations in large markets makes it harder for developing countries to move into higher value-added activities and to upgrade value chains. It also reduces these countries' value and profit share,

17. https://bit.ly/3qeIviQ
18. About two thirds of Africa's total exports to the EU are in primary goods (https://bit.ly/3tgNbXj).
19. Reciprocal access through liberalisation has been deemed "disproportionate and unfair in relation to the economic capacities of African states". Moreover, the interim EPAs signed by some countries within a customs union may "undermine mutual trust and regional cooperation and result in trade deflections" thereby undermining African regional integration. Ongoing AfCFTA negotiations seem to further contribute to a certain "fatigue" in the EPA discussions because some African negotiators have the two processes to follow (Please cf. https://bit.ly/3K04HVB; https://bit.ly/3K081Ag).
20. https://bit.ly/3zLK5Mg
21. For instance, Africa accounts for two thirds of global cocoa production, but only about 4% of the global US $150 billion chocolate industry. The EU is the world's largest cocoa importer (60% of total), with the Netherlands, Belgium and Germany being the largest importer, processor and consumer respectively. Despite efforts to promote the development of this value chain, through for example, the "sustainable cocoa initiative" (focusing on sustainable production practises as well as stimulating greater value addition through cocoa grinding and other processing), the overall prospects for significant value addition (e.g., through chocolate manufacturing), remain limited as countries are not competing on equal footing. Not only do major cocoa processors enjoy substantial subsidy support in sugar and milk (including milk powder), which are major inputs to make chocolate, but a handful of firms and brands in these countries enjoy significant market power, acting as a "gatekeepers" to the consumer market and controlling higher value-added functions in the value chain. In the absence of targeted support in African countries – through proactive industrial policy – the asymmetric relations between producers and processors is unlikely to be adequately addressed (Please cf. https://bit.ly/3Fa8snW; https://bit.ly/3fhll4U; https://bit.ly/3Ggwr65).

with detrimental impacts on firms and workers.[22] Addressing these dynamics requires dedicated and realistic industrial policies that take both the complex technical challenges and politics into account. This should be a priority for Africa and its partnership with the EU.[23] Above all, industrialisation in Africa is dependent on expanded regional trade and investment in African manufacturing capacities, including by European companies.

In pursuing a balanced partnership, Africa and Europe should aim to build on African priorities, initiatives and institutions by establishing mechanisms for joint actions. A concrete example is the cooperation and partnership between the African and European centres for disease prevention and control in response to the COVID-19 pandemic. The establishment of the African Medicines Agency and the new European Health Emergency Preparedness and Response Authority (HERA) provides an avenue for exploring synergies between health initiatives on both continents. One area of current cooperation is regional pharma-manufacturing hubs, involving the Partnership for African Vaccine Manufacturing (PAVM) and the Team Europe SHIRA initiative (Sustainable Healthcare Industry for Resilience in Africa). Digitalisation is another area with significant momentum for cooperation. The jointly launched AU-EU Digital for Development (D4D) Hub aims to leverage digitalisation for inclusive and sustainable development. Its first multi-stakeholder dialogue is set for February 2022 and will provide updates on initiatives and programmes in this space.[24]

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MIND THE GAPS

An important gap in the partnership is the mismatch between short-term programming and initiatives and the long-term nature of the development process – which requires consistent support and patient capital, and may not show immediate results. Development is a complex and political process. It requires highly context-specific interventions, including trial and error. Policies and support programmes, however, bring pressure to disburse money and demonstrate quick results. They are inherently driven by demand to measure results and yield value for money. The focus in such a context tends to be on bringing in "best practices", rather than "best fit",[25] leading to what some have called "solutionism".[26] To address this, we need to rethink how short-term policy interventions and programmes can more effectively support long-term development. More emphasis is also needed on promoting local ownership through healthy experimentation and industrial policies tailored to the context of a country or sector.

