Distr.: GENERAL

E/ECA/CM.37/6
28 April 2004

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Twenty-third meeting of the Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development

Kampala, Uganda
18-20 May 2004

ECONOMIC COMMISSION FOR AFRICA

Thirty-seventh session of the Commission/Conference of African Ministers of Finance, Planning and Economic Development

Kampala, Uganda
21-22 May 2004

ECONOMIC REPORT ON AFRICA 2004 :

UNLOCKING AFRICA'S TRADE POTENTIAL IN THE GLOBAL ECONOMY

OVERVIEW

Economic Report on Africa 2004: Unlocking Africa's Trade Potential in the Global Economy

Overview

Setting the Scene for the Successful Integration of Africa into the Global Economy…

After fifty years of very significant progress, the future of the multilateral system of trade negotiations is currently surrounded by great uncertainty. The collapse of the Cancun World Trade Organization (WTO) Ministerial Meeting has put pressure on the Organisation of Economic Co-operation and Development (OECD) countries to reduce agricultural subsidies and other domestic support measures that distort global trade and contribute to the marginalization of Africa from the international trading system.

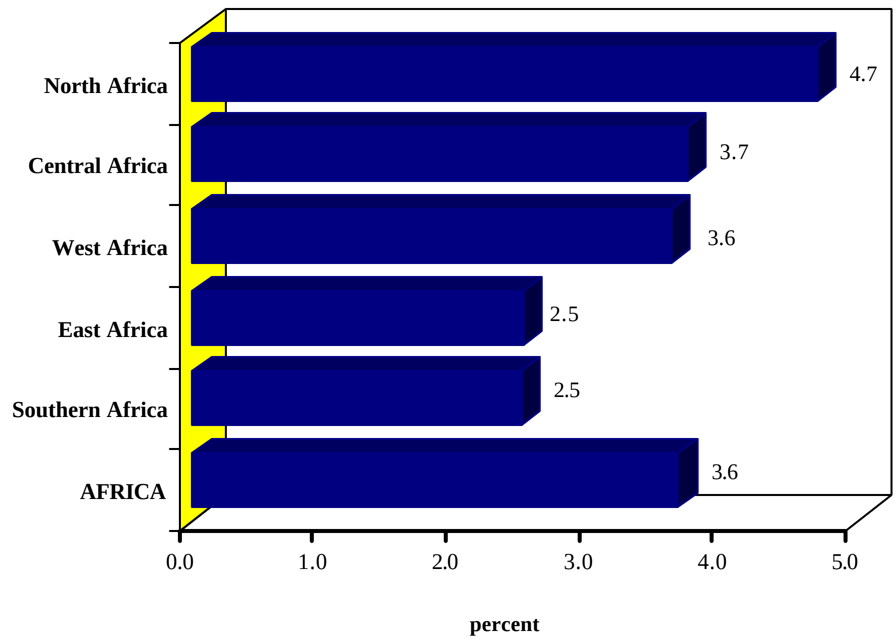
The *Economic Report on Africa (ERA) 2004* takes the view that OECD trade policies represent a serious constraint to Africa´s integration in the global economy. African exports have been handicapped by industrial country policies such as tariff escalation, tariff peaks and agricultural protectionism. At the same time, the Report argues that a very serious improvement is required in internal conditions, especially on the supply-side, if the continent is to improve its position in the international economy. Weak infrastructure, poor trade facilitation services, and the lack of physical and human capital pose a major impediment to export sector development. *ERA 2004* thus takes an introspective look at what Africa needs to do to put its house in order so as to benefit from existing and future opportunities in the global trading system. It addresses the fundamental issues regarding pending reforms for African policy makers.

Africa needs to make a concerted effort in reforming its own economies through a large diversification of its productive structure if progress is to be made. Africa also clearly needs to adopt more proactive policies in order to promote the integration of the continent into the global economy. With these objectives in mind, this year's *ERA* contributes to the debate on how to strengthen areas such as energy policy, trade facilitation, and competitiveness.

Improving economic performance, but still insufficient….

Despite insufficient progress towards fulfilling the Millennium Development Goals (MDGs), and the persistence of serious political, social and economic problems in the continent, the overall message emanating from the Report is an optimistic one. Contrary to popular impressions, in recent years Africa has been making progress since the lost decades of the 1980s and 1990s. In 2003, Africa was the second fastest growing region in the developing world, behind Eastern and Southern Asia. Higher oil prices and production, rising commodity prices, increased foreign direct investments, better macroeconomic management, backed up by good weather conditions, underpinned this high growth. As a result, real GDP grew at 3.6 per cent in 2003 compared to 3.2 per cent in 2002, with North Africa putting in a particularly strong performance (of 4.7 per cent). West and Central Africa also exhibited respectable growth rates above 3.5 per cent. East and Southern Africa, in contrast, registered paltry growth of 2.5 per cent (see Figure 1.1).

