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I. INTRODUCTION

1. Africa's trade performance recovered in line with global trends in 2010, with its share in world trade constant at 3.2 per cent. In recent years, Africa has maintained its share of traditional export markets while expanding its share of emerging economies import markets. Despite good post-crisis recovery prospects, rising commodity prices explain around two thirds of recent export growth given the persistent commodity concentration of exports in the continent.

2. This report focuses on developments in international and intra-African trade in 2012. The report first outlines African trade performance focusing on recent trends in merchandise, services, and intraregional trade. Second, it discusses issues related to trade facilitation, export diversification and intra-African trade. Third, it reviews progress of negotiations under the Doha Development Agenda (DDA) and the Economic Partnership Agreements (EPAs), as well as the African Growth and Opportunity Act (AGOA) and the increasing importance of South-South cooperation with China and other Asian economies. Fourth, the report draws conclusions from the Aid for Trade (AfT) initiative and in particular, assesses the impact of AfT, prior to concluding with policy recommendations.

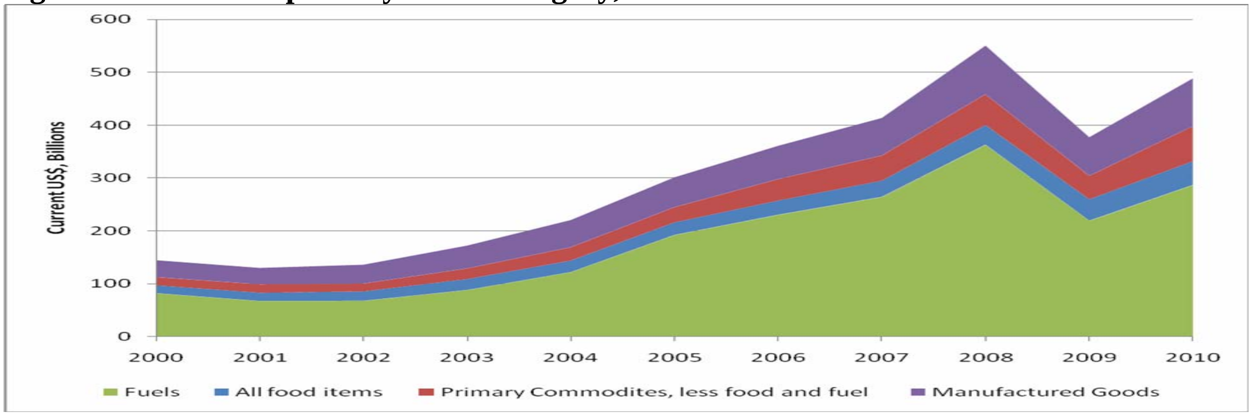
II. AFRICA'S TRADE PERFORMANCE

(a) Merchandise trade

3. Following a significant decline during 2009 in the wake of the financial crisis, recovery was marked by a surge in African merchandise exports of 25 per cent in 2010, exceeding the world average of 21 per cent growth. African imports registered a more modest 15.6 per cent expansion, furnishing a moderate merchandise trade surplus of US$ 5 billion for the continent (UNCTAD, 2011a). However, Africa sustained a 3.2 per cent share of global trade. The enduring prevalence of lack of value addition in Africa's predominantly raw material based-export portfolio has meant that Africa's export fortunes are contingent on commodity price movements, exacerbating the continent's susceptibility to external shocks. Hence, the present trade surplus in primary commodities finances a deficit in local production of manufactures and food, bolstering the need for improving resilience against external shocks.

4. Given the continuing dominance of primary commodities, in particular fuels, in Africa's export portfolio (see figure 1), export revenues are concomitant with international commodity price trends. Rising commodity prices explain around two thirds of recent export growth given the persistent commodity concentration of exports in the continent. To illustrate this commodity bias, while the value of African exports fell by 31 per cent in 2009 and grew by 25 per cent in 2010, export volume only fell by 11 and subsequently recovered by 9 per cent in the respective years meaning that price effects explained almost two thirds of the growth in trade values. The concentration of fuels in Africa's export portfolio leads to a large surplus in trade in fuels, which finances Africa's imports of manufactured goods, underlining the case for building productive capacities for structural transformation.