It is also important to situate the AU-EU partnership within the broader geopolitical context of Europe's own competition for influence vis-à-vis other (emerging) powers such as China, India and Turkey. For example, based on its own development experience, China is heavily investing in African hard infrastructure,[27] and seeking commercial opportunities from Africa's youthful population, while assisting

22. For instance, China, despite being the largest exporter, accounts for only 3% of global profits in the electronics industry. The United States, given the global control and power that US firms have amassed over the years, accounts for 33% of global profits in this industry, even though it exports less than China (https://bit.ly/3qdWK7p).
23. To avoid "ideological imperialism", rooted in technocratic approaches to development cooperation, Africa and Europe should more explicitly embrace the rather difficult socio-political considerations and choices that decision makers face, and bring nuance into how these are navigated, rather than reducing them to issues of corruption and capacity. Going beyond technical solutions can also avoid the paternalistic view whereby Africa has problems and Europe would have solutions.
24. https://bit.ly/3f9r6li
25. This involves distinguishing between form and function, as well as looking at de jure and de facto sources of power to bring about development in a particular context (https://bit.ly/3K2unkL).
26. That is, providing a solution to a problem without adequately analysing it, which may result in unintended consequences (https://bit.ly/3neh7zw).

countries on the continent in moving up value chains by industrialising.[28] Though China's track record remains far from definitively positive, African countries value China's partnership insofar as it has allowed them to accelerate economic development.[29] Caricaturing the China-Africa relation as "debt-trap diplomacy" or "resource extraction" does not do justice to its diverse and maturing nature.[30] The AU-EU partnership would do well to draw lessons from China's experiences to tailor its own activities. Rather than trying to expand the number of issues and activities covered, the AU-EU partnership should focus on areas where it brings a clear added value and comparative advantage, based on African and European mutual priorities and interests.

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PRACTICAL RECOMMENDATIONS TO ENHANCE THE PARTNERSHIP

There is significant scope for a stronger, more explicitly "branded" AU-EU partnership.[31] Here we offer five examples of opportunities in areas relevant to the economic development and trade agenda.

27. China has financed one in every five African infrastructure projects in the past two decades and constructed one in every three. It is the largest source of funding outside African countries' own government budgets. The amounts provided not only exceed those from the EU, but also surpass funds from the international development finance institutions, which are also supported by the EU (https://bit.ly/3zKFNVr).
28. https://bit.ly/3JZlzMe
29. https://bit.ly/3K0dnM0
30. https://bloom.bg/3r5oDOk
31. https://bit.ly/3nf9GYK

OPPORTUNITY 1

FOCUS EXPLICITLY ON AFRICAN EXPORT-LED INDUSTRIALISATION AND PRIVATE SECTOR DEVELOPMENT THROUGH TRADE

Give particular attention to designing and implementing robust industrial and trade policies (pursuing sustainability and inclusion and fostering dynamic services). Making this a success requires:

- rigorous context analysis, to identify appropriate strategies, policy space and support; and
- accepting a degree of risk and engaging in an iterative process of learning and adapting.[32]

Emphasise building productive capacities and creating quality jobs, especially through regional value chains, given their relevance in the ongoing AfCFTA endeavour. Focus on:

- regional strategies, which if carefully designed, can yield truly win-win partnerships between countries;
- striking the right balance between national priorities and regional ambitions; and
- sector-specific support, identifying niche activities in a value chain that can foster collaboration between countries in the current competitive environment.

Actively foster linkages between the EU and the African private sector, especially SMEs, by exploring supplier relations. Through "learning by exporting", African firms can quickly expand their productive capacities while becoming acquainted with EU standards requirements through peer exchange and feedback.[33] Promoting this "missing middle" is key to truly reap the benefits of the AfCFTA. Instruments that can serve this purpose are:

- trade fairs;[34]
- strategic joint ventures between African and European firms; and
- matchmaking instruments.

