

# FOCUS ISSUE 2: TRADE AND DIVERSIFICATION

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## I. Overview of the Commitments

### Africa:

- ◆ The NEPAD founding statement of 2001 emphasized the importance of trade, including diversification of production, enhanced international competitiveness, promotion of exports, and improvements in market access.
- ◆ African governments have consistently emphasized the need for i) deeper regional integration; ii) stronger trade facilitation efforts and reduced trade barriers; iii) improved capacity to trade, including: private sector participation in building trade-enabling infrastructure;
- ◆ The fifth ordinary session of Heads of State and Government of the African Union in July 2005 called for the mainstreaming of trade policy into national development strategies.

### International Community:

- ◆ The Doha WTO Ministerial Declaration of November 2001 launched the Doha Development Agenda (DDA), with the aim of improving market access and reducing subsidies in order to help developing countries integrate into the multilateral trading system.
- ◆ In the Hong Kong WTO Ministerial Declaration of 2005, the international community agreed, subject to the conclusion of the Doha Round:
  - to substantially reduce domestic support for agriculture and to eliminate all forms of exports subsidies for cotton in 2006 and all agricultural export subsidies by 2013;
  - to implement duty and quota-free access for 97% of imports from Least Developed Countries (LDCs) and to introduce simplified and transparent rules of origin to facilitate LDCs' exports;
  - to enhance effective trade-related technical assistance and capacity building so as to help to overcome limited human and institutional trade-related capacity, thus enabling LDCs to maximize the benefits resulting from the Doha Development Agenda (DDA).
- ◆ At Gleneagles in 2005, G8 Heads of State made commitments to support increased trade, including south-south trade, and regional integration -- which is crucial to catalysing economic growth and generating greater incomes in developing countries.
- ◆ Commitments also include a number of specific preferential trade programmes between particular countries. For example, the EU is committed to complete negotiations with African, Caribbean and Pacific (ACP) countries on new Economic Partnership Agreements (EPAs), compatible with WTO rules. The EPAs are an instrument of trade partnership required by the Cotonou Agreement to replace the trade component of Lomé IV.

## II. What has been done to deliver on these commitments?

### Africa:

#### Trade policy

1. Since the late 1990s progress has been made on the trade policy side: average tariffs have reduced, quantitative restrictions have been largely limited, and export taxes have been generally eliminated, although some have been reintroduced in response to rising food prices.

#### Trade facilitation and capacity to trade

2. Many African governments have taken steps to tackle supply-side and competitiveness problems, including through increased investment in infrastructure (see Focus Issue 3 on infrastructure).

#### Regional Integration

3. Important steps towards greater regional integration have been taken, although progress in integrating regional markets remains limited. The overlapping membership of RECs continues to hamper efforts at deepening integration and most of the RECs lag behind their objectives regarding the creation of customs unions and Free Trade Areas. However, at a summit in October 2008, Heads of State from the east and southern African countries that make up the COMESA-EAC-SADC tripartite agreed to create a Free Trade Area and work together to improve regional infrastructure.

### Development partners:

#### Doha Round

4. Despite political commitment to work towards an ambitious and well-balanced outcome to the WTO Doha Development Round – now in its seventh year - multilateral efforts remain deadlocked. Despite progress on a list of issues, the negotiations collapsed in Geneva on July 29, 2008 over the so-called special safeguard mechanism (SSM) to protect developing countries against import surges in food. Although, revised negotiating documents on agriculture and industrial goods were circulated late in 2008, divergences remained and it was not possible to reach a deal by the end of the year. While the SSM was the issue that provoked failure, this was not the only issue standing in the way of an agreement. WTO has said that while concluding the Round should remain the focus in 2009, this should take place within a global portfolio of WTO activities. Work across all negotiating groups will resume in 2009.