Figure 1 : African exports by broad category, 2000-2010



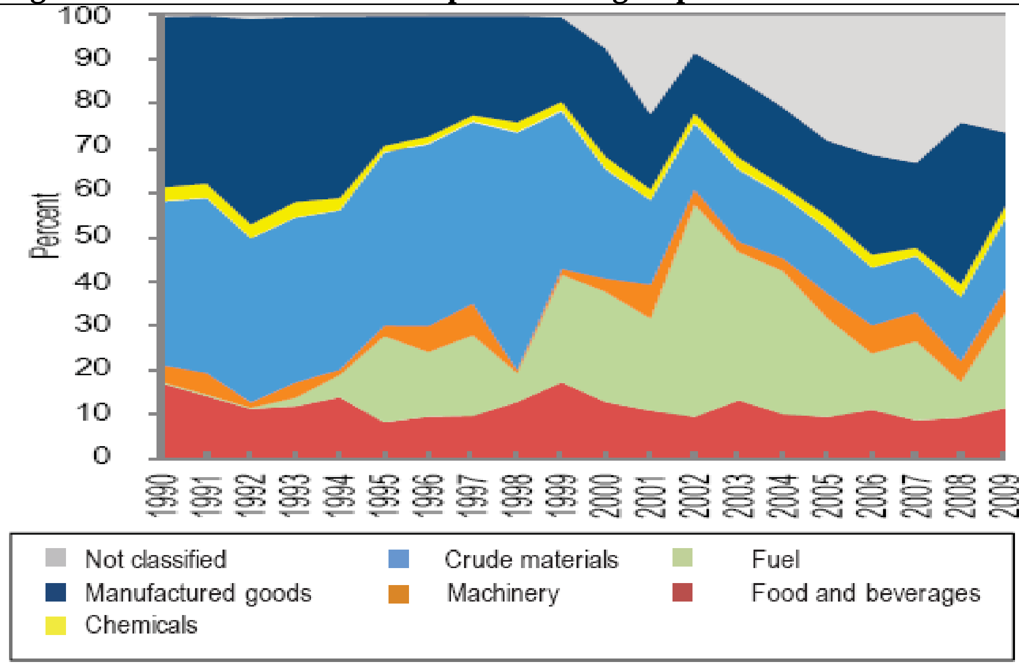
Source: UNCTAD 2011 – date accessed 19/10/11.

5. The lacklustre response of imports relative to exports can be attributed to more inelastic demand in Africa compared to those regions greater affected by the economic crisis in 2009 (WTO, 2011). Indeed, import contraction through 2009 in Africa was less than that observed elsewhere, partly due to lower prices on foodstuff which favoured African net importers (ECA, 2010). In addition, developing economies may face foreign reserve constraints and there is evidence that the disjoint between exports and imports is more pronounced in these cases (Arize and Nippani, 2010).

6. Africa's diversification of trading relationships towards emerging partners has been well documented (AfDB, OECD and UNECA, 2011; UNCTAD, 2010, IMF, 2011). Historical export and import figures indicate that China has gradually progressed from one of the smallest among the top 10 trading partners of Africa to one of the largest ones over the last decade, coming in second after the United States in 2010 (Direction of Trade Statistics - IMF, 2012). Despite this increasing engagement with emerging partners, Africa is continuing to expand its share in European and American import markets, China and India now consume 12.5 per cent and 4 per cent of African exports respectively, which equates to 5 and 8 per cent of the respective countries' import markets. Africa's engagement with China has been on an upwards trend with its share in the Chinese mineral/fuel import market up from less than 5 per cent in 1995 to almost 25 per cent in 2010.

7. Africa is increasingly diversifying trading relationships towards emerging economic powers. China and India now consume 12.5 per cent and 4 per cent of Africa's exports—representing 5 per cent and 8 per cent of these countries' imports. Africa's engagement with China has in particular been fruitful. The share of Chinese mineral and fuel imports from Africa grew from less than 5 per cent in 1995 to almost 25 per cent in 2010. African exports of manufactured goods, crude materials and fuel to the Group of Five (Brazil, India, China, South Africa and Mexico) have also been growing (see figure 2).

Figure 2: Sub-Saharan Africa exports to the group of five



Source: IMF, 2010.

(b) Services trade

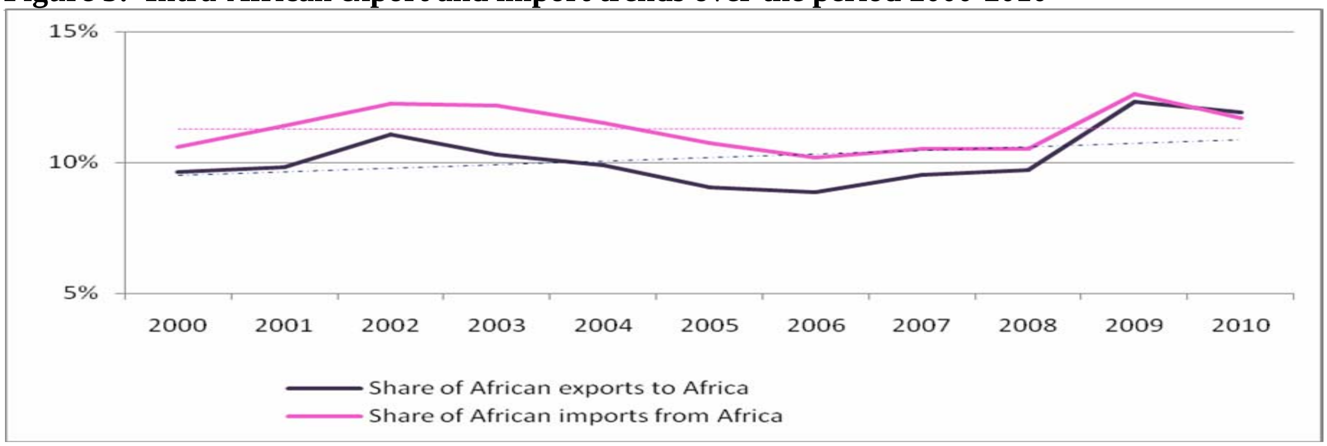
8. World services trade grew slower than merchandise trade in 2010, partly due to services lagging behind the goods trade and decreased demand in the previous year (a plunge of 12 per cent compared to 23 per cent for merchandise). Exports of commercial services were up by almost 8 per cent in 2010, with transportation being its fastest growing component (14 per cent increase). World seaborne trade, accounting for 80 per cent of all trade in goods, was back on track in 2010, after contracting in 2009. Africa exported 12 per cent more commercial services in 2010 compared to the previous year, with commercial services imports growing by 13.5 per cent. Africa's service trade is thus growing consistently with global trends, indicating Africa's increasing potential in services.