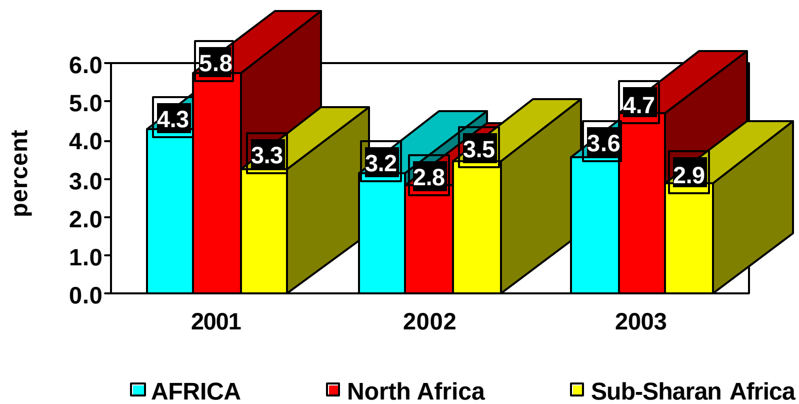
Figure 1.1: North Africa Tops Subregional Economic Performance in 2003



Last year, the African continent in aggregate continued to exhibit good macroeconomic fundamentals. Fiscal deficits were largely kept under control, despite the challenge faced by many countries to balance increased spending on poverty reduction as set out under their Poverty Reduction Strategy Papers (PRSPs) and to preserve macroeconomic stability. Inflation rose slightly to 10.6 per cent compared to 9.3 per cent in 2002, reflecting higher food prices caused by poor weather conditions in some parts of Africa, higher oil-import prices and currency depreciation in several countries. The regional current account deficit fell from 1.6 per cent of GDP in 2002 to 0.7 per cent of GDP in 2003, driven by robust oil and commodity prices, and high worker remittances.

On the downside, some countries encountered severe economic setbacks. No less than seven African economies experienced negative growth rates, up from none in 1999 and only one in 2000. Moreover, when compared with the growth figures for 2001 and 2002, it becomes clear that there has been a slight deterioration in aggregate economic performance for sub-Saharan Africa (SSA), from 3.5 per cent in 2002 to only 2.9 per cent in 2003 (see Figure 1.2).

Figure 1.2: Rates of Economic Growth, North and Sub-Saharan Africa, 2001-3



It has however to be borne in mind that these are not per capita figures. Standing currently at 2.0 per cent and 2.2 per cent respectively, both North and sub-Saharan Africa currently display the highest rates of demographic expansion in the world, more than double the world average (1.2 per cent). Thus the real per capita growth rates for North Africa and SSA in 2003 are approximately 2.7 per cent and 1.7 per cent respectively, rates which are clearly inadequate to achieve the MDGs for poverty reduction.

The recent establishment of a new Commission for Africa, launched by British Prime Minister Tony Blair, in March 2004, represents an explicit and important acknowledgement of the need to address the problem of Africa's underperformance. This should provide support for the principles and actions of the New Partnership for Africa's Development (NEPAD). The Executive Secretary of ECA, K.Y. Amoako, recently commented:

"*the international community and Africa have agreed on the central importance of a partnership to achieve NEPAD's goals but we must now focus on implementation and action…we must agree on what we can really deliver for Africa's people*."

The continent impatiently awaits the "Peace Dividend"…

One of the principal reasons for the holding back of Africa's economic performance has been the continuation of military conflicts. For example, the political crisis in Côte d'Ivoire has had a significant impact on the social and economic conditions of neighbouring countries such as Mali and Burkina Faso. In the early 1990s, in the aftermath of the Cold War, many political analysts were predicting a significant "peace dividend", in terms of a resolution of many historic conflicts which had blighted the region, and a subsequent economic, political and social recovery. As we now know, however, that "peace dividend" never materialized. The 1990s were the most conflict-ridden years since independence, and economic performance was lacklustre. African policy makers are keenly aware of the fact that substantial improvements in the economic and social situation of their populations are contingent upon the maintenance of peace. Without peace, little or nothing can be achieved.

