FOCUS ISSUE 3: AFRICA AND INTERNATIONAL TRADE

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- The NEPAD founding statement of 2001 emphasised the importance of trade and within this a number of specific themes including diversification of production, enhanced international competitiveness, promotion of exports, and improvements in market access. The paper prepared by the NEPAD Secretariat for the 7th meeting of the APF in Moscow in October 2006 identified 4 main areas in which African efforts were focused: deepening of African integration; trade facilitation efforts; private sector participation in building trade-enabling infrastructure; and mainstreaming of trade and national development strategies;

International Community:

- The Doha WTO Ministerial Declaration of November 2001 launched the Doha Development Agenda (DDA) round of global trade talks, with the aim of improving market access and reducing subsidies, in order to help developing countries integrate into the multilateral trading system.

- The Hong Kong WTO Ministerial Declaration of 2005 agreed, subject to the conclusion of the Doha Round:
  - To substantially reduce domestic support for agriculture and eliminate all forms of agricultural export subsidies and to discipline all export measures with equivalent affect by the end of 2013;
  - To eliminate all forms of export subsidies for cotton in 2006, and to reduce trade distorting domestic subsidies for cotton production more ambitiously and over a shorter period than generally applicable;
  - To implement duty and quota-free market access for 97% of imports from Least Developed Countries, and to introduce simplified and transparent rules of origins to facilitate LDC exports.

- It also agreed to provide more support to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure necessary to help them implement and benefit from WTO agreements and more broadly to expand their trade, through increased 'Aid for Trade'.

- Many developed countries also have their own preferential trade programmes covering sub-Saharan Africa. The EU is aiming to complete negotiations with African, Caribbean and Pacific countries on new Economic Partnership Agreements (EPAs), compatible with WTO rules and replacing existing references under the Cotonou Agreement.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Africa has made good progress on the trade policy side. Average tariffs are now similar to other developing countries and quantitative restrictions have been largely limited. Export taxes have been largely eliminated. Reforms have been directed towards improving competitiveness, and investing in measures to facilitate trade including customs administration reforms. Investment in infrastructure is being stepped up. Important steps forward have been taken on regional integration;

- However significant supply-side and competitive problems remain, and more needs to be done to address these, to put in place measures (at both national and regional levels) to facilitate trade, to deepen the process of regional integration, and to address infrastructure constraints.

International Community:

- Despite political commitment to work towards an ambitious and well-balanced outcome to the WTO Doha Development Round, including implementation of the commitments made at the 2005 WTO Ministerial in Hong Kong, progress has been very slow. Negotiations have actively resumed in Geneva after the 2007 summer break. Multilateral agreement on the gradual elimination of export subsidies for agriculture remains tied to the signing of a broader agreement. Large-scale domestic support measures – including for cotton – remain in place. Only a WTO agreement can address the barriers to market access not only in OECD economies, but also in key emerging markets, where African exporters face significant market access constraints in terms of tariff peaks and tariff escalation;
- Preference schemes have however continued to evolve over this period, including the EU's 'Everything But Arms' scheme which provides for 100% duty and quota-free access for LDCs by 2009, the US African Growth and Opportunity Act (AGOA) which provides duty-free access to the US market for nearly all goods produced in beneficiary countries in sub-Saharan Africa, and similar schemes from other developed countries such as Japan and Canada;
- Increased resources have been provided for Aid for Trade, and an enhanced Integrated Framework is currently being developed to increase predictability and monitoring of donor funding, and to strengthen co-ordination between development partners and with African countries.

WHAT HAVE THE RESULTS BEEN?

