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NEW OPPORTUNITIES FOR AFRICA IN THE GLOBAL SUPPLY CHAIN

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Can the ongoing trade war between China and the United States (US) together with the impact of the Covid-19 pandemic create both opportunities and challenges for Africa?

Before exploring these, it is worth making three general

observations on Africa's place in global trade. First, Africa mainly exports primary goods (metals, oil, gas, fishery products, agricultural products, logs from forest exploitation, etc.) and imports manufactured products. Second, Africa exports far more outside than within the continent. According to the United Nations Conference on Trade and Development (UNCTAD),

the share of Africa's exports to the rest of the world was between 80% and 90% of total exports during the period 2000-2017. In contrast, intra-African exports accounted for only 16.6% of total exports in 2017. Third, since exported primary goods are often used in production processes outside the continent, Africa has little control over their prices. The recent example of the Covid-19 pandemic has shown the repercussions of this

situation.

The slowdown in global demand and, *de facto*, in the demand for primary goods, has resulted in a loss of revenues for African economic operators and States.

In addition, due to the shutdown of manufacturing facilities in supplying countries outside Africa and the restrictions put in place (for example in the transportation sector), access to imported goods has become increasingly more difficult, a key example being access to medicine supplies.

Shortening and regionalizing the supply chains could be a solution to remedy this situation. The adoption of an industrialization strategy, consisting in the local manufacturing of goods, would help increase the added value created in the African continent and, thus, reduce its dependence on imports during international crises.

The truth is that we are already observing the emergence of these trends. Here are some examples of initiatives taken at local, continental and global levels. At the local level, several Sub-Saharan African countries are favoring the local processing of commodities. In Gabon, a decision prohibiting the export of unprocessed logs was passed in 2010. In September 2020, this prohibition was extended to all member countries of the Economic Community of Central African States (CEMAC).

In the same vein, the building of two cocoa processing plants in Abidjan and San Pedro (in Ivory Coast) was announced in September 2020. This initiative, financed by a Chinese loan, aims at increasing the share of the added value created locally. A white paper on the industrialization of Ivory Coast was also recently published by the *Confédération Générale des Entreprises de Côte d'Ivoire*. Many non-African countries invest in Africa. Among these, China is a particularly interesting example of the current trends. China has created special economic zones and industrial zones in Ethiopia, allowing Chinese companies to outsource part of their production, in particular in the textile industry. Ethiopia, with its young population, its competitive salaries and its large domestic market, represents an attractive destination and additionally allows investor countries to benefit from the agreements that exist between Africa and the European Union (EU) and between African and the US. The Chinese Belt and Road Initiative, which consists in the building of infrastructures as part of a trade network, also passes through East Africa and is complementing these relocations.

For these local initiatives to succeed, African economic operators need to achieve critical size and economies of scale. This requires creating sufficiently large markets and getting access to

non-African markets.

At the continental level, the agreement establishing the African Continental Free Trade Area (AfCTA), which is expected to effectively begin on 1 January 2021, aims at creating a single market for goods and services, and promoting industrial development through diversification. At the global level, Africa has established agreements with the EU and the US. With the Cotonou Agreement, concluded in 2000 between the EU and the African, Caribbean and Pacific States, the latter enjoy a very wide exemption from customs duties for their exports to the EU. One of the main expectations following the term of the Cotonou Agreement, which will expire on 31 December 2020, is the development of the private sector and further industrialization. Under the African Growth Opportunities Act, a trade agreement enacted in 2000, Sub-Saharan African countries are allowed to export a list of products to the US duty free. Africa benefits from abundant natural resources, including for the production of energy, and has a population set to double within the next 30 years (from 1.3 billion to 2.4 billion people). In this context, there is no doubt that Africa's share in the global supply chain will increase.



The second part
will be published
in the next issue

AFRICA