OPPORTUNITY 2

GIVE SPECIFIC ATTENTION TO THE AfCFTA

Pay specific attention to the AfCFTA process, focusing on:

- AfCFTA implementation and other accompanying measures;[35]
- existing African agendas, such as support to reduce non-tariff barriers;
- the coherence of trade agendas with external parties, including the EU, with the AfCFTA framework and priorities.[36]

Stimulate exchanges of experiences, as these can provide concrete assistance in response to needs on the ground, resisting the allure of ready-made solutions and one-size-fits-all models.[37] Exchanges of experiences can be particularly beneficial on topics of:

- regional integration processes (e.g., regulatory issues and institutional development);
- regional value chain development, among many others.

OPPORTUNITY 3

SUPPORT DIGITALISATION FOR INDUSTRIAL DEVELOPMENT

Digitalisation plays a central role in sustaining industrial development. Key areas to advance African digitalisation are:

- knowledge sharing on digital technologies;
- scaling up of investments in soft infrastructure (e.g., skills building and R&D); and
- cooperation on topics like standards, data sovereignty, regulation and governance.

Given the important role of education in attaining industrialisation goals, the partnership can promote greater collaboration between educational institutions (especially for higher learning) and scale up existing programmes, including scholarships.

OPPORTUNITY 4

SITUATE THE AU-EU PARTNERSHIP IN THE GEOPOLITICAL CONTEXT

Tailor support to African needs, while focusing on comparative advantage. An example is the Global Gateway Initiative recently launched by Europe to be more strategic in two main ways:

- by focusing on technical expertise while providing financial assistance, for instance, to support regulatory framework reform and adoption of standards and norms;[38] and
- by "crowding in" private investment through a mix of grants, soft loans and guarantees, thereby having greater indirect impact.

For infrastructure investments, leverage existing mechanisms, like Team Europe, better by:

- incorporating sustainability aspects, such as the use of renewable energy, digitalisation and transport infrastructure; and
- placing soft infrastructure and regulatory issues at the forefront, such as data protection and privacy laws, strengthening intellectual property rights, trade facilitation and competition policy.

Strengthen collaboration among financial institutions for development through, for example, regional investment platforms:

- to support SMEs and entrepreneurship, preferably working through domestic institutions; and
- to attract more patient capital towards productive investments in Africa.

OPPORTUNITY 5

PRIORITISE AN APPROACH THAT ENSURES POLICY CONTINUITY AND OWNERSHIP

- Make continuity of support a priority, to reconcile the inherently long-term quest for development with short-term programmes and projects.
- To ensure local ownership of projects and programmes, establish joint mechanisms to pursue common actions.
- Channel support through African mechanisms and institutions, building on existing initiatives that reflect African ambitions. An example is to provide private sector, trade and investment support through the Boosting Intra-Africa Trade initiative.[39] This does not, however, prevent Europe from drawing on its own experiences and instruments.
- Promote a more structured and intensive dialogue with civil society actors in both Africa and Europe, including research institutes and think tanks. They can be instrumental in creating greater awareness of the agendas and policy priorities of each side.

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32. https://brook.gs/3qfUOeU
33. These are likely to bring greater results than complex investment protocols which may or may not unlock flows of investment and knowledge.
34. The Intra-Africa Trade Fair (IATF 2021) resulted in over US $40 billion in investment deals, demonstrating the huge potential of such fairs (https://bit.ly/3yfwdZZ).
35. This includes reforms (e.g., of the regulatory and institutional environment and streamlining and eliminating non-tariff measures and barriers) and investment (hard as well as soft, including education), among many other things. It is these complementary measures that will yield the biggest gains from the AfCFTA.
36. https://bit.ly/3zJga7v
37. Such exchanges may help identify areas for more concrete cooperation going forward. For instance, technical assistance may be involved in one area, while in another it may be more about regulatory setting, institutional or organisational development, or market opportunities in terms of linking suppliers.
38. https://bit.ly/3JVTXb7
39. https://bit.ly/3zOCz33 For instance, BIAT clusters are well articulated, and espouse good practice in aid effectiveness, making it a demand-driven initiative. A productive way forward could be examining how the AU-EU partnership can accelerate such an initiative by focusing on important aspects such as productive capacities, trade policies, trade related infrastructure and trade facilitation through trade finance, trade information, among others.

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