- African exports have grown dramatically since 2000. In the previous decade (1990 – 2000) they increased only slightly from US$ 126 billion to US$ 159 billion, Africa's share of world trade fell from 2.9% to 2.0%. Between 2000 and 2006 they increased to US$ 290 billion, and Africa's share of world trade rose from 2.0% to 2.3%. Despite a sharp increase in imports, Africa's trade balance is in surplus;
- Whilst there has been some progress on non-traditional exports, much of the growth is due to the boom of oil and commodity prices. 4 of the top 5 African exporters of goods in 2005 were oil exporters. Only 13 African countries have been able to increase diversification of exports between 2000 and 2005 – all other countries have either stagnated or receded, and less than 30% of the exports of sub-Saharan Africa comprise manufactured products, compared to an average of 70% for all developing countries. Significant supply-side and competitiveness problems have prevented African countries from taking full advantage of existing preferential trade arrangements (Cotonou, EBA and AGOA) other than for garments. Measured over the longer term, Africa's share of world trade is still barely half the level of the early 1980s, and lags behind what is needed to sustain accelerated economic growth and poverty reduction;
- There have however been significant shifts in trade patterns. Although Europe remains Africa's principle trading partner, trade with Asia – and China in particular – is growing rapidly, in large part due to oil and primary commodity trade;
- Intra-regional trade flows among African countries are lower than in other regions, accounting for less than 10% of the continent's total external trade figure (compared to nearly 20% for the Western Hemisphere, and over 40% for Asia).

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Address supply-side constraints, by improving the investment climate, enhancing competitiveness, and tackling infrastructure constraints – in this way mainstreaming the capacity to trade (ie produce and export) in broader growth strategies;
- Invest more effort in specific measures to facilitate trade, including reforming customs administration and other regulatory issues, both at national and regional levels;
- Deepen regional integration by reducing tariff barriers, simplifying customs procedures, and addressing other non-tariff obstacles to intra-regional and South-South trade, alongside active engagement in multilateral fora.

Response by the international community:

- Implement specific commitments made at the 2005 WTO Ministerial in Hong Kong. Continue to work for an ambitious and well-balanced outcome to the WTO Doha Development Round delivering significant gains for developing countries;
- Ensure that preferential rules of origin are transparent and simple, facilitating market access, and in place by 2008;
- Successfully complete the EU's negotiations with African, Caribbean and Pacific (ACP) countries on Economic Partnership Agreements (EPAs) on a timely basis, with the objective of promoting Africa's trade and development
- Provide more support for African initiatives to address supply-side and competitiveness problems, including through support for efforts to improve the investment climate and competitiveness, and through increased 'Aid for Trade'.

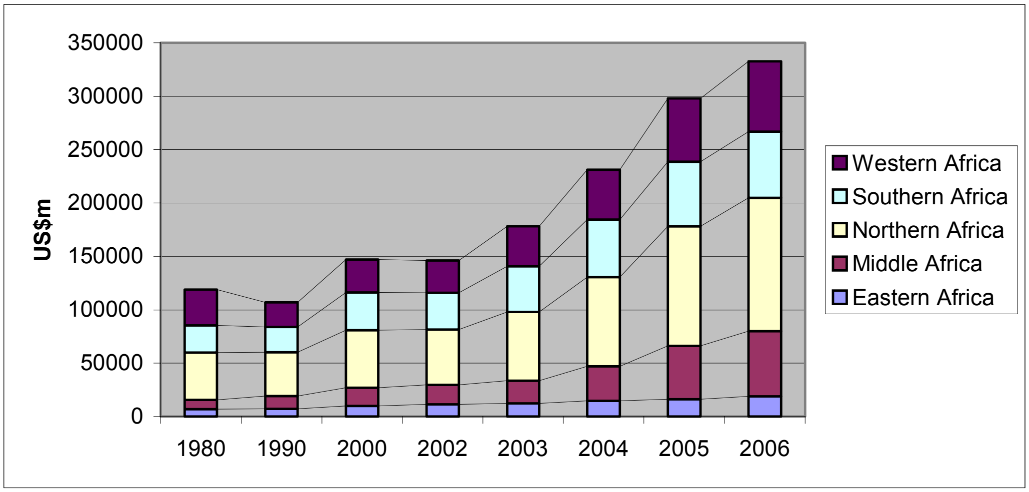
I. Successes, bottlenecks and next steps