9. Travel and tourism accounts for 50 per cent of Africa's service exports and while travel was diverted from North Africa due to the revolts in the region, sub-Saharan Africa (SSA) continues to exploit its comparative advantage in tourism, enjoying a 13 per cent increase in 2010. South Africa experienced a boost in travel receipts by 24 per cent due to the large number of foreign visitors attending the FIFA World Cup (WTO, 2011). Meanwhile, Kenya and Ghana in particular have benefited from exports of business-processing services, taking advantage of improved ICT infrastructures and a reasonably well-educated and urbanized work force (Anand, Mishra and Spatafora, 2011).

(c) Intra-African and intra-Regional Economic Communities (RECs) Trade

10. The overall picture of intra-African exports and imports between the period 2000 and 2010 is represented in figure 1. Trade within Africa represented about 12 per cent of the continent's total trade in 2010, while the major part of the trade (88 per cent) was with the rest of the world. As can be observed in figure 3, the average level of intra-African trade, though fluctuating, has consistently remained under 15 per cent over the past decade.

Figure 3: Intra-African export and import trends over the period 2000-2010



Sources: Compiled from UNCTAD, UNCTADstat

Nonetheless, there was a general upward trend in intra-African exports, as shown by the dotted trend line during the period. Fluctuations in imports portrayed a more modest upward trend. Intra-African imports were 10.6 per cent in 2000 and 11.7 per cent in 2010.[1]

11. Figure 3 depict the general composition of intra-African trade (exports by main sectors). One interesting observation from this trend is that Intra-African trade tend to be more sophisticated in terms of trade in manufactures than is usually perceived. The statistics show that Africa trades with itself more in manufactured goods relative to its trade with the outside world. Figure 3, clearly shows a higher share of intra-African exports in manufactures (over 45%), followed by trade in primary commodities. Between 2004 and 2008, trade in both product categories was almost at par, at around 40 per cent. Intra-African trade in agriculture and food is relatively low (around 15%). The low statistics for agricultural trade are somewhat paradoxical, relative to the potential of the sector in Africa as a key driver of growth, trade, employment and poverty reduction. This also implies that a great deal of effort is needed to position food and agriculture favourably in the intra-African trade profile, along with manufactures. Better use of the potential linkages between agriculture and industry is also necessary. The fact that there is a relatively high level of intra-African trade in primary commodities also suggests that there is ample room to exploit opportunities for high value added trading activities within the continent.

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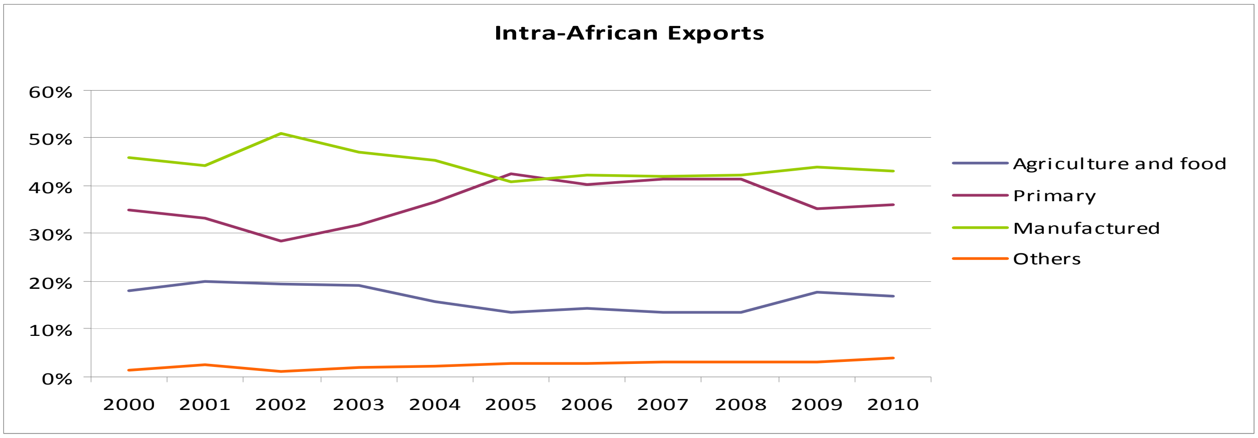
[1] In principle, for the same trade flow, total exports and total imports should be equal. However, there are several reasons why imports reported by one country do not necessarily coincide with exports reported by its trading partner. This difference can be attributed to various factors including differences in valuation (imports CIF, exports FOB), inclusions/exclusions of particular commodities (such as differences in nomenclature/classification used by exporter and importer countries) and timing (an exporter can declare an item before the importer country declares it).

Figure 4: Intra-African trade composition (exports) by main sectors (2000-2010)



Source: Compiled from UNCTADstat.