During 2003, there were significant improvements in several spots of political instability. Sudan's government and its main rebel opposition took a crucial step towards a formal peace pact that would end Africa's longest running civil war. With the departure into exile of Liberia's ex-president Charles Taylor, there is hope that civil wars in neighbouring countries will abate. In November 2003 the government of Burundi signed a peace agreement with the main rebel group to end the country's civil war; and took steps to integrate former rebels into the democratic political process. Uganda and Rwanda withdrew from the Democratic Republic of Congo (DRC) setting the stage for reconciliation. Peaceful political transitions in Angola and the DRC are paying off. Angola attracted substantial foreign direct investment (FDI) during the year and GDP grew at over 12 per cent. The DRC's economic growth exceeded 5 per cent and it is on a steady path to macroeconomic stability with a single digit inflation in 2003 – remarkable progress given the inflation rate of over 500 per cent as recently as 2000.

Continuing political instability in Zimbabwe and Côte d'Ivoire is worrisome. In Zimbabwe, macroeconomic indicators deteriorated sharply, with inflation rising to 420 per cent in 2003, the fiscal deficit widening to 7.1 per cent of GDP and the economy contracting for the fifth consecutive year. In West Africa, because of its position as an important regional transport hub, contagion from Côte d'Ivoire's crisis has resulted in sharp slowdowns in the neighbouring economies of Burkina Faso and Mali. In other regions too, the persistence of a number of lower intensity conflicts (e.g. in Uganda or Sudan) has continued to handicap progress in social, economic and political fields.

Recent empirical research has shown how political instability adversely affects human development as well as GDP and export growth in Africa.[1] Clearly, any improvement in Africa's economic and human development will be constrained until all the political actors implicated (politicians, civil society, foreign governments, international organizations) make a concerted effort to resolve these conflicts.

Insufficient and inconsistent external support hinders progress….

Central to the concept of NEPAD has been the idea that, concurrently with the application of the appropriate domestic reforms, Africa needs substantial external support to make the African renaissance a viable project. At the Monterrey Conference on Financing Development in Mexico in 2002, the industrialized countries made a strong pledge to increase the quantity and quality of official development assistance (ODA) flows towards Africa. However, at US$19.4 billion in 2001, ODA flows are still significantly below the 1990 peak value (ECA, 2003). It is estimated that there is a shortfall of between US$20-25 billion annually if African countries are to attain the Millennium Goals.

The Report highlights a number of underlying inconsistencies in the donor discourse. For instance, despite official acknowledgement of its central role in any development strategy, gender equality receives relatively little support, with only US$81 million of ODA for gender-related projects for the whole of Africa. Similarly, although there has been a welcome increase in ODA directed towards tackling the AIDS pandemic, minimal support is provided for the fight against malaria, still one of the biggest killers in SSA.

Tied aid is another major concern. Tied aid (i.e. the requirement in return for ODA to purchase exports from the donor country) reduces the value of aid to the recipient country by 25-

40 per cent[2], by obliging them to purchase uncompetitively priced imports. Admittedly, some donors have made significant progress. For example, the UK, Norway, Denmark and the Netherlands provided more than 90 per cent untied aid in 2001. But some other countries continue to insist that a high percentage of aid be used to purchase exports from their own producers. This brings to the forefront an important issue which is central to this year's ERA – it is not so much the volume of trade which is important, but rather its qualitative aspects that make a demonstrable difference from a developmental point of view.

Difficulties on the road towards the liberalization of Northern agriculture…

In recent years there have been a number of initiatives to improve market access for the poorest developing countries. The European Union's "Everything but Arms" (EBA) agreement, and the United States' African Growth and Opportunity Act (AGOA) are two notable examples (Box 1.1). Preliminary evaluations of these two initiatives show modest but important gains for some sub-Saharan countries.[3] In this sense, both initiatives set encouraging precedents for the future liberalization of industrial and agricultural markets in the OECD countries. However, because neither initiative involves the dismantling of damaging agricultural subsidies, they stop short of fulfilling Africa's needs if the continent's export potential is to be realized. As a result of high subsidies to domestic producers in the United States and the European Union, for instance, the costs of lower cotton prices to a country like Mali have been estimated at US$43 million in 2001. Coincidentally, that was exactly the amount of debt relief received by Mali from the World Bank and the IMF in the same year under the enhanced Highly-Indebted Poor Country (HIPC) initiative (Oxfam, 2002).

Box 1.1: The Impact of AGOA: Some encouraging results but more needs to be done

The US' African Growth and Opportunity Act (AGOA) was signed into law on May 18, 2000. According to AGOA's webpage (www.agoa.gov), "the Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets". However, because most African countries already enjoyed preferential treatment due to their status as Least Developed Countries, for most products the preferences offered to African countries do not represent a significant improvement over the existing GSP agreements. There are exceptions to this, of course, and for some products like textiles and apparel, where tariffs and quotas are higher, there are significant advantages in belonging to the scheme.