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
Improving market access / reducing subsidies	Agreement at 2005 WTO Hong Kong Ministerial to: - Reduce domestic support for agriculture and eliminate all forms of agricultural export subsidies and discipline all export measures with equivalent affect by the end of 2013; - Eliminate all forms of export subsidies for cotton in 2006, and reduce trade distorting domestic subsidies for cotton production; - Implement duty and quota-free market access for 97% of products from Least Developed Countries, and introduce simplified and transparent rules of origins to facilitate LDC exports.	Implementation subject to successful conclusion of the Doha Development Round. Pending this there are still significant domestic and export support measures that distort competition and disadvantage African producers and exporters Only a multilateral round can also comprehensively address tariff peaks and tariff escalation which African exporters face in OECD and emerging economies In addition to traditional tariff barriers, exporters now also face requirement to comply with new health and environmental standards	Take forward discussions which have now resumed in Geneva on the Doha Development Round, in order to deliver an ambitious and well-balanced outcome in line with political commitments to this effect. Accelerate international harmonisation of health and environmental standards, broaden access to information, and reinforce capacity to meet new standards	International community
	Prefential agreements have continued to evolve. AGOA covers 38 SSA countries and has been extended from 2008 to 2012. EU, Japan and Canada have specific preferential arrangements for LDCs, which are WTO-compatible	Benefits limited due to factors including the restrictive impact of rules of origin, and supply-side constraints Current EU preferential arrangements with ACP not WTO-compatible	Timely conclusion of EU negotiations with ACP on Economic Partnership Agreements Ensure that preferential rules of origin are transparent and simple, and help to reinforce regional integration Ensure appropriate adjustment mechanisms for those adversely affected Strengthen supply-side capacity	Development partners and African states
Reinforcing the capacity to develop and implement trade related policies	There has been major export growth in certain sectors such as horticulture, livestock, fisheries and cotton The reduction of export subsidies in Africa has stimulated export growth	Insufficient c-oordination between trade and development/supply- side policies	Mainstream trade objectives into economic, industrial and agricultural policies Develop measures to promote investment and to support the private sector Reinforce inter-ministerial coordination around trade / investment objectives	African states and development partners
	Aid-for-Trade resources have increased since 2000	Aid-for-Trade has not been disbursed quickly and has not focused sufficiently on supply-side constraints	Step up the pace of disbursements Target support on supply-side constraints	Development partners

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
	Numerous initiatives to facilitate trade (easing/reducing border controls)	Cumbersome customs and administrative entry procedures	Simplify customs, export clearance and administrative entry procedures	African states
	Investment is growing due to an improved business environment	The lack of export diversification mirrors Africa's supply side constraints	Improve economic policies and regulations ; develop infrastructure and financial markets	African states and development partners
Developing intra-regional trade	Numerical increase in and intensification of customs unions and common markets	There are still many tariff and other trade barriers (e.g. roadblocks, distorting/competing tax regimes, infrastructure, corruption, customs procedures) that discourage/impede the development of intra-regional trade	Reduce tariffs and non-tariff barriers at the central and local level – especially through the development of regional infrastructure and cross-border co-operation (joint patrols, trade facilitation)	African states
	Stabilisation of the macro-economic environment	Insufficient co-ordination of economic policies at regional level	Increase regional co-ordination of tax, customs and monetary policies	African states
	Development of regional trade agreements with other regional trade blocs	Partnerships with other regional trading blocs are loosely tied to regional economic integration	Use regional trade agreements to expand growth and export development Agreements with regional trade blocs must be integrated into regional growth and investment strategies	African states / Development partners
	Growth in regional markets	Tendancy for authorities to lag behind private sector integration efforts	Speed up the construction of regional market infrastructure (physical, legal & communications infrastructure)	African states
	Development of regional infrastructure: AU, AfDB and RECs have clarified their responsibilities / G8 countries have strengthened their co-ordination (under the ICA) and launched an initiative to reinforce the capacity of RECs	Regional projects are hindered by numerous problems such as limited harmonisation of legal frameworks and weak capacities Co-ordination of resources and upstream project preparation appear inadequate	Integrate facilities for upstream project preparation; bolster ICA role in co-ordinating initiatives and identifying problems; reinforce the role and powers of RECs as regional project leaders	African states / Development partners