12. The picture portrayed in figure 3 can be summed up as follows: African countries appear to be trading more in manufactures than in other sectors, reflecting a certain amount of sophistication in intra-African trade. African countries have been unable to satisfy their mutual import needs because of the basic similarity of their production structures. Thus, the real significance of increasing intra-African exports is that attempts at structural diversification of production by some countries in the region have begun to show positive results in terms of exports in manufactures. Increasing intra-African trade in manufactures may thus be seen as the beginning of the much-needed production diversity on which further profitable commodity exchange among African countries could be based.

13. In general, the historical trend during the period 2002-2010 shows a positive trend of intra-RECs exports every year. The only exception is a pronounced fall in total intra-REC exports in 2009 predominantly influenced by the global financial crisis. On average, the top four RECs which actively pursued intra-REC exports were SADC (accounting for 34 per cent of intra-REC trade), CEN-SAD (26 per cent), ECOWAS (15 per cent), and COMESA (11 per cent)). The RECs that traded least among themselves were AMU (6 per cent), EAC (4 per cent), IGAD (3 per cent) and ECCAS (1 per cent).

14. UNECA, AfDB and AUC (2010) suggests that Africa is under-trading with itself and could potentially realize more trade, given geographic proximity, cultural affinity and the size of the economies. Gravity model estimates (UNECA, AfDB and AUC, 2010) indicate that countries in West and Central Africa are trading only 43 per cent of their potential trade in the region, while countries in Eastern and Southern Africa are trading 75 per cent, respectively.

15. Nonetheless, some RECs are managing to expand regional trade at a faster rate than that observed at the continental level. For example, growth in intra-COMESA trade has been particularly impressive, with the value of exports increasing from US$ 1,701 million in 2002 to $ 8,587 million in 2010 (about 80 per cent increase). East Africa has enjoyed success in recent years in diversifying production and moving up value chains, enhancing its resilience to the recent economic crisis. Firms in Rwanda and Uganda have succeeded in capturing the whole value chain for coffee exports, selling branded coffee directly to US markets, and Kenya has captured growing markets in telecommunications and tourism. A strong infrastructure base, effective regulation and institutional quality and low levels of initial export concentration have

been identified as drivers of this success (OECD and UNOSAA, 2010; WEF, 2011). Meanwhile, the homogeneity of exports and poor transport infrastructure in ECCAS are contributing factors to poor trade integration there.

16. On average, countries within CEN-SAD registered the highest exports beyond their borders to the rest of African countries from 2000 to 2007, (an average of US$2,227 millions), followed by SADC (average of $2,193), ECOWAS (average of $1,838), UEMOA (average of $1,637) and COMESA (average of $1,569) (UNECA, AfDB and AUC (2010). Most of the goods traded among African RECs add little manufacturing value and include many primary products, mainly mineral fuels and agricultural inputs. Africa imports most manufacturing goods from outside the continent, supporting industrialization in those countries rather than Africa itself (UNECA, AfDB and AUC, forthcoming).

III. DEVELOPMENTS IN INTRA-AFRICAN TRADE: TOWARDS A CONTINENTAL FREE TRADE AREA

17. This subsection outlines key findings and conclusions drawn from researches undertaken by UNECA (and in some aspects, in collaboration with AUC, WTO and AfDB) on intra-African trade with the view to facilitate an informed policy decision paving the way forward to fast-track a Continental Free Trade Area (CFTA) in Africa.

(a) Boosting intra-African trade

18. The January 2012 African Union Summit of Heads of State and Government focused on the theme of ‘Boosting Intra-African Trade’. An ‘Issues Paper’ on boosting intra-African trade was prepared by UNECA and AU for the Summit which outlined key issues and recommended actions on the way forward in boosting intra-African trade.

19. Intra-African trade has consistently remained low, averaging about 10 to 12 per cent in the last decade while in 2009; intra-European trade was 72 per cent, intra-Asian trade (52 per cent), intra-North American trade (48 per cent), intra-South and Central American trade (26 per cent) (WTO, 2010). The direction of Africa’s trade both in terms of exports and imports has been heavily influenced by traditional links with the rest of the world, in particular with Europe. Over 80 per cent of African country exports are destined for markets outside the continent, and a similar amount of the continent’s imports comes from external sources. Initiatives and programmes on trade liberalization and development under the auspices of the African RECs, though substantial and laudable, have had limited impact in terms of raising the average level of intra-African trade to more than 15 per cent.

20. Several reasons account for low intra-African trade. The production and export structures of most African economies are geared to primary commodities such as minerals, timber, coffee, cocoa, and other raw materials, for which demand is externally oriented. There is the stark reality of the continent’s structural deficiency, which manifests itself in the dichotomy between the traditional and modern sectors, in the excessive dependence on external inputs, and in external rather than domestic markets as the principal mover in the development process. Low production frontier curves are exacerbated by infrastructural and other bottlenecks. Inadequate infrastructure remains one of the chief obstacles to intra-African trade, investment, and private-sector development. All of these problems produce adverse effects in terms of narrow and low

productivity, which in turn circumscribes the range of products African countries can trade among themselves.

21. To this end, African countries have established the African Union, created various RECs, and have held at heart the ideals of the Abuja Treaty establishing the African Economic Community and the Constitutive Act of the African Union. In this context, the RECs are pursuing deeper integration through free trade, and developing customs unions and a common market. Eventually, these efforts are expected to converge to an African Common Market (ACM) and an African Economic Community (AEC), whereby economic, fiscal, social and sectoral policies will be continentally uniform. The ultimate goal is strengthening Africa's economic independence and empowering the continent to play its rightful role in the global economy.