Circumstantial evidence certainly suggests that some African countries have benefited from the access agreement. For instance, South African exports under AGOA to the US were 45 per cent higher in 2002 than in the preceding year.[4] Nigeria, too, has been a big winner in its trading relations with the US, accounting for more than 60 per cent of all AGOA exports to the US (although the bulk of this trade is related to the oil industry). There is also evidence to suggest that beneficiary countries have seen an increase in export-oriented FDI linked to AGOA. For example, companies from Taiwan Province of China are the main investors in Lesotho's garment industry.

Nonetheless, all this has to be set against the backdrop of a 15 per cent fall of total US imports from sub-Saharan Africa in 2002.[5] Systematic research certainly leads to a more sombre conclusion about the impact of the AGOA. In the first place, the benefits are

limited because only "non-sensitive" products are included in the agreement. Secondly, excessively tight rules of origin and the limited list of countries admitted to benefits from the special textile preferences regime reduce the usefulness of the scheme for African textile producers. Thirdly, the regime expires in 2008, something which obviously tempers the reaction of potential investors. Finally, there is concern that AGOA's benefits will be diluted as the US government seeks to negotiate free trade agreements with other regions such as the Middle East and Central America.

To improve the developmental and trade impact of AGOA, it would be a positive development if the US administration took on board some of the recommendations by the US Commission on Capital Flows, such as an extension of AGOA benefits until 2018, and extended the preferences to include all products coming from Africa.

Sources: Mattoo, Roy and Subramanian (2003), UNCTAD (2002) and UNCTAD (2003b), US Department of Commerce (2003) and US Commission on Capital Flows to Africa (2003)

A forthcoming study by ECA reveals the extent of the gains that might be realized by African countries if full liberalization of OECD agriculture is to be achieved.[6] Using a Global Trade Policy Analysis (GTAP) model, which is a multisector and multi-region and is widely used by trade analysts to examine the impact of trade policies, the study analyses three different trade reform scenarios, capturing different degrees of trade liberalization. These are "little", "modest" and "full"[7]. In the static version of the model, the study finds that full liberalization of trade would increase global welfare (income) by 0.3 per cent, but would add 0.7 per cent annually to income in the African region. But the absolute gains for SSA are quite modest – some US$704 million – when compared, for example, with the US$15.9 billion gains for the EU15. The study also suggests that the gains from liberalization grow with the depth of reforms. While North Africa benefits from all liberalization scenarios, sub-Saharan and Southern Africa incur losses when partial liberalization is carried out. This is largely due to the impact of preference erosion, with many African countries being major beneficiaries of existing preferential trading arrangements. Partial market access (the "modest" scenario) reforms would thus increase the degree of competition they face in export markets.

However, when the model is modified to allow for dynamic effects, the study finds that there is a substantial increase in the benefits of trade reforms to all regions of the world.

For the SSA region, the welfare gains from full liberalization increase from US$704 million in the static model to US$4.3 billion in the dynamic model. That is, the gain to SSA in the dynamic model is about six times as large as in the static model. The huge welfare gain from the dynamic model is associated with the impact of capital accumulation. The results therefore emphasize the importance of complementing trade liberalization with investment enhancing policies.

There is potential downside from further agricultural liberalization – the findings of the simulation exercise suggest that the reforms may force countries to specialize more in the production of agricultural commodities. In particular, they result in the contraction of industrial activities in the region and the shift of resources into the production of commodities such as grains, sugar and cotton. Although this change in the pattern of specialization is dictated by comparative advantage, it is worrisome because excessive dependence on commodities increases

the degree of vulnerability faced by the region. These findings drive home the urgency of adopting policies to promote export diversification out of primary commodities and into industrial and service industries with a higher value-added.

Moving beyond primary commodity production….

In the past, a number of ECA reports have analysed how Africa's heavy dependence on primary commodities as a source of export earnings has meant that the continent remains vulnerable to market vagaries and weather conditions.[8] Price volatility, arising mainly from supply shocks and the secular decline in real commodity prices, and the attendant terms-of-trade losses have exacted heavy costs in terms of incomes, indebtedness, investment, poverty and development.[9] According to one World Bank study, for African countries which are not oil exporters, the cumulative terms of trade losses in 1970-97 represented almost 120 per cent of GDP, a massive and persistent drain of purchasing power. According to the same study, losses of that magnitude almost completely wipe out the benefits from the substantial increase in aid provided to the continent after 1973.[10] Nor has the story been much more encouraging for oil producers like Nigeria, Gabon or Angola; despite benefiting from massive terms of trade gains, the income derived from oil exports has been used neither to finance the necessary structural diversification of the economy nor to place these countries on a sustainable growth path.