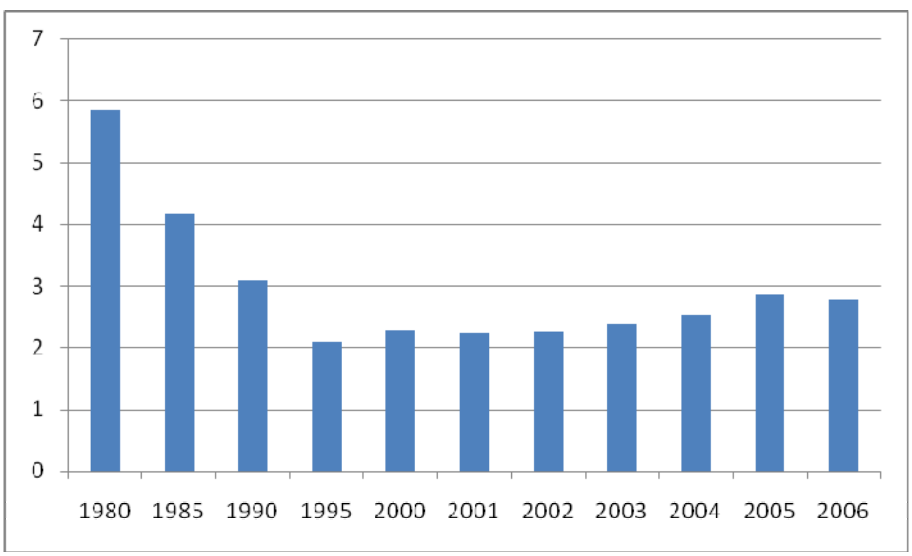
II. Results

Figure 1: Exports from Africa by region, 1980-2006 (US$m)



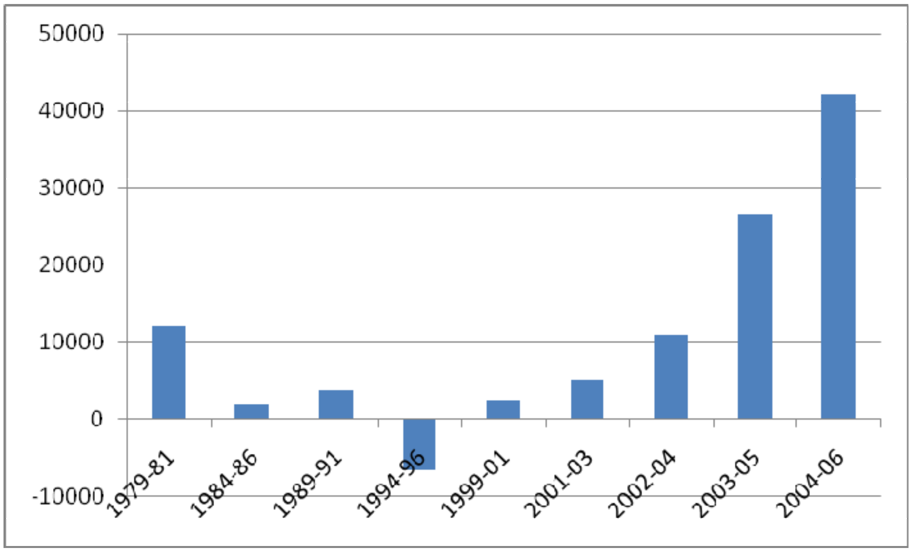
Source: UNCTAD Handbook of Statistics 2006

Figure 2: Africa's exports as share of world's exports (%)