22. A major aim of these efforts is to expand intra-African trade by eliminating tariffs and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes. Enhancing intra-African trade should help promote specialization amongst African countries and develop regional value chains to enhance diversification and competitiveness. African countries therefore need to aggressively pursue comprehensive and harmonized regional trade policies as part of their collective development and transformation strategy in the context of regional integration.

23. The Issues Paper however emphasizes that fast-tracking a CFTA is a necessary but not a sufficient condition to address Africa's weak internal trade performance. The proposed African CFTA will represent a good opportunity for accelerating the achievement of the continental vision of an AEC. Notwithstanding this potential, there are challenges related to the creation of the CFTA, such as the overlapping memberships to RECs. Specifically, some countries belong to customs unions yet continue to negotiate towards establishing other customs unions. It is hoped that establishing a grand CFTA would serve as an effective route to resolve the issue of multiple and overlapping memberships. In addition, the commitment to integration varies across countries. Some countries have not undertaken any liberalization within their respective REC FTA.

24. The Issues Paper identified several actions which require first priority, to facilitate intra-African trade including the development of productive capacity and industrial sophistication. A country cannot trade effectively unless it can produce and add value to its raw material endowments. In addition, trade-related infrastructure and services along with other trade facilitation measures such as removal of non-tariff barriers, simplification of customs procedures and documentation, and flawless operations of Africa's transport and transit corridors are also fundamental to Africa's internal trade. Further, the timely availability of trade information and trade finance are equally important for unleashing the potential of trade within Africa. Lastly, given the imbalances in the levels of development in African countries, it would be remiss to talk about boosting intra-African trade and creating a CFTA without ensuring equitable outcomes for member States through compensation mechanisms to address adjustment costs to greater trade opening, and to help smaller and weaker countries build their production and trade capacities.

25. The Issues Paper also recognized the need for a second group of issues and priorities to be addressed within a longer term perspective. This includes addressing the multiplicity and inconvertibility of currencies, thereby increasing business transaction costs; the need to promoting free movement of people as an important ingredient of cross-border trade, and enhancing trade in services as an emerging opportunity for intra-African trade.

(b) Trade facilitation mechanisms on export competitiveness in Africa

26. Export competitiveness may be defined as a 'country's share of world markets for its products' (Porter and Krugman, 2008, in Spence and Karingi, 2011, p. 5). This hypothesis assumes that nations compete for a share of the world's market at the cost of other nations. For instance, Nigeria's share of cocoa markets has been growing— $822.9 million cocoa export value in 2010 compared to $215.2 million in 2006 with an 8.2 per cent price jump in January 2011 (Bloomberg News 2012)—while Côte d'Ivoire's has been falling due to an export ban beginning January 2011 which lasted for several months due to political violent (BBC News 2012), implying that Nigerian cocoa has displaced Ivorian cocoa. Similarly, where Guinea and Angola have lost copper ore exports, Mauritania has gained them. Such observations reflect the homogeneous nature between African export baskets and raises important questions with respect to the costs and benefits of regional competition in areas of traditional comparative advantage. Regional cooperation in pursuit of greater diversification may reduce the degree of direct competition between African nations, if it succeeds in moving export portfolios into product lines in which the principal competitors are located outside the region.

27. The current level of sophistication of exports is a significant determinant of future growth (Hausmann, Hwang and Rodrik, 2007). However, estimations of export sophistication in Africa show that many countries lack the sophistication to capture future growth. Scrutiny of intra-African trade data reveals that goods traded internally are more sophisticated than those traded with the rest of the world. Table 1 presents some evidence for Kenya and Ghana's largest exports, showing that exports destined for African markets contain more value added than those exported elsewhere. This evidence of a mutually reinforcing relationship between regional integration and export sophistication adds further impetus to the case for expanding intra-African trade as a tool toward realising Africa's ambitions of becoming a global growth pole.

Table 1: Top Five Exports by Value to Africa and the Rest of the World, 2008

Ghana top 5 exports to the world	**Ghana top 5 exports to Africa**
Gold, semi-manufactured forms	Gold, semi-manufactured forms
Cocoa beans, whole or broken, raw or roasted	Machinery parts, non-electrical
Cashew nuts, fresh or dried	Plywood, all softwood
Gold in unwrought forms	Panels, laminated woods
Lumber, non-coniferous	Aluminium alloy plate, sheet, strips
Kenya top 5 exports to the world	**Kenya top 5 exports to Africa**
Tea, black in packages	Tea, black in packages
Cut flowers and flower buds, fresh	Oils petroleum, bituminous, distillates
Vegetables, fresh or chilled	Portland cement, other than white cement
Cut flowers and flower buds, dried	Cigarettes containing tobacco
Coffee, not roasted not decaffeinated	Medicaments, in dosage

Source: United Nations, 2011.