The logical policy advice stemming from this situation, for oil-producing and oil-importing countries alike, is that Africa needs to diversify out of agricultural and other primary products, and into sectors with a higher value-added. This suggests the need for a coherent strategy to promote diversification. Such a strategy is even more necessary in view of the apparent deadlock regarding negotiations within the WTO – not only do the OECD countries seem reluctant to reduce the export subsidies for their own agricultural products, but the dismantling of domestic farm support measures (e.g. the EU's Common Agricultural Policy) is also currently politically untenable for most of the northern countries. The stand-off between West African countries and the US over cotton subsidies is illustrative of the unwillingness of the OECD countries to reduce their subsidies.

A concerted effort towards trade diversification is therefore all the more urgent. Over the last two decades many African countries have abandoned attempts at providing financial and technical support for domestic industry. Yet providing such support need not be controversial:

- There is a strong theoretical and empirical case for selective interventions in overcoming the market and institutional failures in building the capabilities required for export sector development.[11]
- Many defenders of the free market and critics of industrial policy believe that the State is not capable of "picking winners". This has, admittedly, often been true in the past. But there could still be a strong justification for a more generalized industrial policy targeted at certain kinds of activities (e.g. investment, R&D, training, etc.) rather than selective interventions to support particular industries or firms. This is indeed the path that industrialized countries like the US have taken, with a plethora of measures to support national R&D programmes and infrastructure projects, with a complicated system of tax breaks, etc.[12]
- Different ministries have different responsibilities regarding the needs for producing effective policies which will increase the competitiveness of African economies.

Coherent policies are required across ministries, including trade, employment, education agriculture, transport, etc.

Clearly, however modest the initial reforms and programmes, policies of this nature would take time to implement. For this reason, the principle of "special and differential treatment" (SDT) continues to be of enormous importance for African countries. The industrialized countries need to be aware of the need for a generous timeframe for liberalization if African economies are to be able to strengthen supply-side capacities and compete adequately in global markets.

Lessons from Asia…

The Asian experience is instructive here. Dynamic trade policies were implemented which contributed to the strong growth of the Asian economies, using a complex combination of liberalization and control (sometimes excessive control) of the relations between the domestic economy and the outside world. The nature of the external relations in this kind of context is neither definitive nor global in dynamic strategies. On the contrary, it evolves over time, is diversified, according to the sectors involved, and differs even within a given sector.[13]

Early explanations of the "Asian miracle" focused on the apparent openness of the Asian economies to external markets in contrast with the failed import substitution approach pursued in Africa. The root of Asia's success was thought to lie in state neutrality towards economic sectors, allowing existing comparative advantage to determine the composition of production and exports. State neutrality could take the form of equal exchange rates for exports and imports and equality between domestic and world market prices.

Box 1.2: The Mauritian Case

The Mauritian economy has been a story of success over the last two decades – witnessed by its high ranking in the ECA's Trade Competitiveness Index and Institutional Sustainability Index as well as in the Economic Sustainability Index (ECA, 2003). Its economy is structured around three pillars: sugar, export processing zones and tourism. Contrary to popular belief, the country has maintained a highly restrictive trade regime – with the market being relatively closed to imports. But its export sector has been kept fairly open by implementation of several instruments to segregate the export sector from the import sector. Duty-free access was provided to all imported inputs, resulting in a competitive export sector. Tax incentives were provided to firms operating in the Export Processing Zone (EPZ) and the labour market for the export sector has been segmented from the rest of the economy, with greater flexibility in the EPZ regarding overtime payments as well as discharging workers. The country's ethnic diversity has helped to attract investment from Asia, while there is a stable political environment supported by sound macroeconomic policies, resulting in an extremely competitive trade environment.

Sources: ECA 2003, Subramanian and Roy, 2003

Later it began to be recognized that Asia's success did not lie in state neutrality. States played an important role in fostering export competitiveness, using mechanisms including the maintenance of export-friendly effective exchange rates and the granting of large subsidies to

exporters. Trade policies were therefore part and parcel of broader national development strategies. There are important lessons to be learned here for Africa, although this goes against the contemporary paradigm concerning the merits of trade liberalization, which focuses excessively on removing the impediments to imports, but provides little guidance regarding how to strengthen export capacity and promote diversification. As the Mauritian example shows (see Box 1.2) export diversification is rarely, if ever, achieved in a strictly laissez-faire policy environment.

The words of the High-Level Panel on Financing for Development (the Zedillo Report) are highly pertinent to this issue. The authors argued that a priority for any Development Round of the WTO would need to consider how to legitimate time-bound protection of certain industries, by country, in the early stages of industrialization:

"*However misguided the old model of blanket protection intended to nurture import substitute industries, it would be a mistake to go to the other extreme and deny developing countries the opportunity of actively nurturing the development of an industrial sector.*"[14]

Focusing on export diversification….