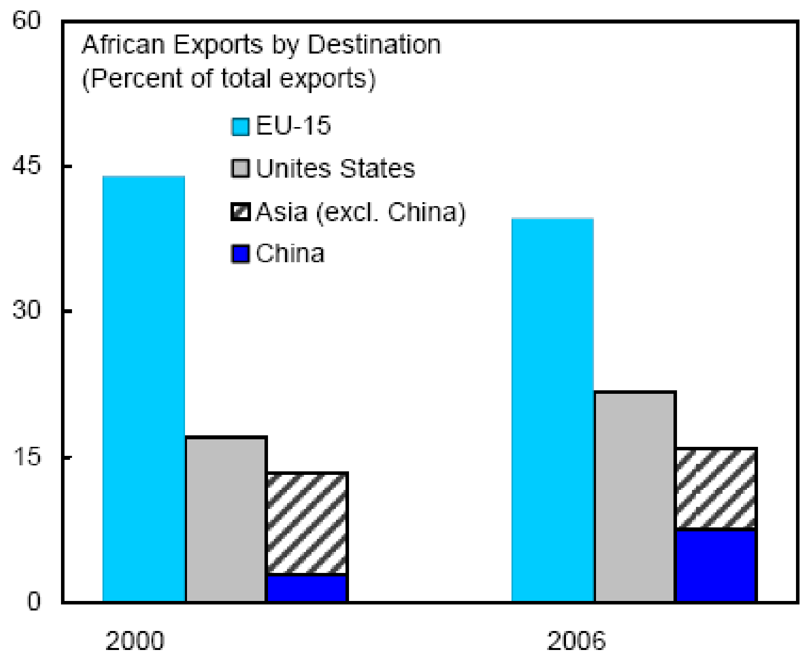
Source: UNCTAD Handbook of Statistics 2006

Figure 3: Evolution of Africa's trade balance, 1979-2006 (US$ millions)



Source: UNCTAD Handbook of Statistics 2006

Figure 4: African Exports by Destination (% of total exports)



Source: IMF, Direction of Trade Statistics

ANNEX: Key monitoring issues

1. Improving market access / reducing subsidies

Indicators	Evaluation
1. Tariffs and quotas	WTO's Hong Kong Ministerial meeting decided that all developed countries should provide LDCs with duty-free, quota-free market access for at least 97% of imports; In addition, the European Union has offered ACP countries unlimited access to its market in the context of Economic Partnership Agreements (EPA);[1] Some simulations appear to indicate that African output and exports of processed products would benefit from wider liberalisation under the Doha Round, provided that they were able to receive special and differential treatment (ECA); [2] However, the Doha Development Agenda (DDA) is still not concluded and there are numerous tariff peaks and tariff escalation on imports from Africa (notably for manufactures and processed goods) in OECD and key emerging markets (UNCTAD TRAINS 2005); Only a WTO agreement could address these barriers; Overall, gains from a successful conclusion of the DDA round will depend on: • Which 3% of exports will continue to face tariffs and quotas (for Africa's 33 LDCs); • Trade liberalisation by developed and large developing countries for agricultural products and labor-intensive manufactures (for Africa's 14 non-LDCs) (WB).[3]
2. Domestic support measures and subsidies	The level of agricultural subsidies in OECD countries remains very high – about $US 268 billion in 2006 (OECD).[4] In the absence of an agreement on the Doha Development Agenda, the gradual elimination of agricultural export subsidies has not yet been achieved. Significant domestic support measures remain in place and do not seem destined to undergo substantial reductions in the near future; In the recent past, many African countries have experienced sharp rises in imports of subsidised agricultural products, to the detriment of domestic output;[5] In this context, African countries are not inclined to reduce their agricultural tariffs without special safeguards;[6] The case of cotton is a striking example of how subsidies can distort international prices and therefore affect African farmers' livelihoods. Any agreement reached within the Doha Development Agenda should include the reform of these subsidies.
3. Health and environmental regulations[7]	The route towards harmonisation or the adoption of international standards – favoured by the WTO agreements on technical barriers to trade and on sanitary and phytosanitary measures – has been complicated by differences relating to environmental and social priorities; other mechanisms recognised by the WTO, such as equivalence agreements or mutual recognition, are difficult to negotiate and are under-utilised;