28. Intra-African average applied protection remains relatively high at 8.7 per cent,[2] but African Heads of State and Government at their AU Summit in January 2012 resolved to fast-track establishment of the CFTA, which is envisaged to remove tariffs on internally traded goods by the tentative date of 2017. The UNECA computable general equilibrium modelling of a continental FTA estimates the impact of the removal of all internal tariffs on goods by 2017 and finds that the share of intra-African trade would increase to 15.5 per cent of total trade by 2022 (UNECA, AU and AfDB, forthcoming). The expansion of intra-African trade in industrial goods outstrips that in agricultural products indicating that the expansion of intra-African trade though the continental FTA can be a driver of structural transformation.

29. UNECA research also underscores that deeper integration of this kind can magnify the gains available if trade facilitation is addressed. For example, if customs' procedures and port handling become twice more efficient in a continental FTA, intra-African trade would double to 21.9 per cent (UNECA, AU and AfDB, forthcoming). The cost to export and import (excluding tariffs) a standardized cargo of goods is highest in sub-Sahara Africa, reaching US$2,000 for exports and $2,500 for imports on average, compared to $1,250 for exports and $1,550 for imports in Latin America and the Caribbean and around $1000 for exporting and importing a standardized container in East Asia and the Pacific (World Bank, 2011). Nonetheless, the World Economic Forum (WEF) acknowledges that there has been almost universal improvement of customs procedures indicators (Africa on average now outperforms Latin American and ASEAN countries in their aggregated measure (WEF, 2009). The proliferation of Single Window border administrations – whereby traders can file all paperwork for trade in one place – have drastically reduced clearance times with the African Alliance for E-commerce (AAEC) providing a platform for the sharing of experiences and information on the single-window concept.

30. Finally, research corroborates the hypothesis that trade facilitation can bolster productivity levels in Africa. In general, trade facilitation mechanisms in the area of infrastructure, energy, transport, and ICT are robust contributors to export competitiveness. Trade policy therefore needs to identify pathways to more sophisticated goods, and trade facilitation should target the inputs required to enable these goods to compete internationally.

IV. INTERNATIONAL TRADE: DOHA ROUND MODALITIES, EPAS AND OTHER TRADE NEGOTIATIONS

31. Although the negotiating group on Market Access for Non-Agricultural products (NAMA) accepted a proposal on 1 March 2012 from the chair of the group to reopen the discussion on tariffs, the optimistic proclamations on the prospects for concluding the Doha Round (or an early harvest for LDCs) made in 2010 where not matched by concrete progress in 2011. The December Ministerial in Geneva was limited in scope and did not address substantive negotiations. While there is consensus that fresh and credible approaches are required, 2011 ended without any agreement. The C4 Group of African cotton producers (Benin, Burkina Faso, Chad and Mali) submitted a proposal to have cotton subsidies in developed countries frozen at their current, historically low levels and reminded members of their commitment to remove

[2] MacMapHS6v2 database. Computations made using the TASTE software and reference group weight with scaling GTAP as aggregation method. See Boumellassa et al. (2009) for more details.

subsidies under the Hong Kong agreement. Ultimately the proposal was only discussed informally and was not included in the agreed *Elements of Political Guidance*, which was the outcome document of the Ministerial. With United States cotton subsidies being criticized following the dispute with Brazil in 2009, it is hoped that, though facing domestic fiscal challenges, it may take the opportunity to revise them as part of a new Farm Bill in 2012.

32. With respect to Economic Partnership Agreements (EPAs), the European Commission announced in September 2011 that those countries that have concluded an EPA with the EU but have not taken the necessary steps toward ratification by January 2014 will be withdrawn from the Market Access Regulation (which permits Duty Free Quota Free (DFQF) access to the EU).[3] The intention is to ensure fairness between those that have implemented their EPA commitments and those which are yet to do so. LDCs will still enjoy DFQF access under the Everything but Arms Scheme, LICs and LMICs will have the option of the Generalized System of Preferences, but Botswana and Namibia, as upper middle-income countries, will have neither option available if they choose not to work towards ratification (ICTSD and ECDPM 2011). Among the contentious outstanding issues is the controversial Most Favoured Nation (MFN) clause through which the EU would be granted the same treatment as any other major trading economy in subsequent free trade agreements, the potential impediment to regional integration initiatives given the heterogeneity of country positions among regional groupings, and the appropriate level of asymmetrical reciprocity. The next twelve months will be instrumental in shaping EU-Africa trading relationships, and if the EPA process continues to falter, this may catalyse further attention toward South-South cooperation, particularly as engagement with emerging economies appears to contain less conditionality.

(a) Unpacking Doha Round modalities for Africa’s prospects in regard to achieving the MDGs

33. In November 2011, a regional workshop organized by the Regional Integration and Trade Division of UNECA was held in Addis Ababa to discuss the Doha Round modalities in relation to Africa’s achieving the Millennium Development Goals (MDGs). The outcome document of this workshop emphasized implementation of regional integration in Africa to ensure that infrastructure development serves Africa’s interests.

34. In addition, the workshop recognized the need for Africa to be proactive in response to multilateral and bilateral trade issues to minimize negative impacts on the African region. It was discussed that despite its shortcomings, the Doha Development Agenda negotiations had registered notable gains for Africa to date and that failure was not an option as these gains would be reversed. Furthermore, benefits to Africa will be limited unless work is consolidated on trade facilitation, standards and rules of origin within the context of regional arrangements. In particular, it is imperative to build competitiveness as a continent by using its raw materials to produce value added exports.