#### Aid for Trade (AfT)

4. In 2006, aid for trade to Africa totaled US\$7.752 billion, of which US\$1.55 billion in North Africa, US\$5.16 billion in Sub Saharan Africa and US\$1.04 billion for regional programmes. The breakdown of spending by sector is set out in Table 1 below:

**Table 1: Breakdown of Aid for Trade by Sector, 2006**

US\$ million	
	<b>Africa</b>
<b>Trade Policy and Regulations</b>	534
<b>Economic Infrastructure</b>	
210: II.1 Transport & Storage	2691
220: II.2 Communications	92
230: II.3 Energy	1006
<b>Building Productive Capacity</b>	
240: II.4 Banking & Financial Services	242
250: II.5 Business & Other Services	137
310: III.1 Agriculture - Forestry - Fishing, Total	2023
321: III.2.a) Industry	548
322: III.2.b) Mining	80
332: III.4 Tourism	398
<b>Total AFT per region</b>	<b>7752</b>

Source: OECD

5. While donors have not made any collective pledge to increase the volume of aid for trade by 2010, the United States, the European Union and Japan made pledges to increase their aid for trade contributions. At the WTO's Hong Kong Ministerial Conference in December 2005: the US announced plans to more than double its trade-related assistance from US\$1.3 billion in 2005 to US\$2.7 billion by 2010; Japan also pledged in Hong Kong to provide US\$10 billion in financial assistance in trade, production and distribution infrastructure over the period 2006-2008; and the EC pledged to increase assistance to trade policy and regulations (TPR) and trade development (now counted as part of building productive capacity) to EUR 1 billion annually by 2010. The Joint EU Aid for Trade Strategy entails a collective pledge to increase EU Member States' spending on TPR and Trade development activities to EUR 1 billion per annum by 2010.

#### Preference schemes

6. Bilateral preference schemes have continued to evolve. Initiatives such as the EU's 'Everything But Arms' scheme which provides for 100% duty and quota-free access for LDCs' goods and services by 2009, the US African Growth and Opportunity Act (AGOA), which offers duty-free access to the US market for nearly all goods produced in beneficiary countries in SSA, and similar schemes from other developed countries such as Japan and Canada seek to open up markets to Africa's exports

7. The **Rules of Origin Agreement** requires WTO members to ensure that their rules of origin are transparent; do not have restricting, distorting or disruptive effects on international trade and are administered in a consistent, uniform, impartial and reasonable manner. For the longer term, the agreement aims for common ("harmonized") rules of origin among all WTO members, except in some kinds of preferential trade. The agreement establishes a harmonization work programme, based upon a set of principles, including making rules of origin objective, understandable and predictable. The work was originally due to end in July 1998, but many deadlines have been missed since then.

8. The deadline for concluding Economic Partnership Agreements (EPAs) of end 2007- has had to be extended. By November 2008 only 19 African countries had initiated ‘goods-only’ agreements. One of these countries has since signed an interim agreement. While interim arrangements prevent a loss in market access, they are unlikely to provide a base for stronger export performance, a fact that many African countries recognize, hence their reluctance to expeditiously sign comprehensive EPAs.

### III. What are the results?

#### Volume of exports/ Competitiveness

9. Although Africa as a whole has lost export market share since the 1980s, when it accounted for 6% of world exports, recent years have seen an upward trend -- from the low point in 2000 when the share stood at 2% to 3% in 2007. South-South trade is now a fast-growing and increasing part of Africa’s trade. Between 2005 and 2007, African exports to Asia have grown by nearly 50%. However, about 78% of these exports were concentrated within fuels and mining products. China has become one of Africa’s major partners, with trade (imports and exports) between it and Africa increasing from US\$11 billion in 2000 to approximately, US\$55 billion in 2006 and US\$74 billion in 2007. (See Figure1 below). China is now Africa’s third-largest trading partner after the USA and the European Union. India has announced a duty-free tariff preference scheme for 50 least developed countries, of which 33 are in Africa, to provide preferential market access for their exports. Brazil - Africa trade increased from US\$5 billion in 2002 to US\$19.9 billion in 2007.