	Information systems (particularly early warning systems) concerning technical regulations have become more advanced since the mid-1990s; technical assistance has strengthened testing capacities and product certification processes, although major challenges persist; The extreme variation in product standards (many of which originate from the private sector) complicates/frustrates private sector adoption/adaptation efforts.
4. Preferential trade agreements	African countries enjoy preferential access to European and American markets due to preferential systems established under the Cotonou Agreements, the “Everything But Arms” initiative and the African Growth and Opportunity Act (AGOA); AGOA contributed to the doubling of African exports to the United States (US) between 2001 and 2003 – but most of the increase was due to petroleum products[8]; and, despite AGOA, the current value of African exports to the US is the same as in 1980 (ECA)[9]; The trade preferences granted to developing countries by the EU account for 80% of the value of preferential trade at a global level and benefit the ACP countries in particular (67%); but most of these benefits are concentrated on just two products – sugar and bananas (73%) – and a few countries (OECD)[10]; Most LDCs (33 African countries) have benefited very little from preferential trade systems[11], mainly because they export commodities which are subject to strong competition and severe tariff erosion. Other solutions which address African LDC’s ability to adjust their supply-side capacity need to be applied to their export problems. Some African countries could suffer losses from further multilateral liberalisation in the form of erosion of their preferential access to rich country markets. But this is only the case for a limited number of traditionally well-protected products (such as processed goods, sugar and bananas), and for only a few countries (which are not necessarily the poorest); For these countries and products, adjustment and compensation mechanisms are crucial in the context of the WTO and EPA negotiations. It will be important to ensure future arrangements build on good practice: lessons learned regarding assistance provided to the sugar sector reveal it can sometimes take many years from the decision to grant credits until the moment when the funds are actually released. Furthermore, most adjustment and compensation mechanisms are predicated on administrative reforms (ensuring implementation up to 2014) (ICTSD)[12].
5. Rules of origin	The AGOA rules of origin stipulate a high level of domestic inputs and value-added for products (particularly textiles) that are eligible for export under the scheme. Without these restrictions, the impact of AGOA on non-petroleum products could have been five times greater (ECA);[13] Similarly, the disappointing performance of EU preferential schemes may in part be due to rules of origin requirements (SAIIA).[14] G8 countries committed themselves to promote “more transparent, easier to use and development friendly Rules of Origin, in particular for Least Developed Countries.”(Heiligendamm Statement)[15]

2. Reinforcing the capacity to develop and implement trade related policies

Indicators	Evaluation
1. Mainstreaming trade objectives into national/regional development strategies	The co-ordination of trade-related policies, territorial planning and infrastructure development is critical – particularly at the sub-regional level, and between rural production areas and urban centres. Further, stronger co-ordination of trade and supply-side policies is also needed for accelerating external trade capacity in Africa; In most African countries, export-led development strategies suffer from a lack of coherence with various public policy objectives and their economic, social and environmental costs are often under-evaluated. There are many striking examples of this, such as in the case of fisheries and cash crop sectors, where the extinction of some exported breeds (sea bream, red mullet) as well as environmental impacts on arable land (groundnuts, cotton, etc.) can even threaten a country's ability to export (UNEP);[16] It is unclear in some cases whether African exports have increased (in the face of declining terms of trade) due to productivity growth or to a gradual reorientation of domestic output to exports A multidonor trust fund will help countries to mainstream trade issues more fully in national strategies (initially Burundi, Madascar, Senagal and Tanzania) and support strategic interventions in regional trade issues and country-level supply-side constraints. ."[17]
2. Increase/reinforce effectiveness of aid for trade	The increased Aid-for-Trade that donors have promised to accompany the Doha Round is critical to help African countries i) overcome adjustment costs they are likely to face with further liberalisation and ii) increase their capacity to trade;[18] 37 LDCs (of a total of 50) have become beneficiaries under the Iintegrated Framework (IF), a process launched in 1997 by six institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) to support LDC governments to build trade capacity and integrate trade issues into overall national development strategies. The achievements of the IF have been modest, with only a handful of LDCs securing substantial benefits from the process (WTO). While Aid-for-Trade pledges have increased considerably, work is still needed to improve its effectiveness (e.g. shortening payment periods / scaling up supply-side assistance and support for private sector development). It is also essential to focus more Aid-for-Trade on regional trade constraints. An Enhanced Integrated Framework (EIF) is currently being developed to strengthen co-ordination between donors and recipient countries, improve the monitoring of the EIF objectives and deliver increased, more predictable funding.
3. Accelerate trade facilitation	Trade facilitation reforms and assistance are especially important for Africa, where cumbersome customs procedures, export clearances and formalities, administive entry procedures, etc. create long delays that hamper African entrepreneurs efforts to reach regional as well as global markets (ECA; COMESA); [19] There are currently a number of initiatives to reduce multiple border controls by using one-stop border posts (Kenya/Uganda, Burkina Faso/Ghana, Mali/Burkina Faso, Senegal/Mali);