35. Lastly, the workshop raised the importance of addressing supply-side constraints of Africa to build capacity and thereby increase exports. In addition, Africa should urgently build

[3] According to the European Commission (2011), Burundi, Comoros, Ghana, Kenya, Namibia, Rwanda, Tanzania, Uganda and Zambia have concluded negotiations but have not signed their respective agreements, while Botswana, Cameroon, Cote d’Ivoire, Fiji Islands, Haiti, Lesotho, Mozambique, Swaziland and Zimbabwe have signed but have not taken the necessary steps towards ratification.

its infrastructure to enable intra-African trade and intra-RECs trade to take off. In this regard, Official Development Assistance (ODA) should be better linked to allow regional integration to take place and the AfT should be brought to the national level to match its impact. For instance, AfT should be used to enhance Africa's capacity to meet standards requirements (certification) so as to avoid barriers when exporting to US/EU markets. The importance of AfT in attaining the MDGs was also highlighted.

(b) Trade Preferences: AGOA's past, present and future prospects beyond 2015

36. Following the Decision of the AU Ministers of Trade Conference endorsed in Kigali in November 2010, AUC, UNECA, and the RECs were instructed to support African countries in undertaking a review of the African Growth and Opportunity Act (AGOA), ahead of each AGOA Forum. A continental survey was conducted in 2011 on the experiences of SSA with AGOA, which was subsequently presented to the ministers and senior officials at the AGOA Mid-term Review, held in May of that same year in Lusaka. In response to the findings of the survey, the ministers adopted a Communiqué on the way forward for negotiations with the United States, which sets clear priorities with a view to enhance and expand AGOA preferences beyond 2015 and the current list of beneficiaries.

37. The continental survey found that even though AGOA has been in place for over a decade, only half of the beneficiaries have been able to benefit from its preferences. Therefore, in order to enhance AGOA preferences and ensure sustainability of AGOA after the framework expires in 2015, discussions between the US and SSA should focus on greater inclusiveness and accessibility of AGOA, in a way that beneficiaries are realistically able to access US trade and investment opportunities without getting caught up in the myriad of requirements and restrictions.

38. Further, other issues raised included: rules of origin and requirements on third-country sourcing of yarn and textile inputs under AGOA need to be more flexible and greater United States technical assistance and support should be provided to strengthen the capacities of African standards and Sanitary and Phytosanitary (SPS) testing and certification bodies. In addition, support to the private sector wishing to tap into AGOA opportunities, particularly trade finance and business startup support for small-scale enterprises, is also desired. Finally, efforts to sensitize and raise awareness of US investors on investment opportunities in SSA should also be made.

39. In parallel, SSA governments, in conjunction with the private sector, RECs and regional organizations, will also need to consider articulating trade and industrial policies which target niche sectors for AGOA exports and set up adequate business support, including export incentives and simplified procedures. Also, SSA governments should consider building local capacities of sector umbrella organizations in order for these to better support the business community. In addition, SSA governments should continue harnessing AfT to overcome transportation, infrastructure and logistics constraints to facilitate the movement of goods from the farm and factory gate to the ports and reduce the costs and time of transport. Furthermore, customs requirements, procedures and rules of origin on the export-side of those goods which are subject to AGOA preferences should be simplified and SSA governments should consider establishing focal points at the national level to undertake systematic monitoring and review on the impact of AGOA.

(c) South-South Cooperation: Africa's diversification of trade relationships

40. The ascendant role of emerging economies such as China, India and Brazil in Africa’s trade and investment landscape has continued to gain traction. This magnifies opportunities for deeper South-South cooperation, furthering Africa’s market diversification aims as well as filling the trade and investment gap, especially considering the current plight confronting the American and European economies (UNECA and AUC, 2011; Cheru and Obi, 2010; Eichengreen et al, 2010; Ajakaiye, 2006).

41. The share of Africa’s exports to China and India saw an expansion from 3 to 13 per cent and 3 to 4 per cent, respectively between 2000 and 2010. Export shares to Europe declined from 46 to 34 per cent; and those to the United States remained stable at 18 per cent. Africa’s imports followed a similar trajectory during the same period, with European and American shares of African imports steadily waning from 19 to 13 per cent and from 37 to 34 per cent, respectively. The continent’s share of imports from China rose three-fold from 3 to 9 per cent and that to India doubled from 1 to 2 per cent (UNCTAD, 2011a). Most notably, China’s mineral/fuel imports from Africa have risen five-fold from a low of 5 per cent in 1995 to almost 25 per cent in 2010. Furthermore, Africa’s engagement with the Group of Five has also gathered pace, showing promise in contributing to higher productivity gains and structural transformation as exports to these markets entail a larger share of higher value added products (IMF, 2010).

42. In light of the recent dynamics, it is imperative that Africa asserts itself and maps out an articulate, long-term, national and regional strategy to frame its engagement with southern partners into a mutually reinforcing affiliation. It is yet uncertain what African nations aspire from the emerging economies, although the latter seem cognizant of what they require from the former (AfDB et al. 2011; Cheru and Obi, 2010). Strategic engagement in channelling southern Foreign Direct Investment (FDI) towards enhancing productive capabilities, upgrading infrastructure and magnifying cooperation in agriculture to boost the production of higher value-added agricultural products is vital.