**Figure 1: Surging Trade**  
 – Africa’s exports to China are soaring as its terms of trade improve



Sources: IMF, *Direction of Trade Statistics*; authors' calculations

10. African exports (to all destinations) have grown by an average 14% per year since 2000 in dollar terms. Between 2006 and 2007, Africa's exports grew by 15.6%, and now total over US\$424 billion. However, the rapid increase in exports is concentrated in oil-exporting sub-Saharan African countries. About 70% of the continent's exports are composed of fuels and mining products, while agricultural and manufactured products account for about 30% of exports. The export growth of non-oil exporting countries remains just about the world average, meaning that it is the oil-exporters that are generally driving Africa's trade growth. Thus, the trends in Africa's trade performance conceal major discrepancies.

11. Overall, Africa's competitiveness continues to lag behind the rest of the world as statistics from the World Economic Forum<sup>1</sup> show. Only two African countries outperformed the south-east Asia average, and another two the Latin America and Caribbean average.

### **Export diversification**

12. Whilst there has been some progress in increasing non-traditional exports, the gains in Africa's exports are not based on product diversification. 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). Only 13 African countries were able to increase diversification of their exports between 2000 and 2005.

13. Furthermore, many African countries depend on one commodity for at least 50% of their export income and less than 30% of the exports of SSA comprise manufactured products, compared to an average of 70% for all developing countries.

14. Significant supply-side problems have prevented African countries from taking full advantage of existing preferential trade arrangements (Cotonou, EBA and AGOA) other than for garments. All in all, Africa's trade performance is still dominated by the impact of terms-of-trade for oil and a few minerals - four of the top five African exporters of goods in 2005 were oil exporters - meaning that they are vulnerable to adverse external commodity price shocks.

### **Market access/ Subsidies**

#### *Export subsidies and domestic support*

15. In the absence of an agreement on the Doha Development Agenda (DDA), the gradual elimination of agricultural export subsidies has not yet been achieved. Total support to the agricultural sector (TSE) in OECD countries was estimated at US\$365 million in 2007, (OECD Statistics), compared to US\$375 million in 2005 and US\$363 million in 2006. African countries have not reduced their agricultural tariffs and are reluctant to do so without special safeguards.

#### *Tariffs and quotas*

16. The DDA is still not concluded and there remain numerous tariff peaks and tariff escalation measures applied to imports from Africa (notably for manufactures and processed goods) in OECD and key emerging markets.

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<sup>1</sup> WEF African Competitiveness Report 2007

## **Non-tariff barriers**

### Health and environmental regulations

17. 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.

18. Other mechanisms recognized by the WTO, such as equivalence agreements or mutual recognition, have been difficult to negotiate and are under-utilised.

19. Information systems (particularly early warning systems) concerning technical regulations have become more advanced in recent years. 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 private sector adaptation efforts.

### Rules of origin

20. Application of conflicting rules of origin to different countries and products in the same sub-region, for example because some are least developed countries while others are not, has tended to undermine the scope for regional economic co-operation., as different countries in the same regional group experience different trading conditions. Efforts to harmonise rules of origin have been slow, as noted in paragraph 7 above.

## **Capacity to develop and implement trade-related policies**

### Aid for Trade

21. The achievements of the Integrated Framework 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 (for example through shortening payment periods, scaling up supply-side assistance and providing more support for private sector development).

22. It is also essential to focus more Aid for Trade on regional trade constraints. An Enhanced Integrated Framework (EIF) has been developed i) to help LDCs identify their trade development needs and integrate these into national development strategies, and ii) to strengthen co-ordination between recipient countries and development partners, to improve the monitoring of the EIF objectives and deliver increased, more predictable funding

### Trade facilitation

23. Cumbersome customs procedures, export clearances and formalities, administrative entry procedures and so on can create long delays that hamper African entrepreneurs' efforts to reach regional as well as global markets (ECA; COMESA): average time and costs for exporting and importing goods in Africa still far exceed those of the rest of the world. However, there are currently initiatives underway in a number of African countries (such as Kenya/Uganda, Burkina Faso/Ghana, Mali/Burkina Faso; Senegal/Mali) to reduce multiple border controls by using one-stop border posts.