During the 1990s, it became commonplace to argue that trade has a central role in providing the basis for economic growth and development.[15] Throughout the period of structural adjustment, the policies promoted by the international financial institutions (IFIs) were designed precisely to that end – to increase the "openness" of African economies to trade. Based on trade as a percentage of GDP, however, African economies are already surprisingly open. This trade share is 62.2 per cent in SSA, actually above the world average of 57 per cent, and far above the average for Latin America and the Caribbean (35.9 per cent).[16] Bearing in mind that informal (i.e. unregistered) trade is generally considered to be much higher in Africa than in comparable regions, and the fact that the continent has been adversely affected by the deterioration in the terms of trade, Africa's degree of integration into the world economy is thus much higher in this respect than is commonly thought.[17]

The low incidence of Africa in world trade essentially reflects Africa's small GDP, rather than a lack of openness *per se*. Contrary to popular advice, therefore, the volume of trade is not the primary challenge facing African policy makers. Rather, the issue is a qualitative one: although the volume of trade is only loosely related to economic success, econometric investigations reveal that the share of manufactured goods in total exports is a more significant indicator of economic success.[18] Manufacturing is also one of the main vehicles for technological development, innovation, and an economy with a higher share of manufacturing in total value added is generally less exposed to external shocks, price fluctuations, climatic conditions and unfair competition policies.

Contrary to some opinions, it is not true that Africa has made no progress towards export diversification over the last two decades – simply, the progress that has taken place has been insufficient (see Table 1.1). A few African countries, like Uganda and Kenya, have increased exports by diversifying into non-traditional exports, typically, vegetables, fruits, and flowers. Such achievements are not to be gainsaid, but particularly relevant are the experiences of the small number of diversifiers which have successfully promoted manufacturing exports, such as

Tunisia and Mauritius. Although no particular experience can be directly extrapolated, these cases can still provide useful contrasts and lessons for other developing countries in Africa.[19]

Table 1.1: Manufactures as % of Export Trade for Selected African Countries, 1980-2001

	1980	1990	2001
Algeria	0.3	2.6	*2.3*
Angola	12.9	0.1	..
Benin	3.4	..	6.2
Cameroon	3.8	8.5	4.7
Comoros	23.8	..	*8.2*
Côte d'Ivoire	4.7	..	*14.5*
Egypt	10.9	42.5	32.7
Ghana	0.9	..	15.8
Kenya	12.1	29.2	*20.8*
Mauritius	27.4	65.8	74.2
Morocco	23.5	52.3	*64.1*
Nigeria	0.3	..	*0.2*
Senegal	15.1	22.5	28.8
South Africa	18.2	21.9	59.4
Togo	10.6	9.1	49.7
Tunisia	35.7	69.1	*77.0*
Uganda	0.7	..	6.9
Zambia	16.0	..	12.7
Zimbabwe	35.8	30.9	*28.1*

Note: Figures in italics refer to data for 2000

Sources: World Bank, World Development Indicators (2003); UNCTAD, Handbook of Statistics (2003)

The experience of the more successful diversifiers reveals that trade liberalization alone is unlikely to enable such countries to emerge as exporters of manufactures: in developing countries which are poor in terms of infrastructure development, sound macroeconomic policies, openness and fiscal incentives are not enough. A concerted effort to focus on strengthening the supply-side response of African industries is therefore required. Providing some policy recommendations to this end is the main theme of ERA 2004.

Policy action to strengthen trade performance – the ECA's Trade Competitiveness Index

Given the above challenges, this year's ERA presents a Trade Competitiveness Index (TCI) for African countries. The TCI is meant primarily as a tool for policy makers in Africa to be able to identify where the competitive shortcomings of their countries lie compared to other African countries. The TCI is computed for a sample of 20 African countries. To draw valuable lessons from an intercontinental comparison, the sample also includes 8 non-African countries; four from Asia (India, Malaysia, Thailand and Indonesia) as well as four from Latin America

(Bolivia, Chile, Argentina and Brazil) – developing countries that had GDP per capita levels similar to African levels in the 1960s, but have since followed various development paths.