V. AID FOR TRADE INITIATIVE IN AFRICA: SHOWING RESULTS

43. The third Global Review on Aid for Trade, held in July 2011 in Geneva, evidenced strong African participation and ownership, thanks to the involvement of the ECA, as well as other development partners. African member States submitted 49 case stories on their AfT experiences. ECA, in collaboration with AfDB, WTO and OECD, prepared a report compiling these narratives, as well as data on AfT in Africa, entitled “African Case Stories: A Snapshot of Aid for Trade on the Ground in Africa”. The report also served as a basis for discussions during the UNECA AfT Preparatory Meeting for the Africa Group and to inform a high-level ACP Meeting on AfT, prior to the Global Review.

44. The report notes that Africa is now the largest recipient of AfT in the world, overtaking Asia in 2009 with an increasing trend in the global share. The total AfT commitments grew at an annual average of 21.4 per cent in real terms during 2006-09 compared to 20 per cent growth rate for disbursements. The momentum of AfT supplies to Africa continues to be maintained with no signs of diversion of other ODA categories. Economic infrastructure, followed by productive capacity, continues to dominate AfT in Africa. Though AfT data trends seem to

underscore that the focus of disbursements has been on economic infrastructure, a great majority of the case stories focus on the AfT categories, namely trade policy and regulations and productive capacities.

45. There are considerable variations among African countries in AfT to Africa in terms of volume, per capita, ratio of disbursements to commitments as well as the ratio of AfT in the total ODA flows. Egypt, Ethiopia, Ghana, Kenya, Morocco, Mozambique, United Republic of Tanzania and Uganda were consistently among the top 10 recipients of AfT commitments to Africa during both the (2002-05) baseline period and the period 2006-09. Ethiopia and Uganda are the only land-locked countries in the group and together with Mozambique and United Republic of Tanzania, these four African LDCs consistently appear among the top 10 recipients in both periods (UNECA, AfDB, WTO, 2011). .

46. Overall, AfT remains an important means of facilitating trade in Africa. With the AfT Initiative now 6 years old, more evidence is emerging as to its impact. Recent research shows that relatively small amounts of aid targeted at trade policy and regulatory reforms have had a disproportionate impact with respect to reducing trade costs (Busse, Hoekstra and Koeniger, 2011) and increasing trade flows (Helble, Mann and Wilson, 2009), underscoring the need for greater AfT. In the African context, AfT also promotes export diversification and improves trade competitiveness (Karingi and Leyaro, 2009), making an even stronger case for pursuing economic transformation of Africa through AfT.

VI. POLICY RECOMMENDATIONS

47. Having reviewed the issues and trends of international and intra-regional trade in Africa during 2012, the present section summarizes key messages and distills relevant policy recommendations from the previous sections.

48. Africa faces numerous supply-side constraints and needs to take expeditious action in diversifying its exports base to drive long-term growth. Greater attention should be given to the transport, communication and energy sector in order to drive production in manufacturing industry. Improving competitive conditions in local economies will also be required to spur production efficiency. There is need for intensive investment in manufacturing and processing industries that add value to Africa’s raw materials. Skills development and productivity enhancement support programmes will reduce the costs of trade-related adjustment and increase the scope for dynamic benefits from export development.

49. The challenges faced by regional integration today must be given full attention to ensure that they do not hinder the establishment of a CFTA. These include overlapping memberships to RECs, varying commitments to integration across countries, skepticism due to fears of domination by richer or more powerful States, and the financial outlay required to establishing a CFTA, including the development of complementary infrastructure. On the other hand, Africa has a potential to meet its import needs from its own sources and the elimination of existing barriers at a continental level could greatly enhance intra-African trade. The commencement of COMESA-SADC-EAC Tripartite FTA negotiations in February 2012 is a noteworthy example of the way forward on harmonizing individual FTAs towards an African-wide common market.

50. To the date, half of SSA beneficiaries have been able to benefit from AGOA. The remaining countries are still not capable of taking advantage of AGOA preferences due to multiple conditions and constraints, including stringent rules of origin which impede opportunities for regional value chains. AGOA is programmed to expire in 2015, and the United States and SSA Governments should intensify their dialogue to ensure sustainability and more inclusiveness and flexibility for SSA beyond the expiry date,

51. Africa needs to be proactive in response to multilateral and bilateral trade issues to minimize negative impacts on the African region. Despite its shortcomings, the Doha Development Agenda negotiations had registered notable gains for Africa and failure to conclude negotiations would reverse these gains. Trade facilitation, standards and rules of origin within the context of regional arrangements need to be addressed to enhance the expected gains, build competitiveness and create opportunities for value addition.

52. The Third Global Aid for Trade Review showcased the overall positive experience Africa has had with AfT. The region has been receiving substantial aid targeting the critical sectors of infrastructure and productive capacities, displacing Asia as a first recipient for the first time since the initiative was launched. Nonetheless, there continues to be a high variation in the delivery of AfT across Africa. Monitoring and evaluation of AfT need to better assess the impact of AfT on desired outcomes, such as poverty reduction. This is an area where organizations at the multilateral and regional levels (e.g. OECD, WTO, UNECA, the AU, RECs and the corridor institutions) have a key role to play. Policy design could also benefit greatly from the inclusion of effective impact evaluation systems into trade projects, and thereby make a more credible case for AfT.

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