## **Intra-regional trade**

### Regional integration:

24. Africa's trade with the rest of the world has continued to grow faster than intra-regional trade. Whilst intra-regional trade approaches three-quarters of total trade in regions with integration agendas such as the European Union and Asia (through ASEAN), Africa's intra-regional trade is less than 10% of the continent's total trade volume.

25. Multiple and overlapping membership by African countries in a range of regional institutions continues to hinder the co-ordination of policies and programmes (ECA 2005). Experts have proposed a configuration of eight RECs in order to effect their rationalisation (AU).

26. Competing monetary, customs and tax policies are also reducing the scope for efficient regional supply-side development and restricting the impact of the liberalisation of domestic tariffs.

27. 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, cooperation 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 these still need to be put into effect.

28. In 2005, the G8 launched an initiative - the Infrastructure Consortium for Africa (ICA) – whose objectives include helping to bolster the capacity of Regional Economic Communities to initiate and implement cross-border infrastructure projects.

29. Interim EPAs may also hamper regional integration, because they have been signed with individual African countries and groups of African countries without paying particular attention to existing regional economic communities, and their memberships.

## **IV. What are the key priorities?**

### **Emerging Issues**

In 2009, the global economy is forecast to grow very slowly -- by only 1%. World trade could decline for the first time since the eighties, as global demand falls and the availability of trade credit slackens: without trade finance, exports will drop which will in turn worsen the economic climate. This will pose huge challenges. The World Bank estimates each 1 percent drop in growth could trap another 20 million people in poverty.

### **Africa:**

- ♦ Address supply-side constraints, by improving the investment climate, enhancing competitiveness, and upgrading infrastructure – in this way mainstreaming the capacity to trade (i.e. to produce and to export) in broader growth strategies;
- ♦ Invest more efforts in practical measures to facilitate trade and enhance competitiveness, including simplified customs, export clearance and administrative entry procedures, both at national and regional levels and to reinforce inter-ministerial coordination around trade/investment objectives.

- ◆ Support the private sector, promote investment, deepen financial markets and fight against corruption. Use regional trade agreements to expand growth and export development;
- ◆ Deepen the process of regional integration by reducing tariff barriers within RECs, simplifying customs procedures, and addressing other non-tariff obstacles to intra-regional and South-South trade. Ensure that rules of origins are transparent and simple. Speed up the construction of regional market infrastructure (physical, legal & communications infrastructure).
- ◆ Integrate facilities for upstream project preparation; bolster ICA role in coordinating initiatives and identifying problems; reinforce the role and powers of RECs as regional project leaders. Agreements with regional trade blocs must be integrated into regional growth and investment strategies. Increase regional coordination of tax, customs and monetary policies;
- ◆ Coordinate commitments in Doha and EPA negotiations; prepare well-prioritised action plans for Aid for Trade implementation with clear bankable projects at the national and regional level.

**Response by the international community:**

- ◆ Reach agreement on multilateral negotiations directed specifically at the needs of Africa, and including the accelerated elimination of subsidies on crops which Africa produces in the context of the urgent need to boost agricultural production in Africa and globally. Continue to work for an ambitious and well-balanced outcome to the WTO Doha Development Round delivering significant gains for developing countries. Deliver substantial reform in three areas of agriculture negotiations in the Doha Round: domestic support, market access, and export subsidies and related issues (“export competition”). Implement specific commitments made at the 2005 WTO Ministerial in Hong Kong;
- ◆ 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. While AFT pledges have increased considerably, disbursements need to be stepped up and work is still needed to improve effectiveness (e.g. scaling up supply-side assistance and support for private sector development). In addition to supply-side constraints, it is also essential to focus more Aid- for Trade on regional trade constraints.
- ◆ Successfully complete EU negotiations with ACP countries on EPAs in a timely ways, with the objective of promoting Africa’s trade and development;
- ◆ Bolster the role of the ICA in coordinating initiatives and identifying problems. Help strengthen RECS with a view to reinforcing their role and powers as regional project leaders. Ensure that preferential rules of origin are transparent and simple, and help to reinforce regional integration.