Using a total of 34 indicators, the TCI is divided into three components, each capturing a different dimension of trade competitiveness: a *Trade Enabling Index*, reflecting the overall economic and political environment's conduciveness to trade; a *Productive Resource Index*, measuring the availability of direct inputs to production, such as land and labour force; and an *Infrastructure Index*, measuring the availability of indirect inputs such as a physical infrastructure that enables the movement of goods and services. These three sub-indices received equal weighting to comprise the TCI, which in turn allows the identification of the most competitive countries in terms of trade as well as identification of bottlenecks to an improved trade performance.[20]

The results reveal a number of important findings:

1. Despite the usual notion that African countries are resource abundant, they have a relatively low score on the *Productive Resource Index*. This can be explained by looking at the components of the index, which includes data on not only natural resources, such as the renewable water resources, but also created resources such as the quality of the labour force. The policy implication is that more resources need to be dedicated in Africa to improving the quality of created assets and human capital.
2. The analysis reveals that there is a positive relationship between the TCI and the index of export concentration, which reflects the degree of product diversification in the export structure of the country concerned. This implies that countries that are competitive tend to have lower export concentration and rely on a larger number of products for their export revenues. The challenge for African policy makers is providing the context for *upward-diversification*, towards higher value-added goods and services with an increasing technological content.
3. Variations in overall competitiveness are mostly driven by the trade-enabling environment, which captures the macroeconomic and political environment as well as policies conducive to trade. Crucially, the *Trade Enabling Index* includes variables reflecting the extent to which a country has achieved good governance, in terms of government stability, bureaucratic quality and democratic accountability. It is not coincidental that the top scoring African countries in terms of trade enabling environment are also the top scoring countries in terms of overall trade competitiveness. These countries have managed to diversify most and have the highest export of manufactured goods relative to GDP. Accordingly, Mauritius, South Africa, Tunisia, Egypt and Morocco are the most competitive African countries, whilst Nigeria, Mali, Zimbabwe, Malawi and Ethiopia are the least competitive.

The comparison with selected non-African countries reveals that labour-force indicators are key determinants of trade competitiveness on a global scale. Seven of the eight non-African countries dominate the overall trade competitiveness index due largely to their well-educated and healthy labour forces. This suggests that whilst a pro-trade environment is critical for global trade competitiveness, the greater integration into the world economy will also require increased efforts in educating the African people and improving their health.

An active employment policy…

Equally essential, however, is job creation. There is no point in investing heavily in human capital through education and training schemes if no job opportunities are subsequently available for these people. Regardless of the merits of policies of trade liberalization, the fact remains that in many African countries the reduction of tariff and non-tariff barriers has been associated with a sharp fall in employment, as consumers have switched from non-traded goods to imports. Policies are urgently needed to address the problem of employment generation, possibly the most pressing of all in Africa. One possibility, recently recommended by the US Commission on Capital Flows to Africa[21], is to provide more active support for small and medium enterprises (SMEs). In recognition of their importance as creators of employment, and as potential seedbeds for technological acquisition and innovation, all the industrialized nations offer financial and technical support to their SMEs.[22] Africa desperately needs to create national similar small business institutions that coordinate comprehensive programmes for SME support. These small business institutions could provide streamlined access to: 1) assistance programmes that address the technical and managerial weakness of SMEs; 2) financing programmes including loan guarantees, equipment and export finance; 3) coordination of linkages with multinational corporations; 4) basic information on market and export opportunities; and 5) "one-stop-shopping" for licensing, taxation, and other regulatory matters.

For the poorest of the poor, of course, these policy measures take time to implement, and may not have a sufficiently direct impact on their situation. It is unrealistic to expect these policies on their own to make a considerable dent in unemployment among the poor and unskilled. In such circumstances, state financing could be provided for public works projects (e.g. road building, irrigation works, etc), especially during periods of economic recession. There are a wide range of public works programmes already in place in African member states (see Box 1.3). In Ghana, for instance, youth are employed in afforestration and urban sanitation programmes.[23] Although the schemes have met with varying degrees of success, a number of the countries (e.g. Kenya and Ethiopia) have also implemented "food for work" programmes. Such schemes need to be improved upon and should be extended as far as financial resources allow.[24]

Box 1.3: Tackling Unemployment: Tunisia's 21-21 Fund

The Tunisian government has taken a range of measures to tackle unemployment, which stood at 15 per cent in 2001. The most significant measure was the launching of the National Employment Fund (popularly known as the "21-21 Fund") in January 2000. Its aim is to facilitate the integration of job seekers, particularly of the young into the labour market, but its beneficiaries include all categories of the workforce, including unskilled workers.

The Fund uses a multi-pronged approach in its attempt to reduce unemployment. It has an internship programme for disadvantaged youths under 20, most of whom have limited access to companies for various social and economic reasons. The youths are matched with an enterprise able and willing to train them for a specified period of time while their transportation costs are covered. For those with low educational attainment, training is provided to make them employable, and employment is eventually provided within the context of the various public benefit works. University graduates can participate in advanced training programmes in computing and telecommunications; those with liberal

arts backgrounds are trained in various fields, including pre-school teaching and participation in the national adult literacy programme. The most successful of the initiatives by the Fund is an aid programme to help potential entrepreneurs establish small businesses in collaboration with the Tunisian Solidarity Bank.