	Average time and cost for/to export/import in Africa still far exceed those of the rest of the world.
4. Increase in export diversitifcation due to supply-side policies (particularly at regional level)	Modernising and diversifying Africa's supply-side capacities is crucial to avoid adverse impacts from cyclical swings, price volatility and climate fluctuations;[20] Many African countries depend on one commodity for at least 50% of their export income.[21] Indicators measuring the diversification of African exports registered little change between 1995 and 2005: for example, the number of products exported slipped from 261 to 260 and the diversification indicator fell from 0.592 to 0.556 (UNCTAD);[22] Increased investment is the best way to achieve diversification. This will depend on improvements in economic regulations, corporate governance and the fight against corruption, as well as the development of infrastructure and financial markets: • While Egypt, Ghana and Kenya have been classified among the top ten reformers worldwide, there is still work to be done regarding simplification of economic regulations – Africa remains the region of the world where it costs the most (and it takes the longest) to produce goods and services (IFC);[23] • Investment in infrastructure is undergoing rapid growth; • Progress must be made to deepen financial markets[24];

3. Developing intra-regional trade

Indicators	Evaluation
1. Intensification and implementation of regional trade agreements (single markets, customs unions etc.)	Just four regional economic communities (CAEMC, WAEMU, SACU and EAC) have achieved a 100% reduction in their customs tariffs (ECA); Distorting/competing tax regimes, gaps in infrastructure and roadblocks limit the scope of regional trade agreements; Intra-regional trade as a percentage of foreign trade has stagnated apart from a few remarkable exceptions (notably within the SADC due to the normalisation of South Africa's relations with its neighbours and in the WAEMU following the establishment of its customs union).
2. Rationalisation of RECs	Multiple and overlapping membership of regional institutions continue to hinder the co-ordination of policies and programmes (ECA); Experts have proposed to keep to a configuration of eight RECs in order to effect their rationalisation (AU)[25].
3. Co-ordination of economic policies	Competing monetary, customs and tax policies are reducing the scope for efficient regional supply-side development and restricting the impact of the liberalisation of domestic tariffs.
4. Development of regional infrastructure[26]	Regional projects, especially in the field of transport, are central to the NEPAD programme; There has been rapid growth in finance for regional infrastructure, up from US$ 100 million in 2000 to US$ 1 billion in 2006, in large measure due to credits from multilateral agencies. However, the capacity to implement regional projects is still weak due to a lack of national and sub-regional leadership, co-operation and co-ordination; The African Union, the African Development Bank and the Regional Economic Communities have developed arrangements for allocating regional infrastructure development responsibilities but this still needs to be put into effect; The G8 has decided to launch an initiative to bolster the capacity of regional economic communities to initiate and implement cross-border infrastructure projects.

