

Diversifying trade could help Africa industrialise, says UN

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One of the well-known limitations to Africa's economic growth is the lack of value-adding to exported raw materials.

The continent typically exports fairly low-value products while most of its imports are manufactured goods. In this sense, Africa needs to industrialise to the point where value is added on the continent through [manufacturing](#) and processing infrastructure development.

Last month, *How we made it in Africa* interviewed Bertus Coetzee, managing director of Dolphin Bay, a [South African](#) based company which manufactures a range of products for the protection and preservation of sawn timber. Coetzee expressed his frustration over the fact that they have to import materials from other places in the world that originated in Africa, in order to manufacture their wood preservatives.

“So Africa is [mining](#) chrome for instance, and is exporting the raw chrome out to China and we are importing it back in as a finished product,” explained Coetzee. “That’s not good.”

The recent United Nations’ Economic Report on Africa 2013, titled *Making the Most of Africa’s Commodities: industrialising for growth, jobs and economic transformation*, highlighted a number of limitations to Africa’s industrialisation. Among these was the argument that Africa needs to diversify its exports and add-value to its raw materials.

“Emerging markets’ burgeoning demand for primary commodities may not encourage Africa to diversify its export composition – and the continent cannot indefinitely rely on foreign capital and technology for its industrial needs... Hence it must build required capacities to add value to the goods it produces,” stated the UN report.

Increased intra-Africa trade can also support industrialisation

In addition, the report also highlights the need to promote regional and intra-African trade, the share of which is extremely low in comparison to other regions in the world, at around 10-12%.

“As intra-African trade is more diversified and favours manufactured goods than Africa’s trade with external partners, increased trading among African countries has huge potential to support industrialisation and structural transformation,” noted the UN research. “The low share of intra-African trade also underscores the necessity to overcome the numerous trade related constraints within the continent, such as tariff and non-tariff barriers, poor [infrastructure](#), lack of exploitation of supply chain potential, paucity of productive capacity, governance issues and instability of security.”

Continental Free Trade Area proposed

There has also been talk of a continental free trade area being established by 2017. According to the United Nations, in January last year, African heads of state and government endorsed the African Union’s action plan for Boosting Intra-African Trade and Fast Tracking the Establishment of the Continental Free Trade Area by 2017.

“This decision is of utmost importance as it aims to reinforce trade relationships among African economies, focusing on a few activities for seven key priority clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade [finance](#), trade information and factor market integration,” stated the UN report.

It is expected that these measures will help to double the share of intra-African trade by 2022. While the removal of tariff barriers would mean that some economies will see their real income decline – as tariff revenues often represent a major source of income for African governments – the report states that intra-African trade of industrial goods would particularly benefit.

“The full removal of tariff barriers accompanied by trade facilitation measures would bring the share of industrial commodities in intra-African trade to about 70%, offering greater [opportunities](#) for value addition,” explained the UN report.