[1] http://www.delmli.ec.europa.eu/fr/presse/doc/EPA_offer_IP%20FR.pdf

[2] Hakim Ben Hammouda, Stephen N. Karingi, Nassim Oulmane and Mustapha Sadni Jallab, "Market Access for Non Agricultural Products – The Impact of the Doha Round on African Economies: *A Simulation Exercice*", ATPC-ECA, Sept. 2006.

[3] Linda Van Gelder and Larry Hinkle, *Africa Trade Issues*, World Bank, April 5, 2007.

[4] New OECD Reports on Agriculture: Agricultural Outlook 2005-14, Directorate for Food, Agriculture and Fisheries, 2005.

[5] Mario Jales, *Tariff Reduction, Special products and Special Safeguards: An Analysis of the Agricultural Tariff Structures of G-33 Countries*, ICTSD, July 2005.

[6] FAO research (supported by indicators for rural development, food safety and living conditions, according to the recommendation of the WTO Ministerial Conference in Hong Kong) has demonstrated that stockbreeding, vegetables, cereals and beverages were among the items most likely to constitute special products liable to be subject to special safeguards. C. f. Ford, J.R.D., Koroma, S., Yanoma, and Khaira, H., "Special products: a comprehensive approach to identification and treatment for development". In "WTO rules for agriculture compatible with development", eds. Morrison, J., and Sarris, A., FAO Rome, 2007.

[7] Dale Andrew, Karim Dahou and Ronald Steenblik, *Addressing market-access concerns of developing countries arising from environmental and health requirements: Lessons from national experiences*, OECD, Sept. 2004.

[8] http://www.lobservateur.bf/Oarticlearchive.php3?id_article=2162

[9] ATPC-ECA, March 2005, *Ibid*.

[10] The top five ACP recipients obtain 35 % of the ACP value of preference margin (VPM). C. f. Peter S. Liapis, Preferential Trade Agreements, *How much do they benefit developing economies*, OECD, 2007

[11] Peter S. Liapis, *Ibid*.

[12] Paul Goodison, *The ACP experience of preference erosion in the banana and sugar sectors*, ICTSD, May 2007.

[13] Equivalent to almost 540 million dollars rather than the 100-140 million estimated. C.f. Hakim Ben Hammouda, Stephen Karingi and Romain Perez, "Unrestricted Market Access for Sub-Saharan Africa: Important Benefits with Little Cost to the QUAD", ATPC-ECA, March 2005.

[14] World Bank, August 1, 2007, *Ibid*.

[15] www.g-8, G8 Heiligendamm Summit Declaration on Growth and Responsibility in Africa, paragraph 26.

[16] UNEP, Integrated Assessment of Trade Liberalization and Trade-Related Policies, Countries Studies http://www.unep.ch/etu/publications/CSII_Synth.htm

[17] Linda Van Gelder and Larry Hinkle, *Ibib*.

[18] World Bank, August 1, 2007, *Ibid*.

[19] Robert T. Lisinge, "Facilitation du commerce intra-africain; Démanteler les barriers pour le commerce intra-africain", CAPC-CEA, Mai 2005 ; Sub-regional meeting on the status of the elimination of non-tariff barriers in COMESA, Blantyre, Malawi, October 2007.

[20] Collier, P., "Primary Commodity Dependence and Africa's Future." World bank, Washington, D.C., 2002.

[21] Oxfam International, "Africa and the Doha Round", Oxfam Briefing Paper No. 80, Nov. 2005.

[22] UNCTAD, Handbook of Statistics, 2006.

[23] International Finance Corporation, *Doing Business 2008*.

[24] Africa Partnership Forum, « Investment: unlocking Africa's potential », Background paper, Berlin, May 2007.

[25] African Union, "Report of the meeting of experts on the rationalization of Regional Economic Communities (RECs), CAMEI/ Expt/Rpt/ (1), 27-29 March 2006.

[26] Cf. Africa Partnership Forum Support Unit, "Progress Report: Transports", Nov. 2007.