The Fund also provides financial assistance to the 35 public and private training centres by bearing the cost, the establishment of micro-enterprises, and the establishment of incubators for companies. Approximately, 204,000 people benefited from the Fund between January 2000 and November 2002; emphasis has been put on enterprise creation in areas where the economic fabric is weak, and on training elsewhere.

Most of the beneficiaries have since established their own businesses or have found stable employment. The Fund continues to make its credit line available to guarantee commercial bank loans for those enlisted in its programmes who eventually start their own projects. The creation of the National Employment Fund follows the success of the National Solidarity Fund, whose primary objective is poverty alleviation.

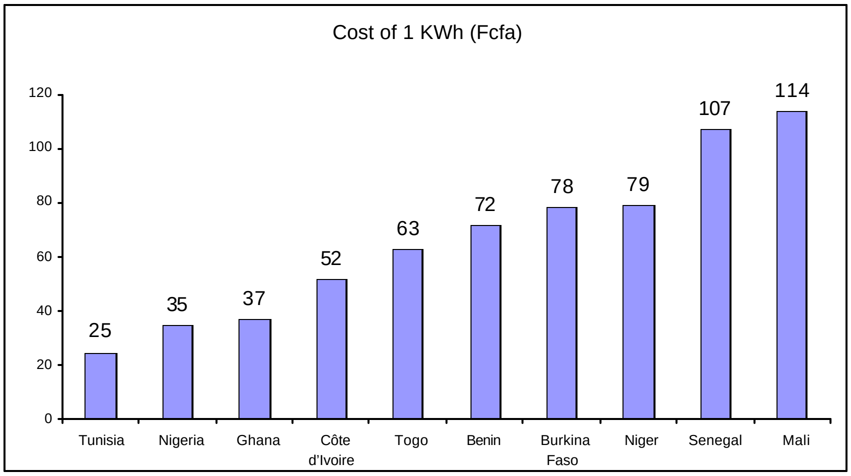
Source: ECA, from official sources

Confronting supply-side problems…

To ensure greater export diversification African countries need to identify key domestic obstacles to international business development and take appropriate measures to improve local conditions for business. Firm-level surveys in countries such as Senegal, Ghana, Uganda, and Kenya have identified infrastructure constraints as a significant factor affecting export development.[25] African countries naturally require good infrastructure facilities in order to be able to compete effectively in the international market. Many types of infrastructure – roads, air transport, railways, ports etc. – are important.[26]

The Report highlights the energy sector and its role in facilitating export diversification. Despite Africa's enormous potential for producing energy, many African countries continue to be plagued by sub-standard infrastructure in this field and the African power sector is small in comparison with its geographic size and population. Africa's electricity generation was 479.8 terawatt hours in 2001, representing only 3.1 per cent of world electricity production. Even this very limited supply is prone to repeated failure as manifested by power rationing, "brownouts" and blackouts. A number of problems have reduced the ability of the sector to power Africa's export diversification drive. These include: high system losses in transmission and distribution; unsustainable tariffs; climatic factors; poor technical, managerial, and financial performance; and inefficient government interventionism. Comparisons of unit costs between Tunisia, a country with an efficient state-owned energy sector and a well-diversified economy, and countries of West Africa reveal unit energy costs which are more than twice as high in countries like Togo and Cote d'Ivoire, and more than four times higher in Senegal and Mali (see Figure 1.3).

Figure 1.3: Cost of 1 kWh in Tunisia Compared to Selected ECOWAS Countries



Africa's energy sector has not been able to attract the levels of FDI necessary to upgrade Africa's power network. Foreign direct investment in the power sector in SSA between 1990 and 1998 was US$363.2 million, representing only 6 per cent of all infrastructure FDI flows to the region. Energy schemes in which foreign private investors have been present have at times produced poor results, or provided services at an excessively high cost – something obviously prejudicial to the poor.[27] It is worth recognizing, however, that the choices for African governments are frequently difficult ones. On average, privatized utilities have proved more efficient in extending coverage of services like water or electricity connections. But are host governments prepared to accept tariff increases, with all the distributional consequences that that entails, in return for higher coverage rates? For instance, a study of the options for Nairobi's water system by British company Halcrow Group in June 2001 concluded that a 40 per cent price increase would be required if any improvements to the capital's infrastructure were to be funded.[28]

Given the tight budgetary constraints under which most Least Developed Country (LDC) governments operate, is reform of the existing public sector services feasible over the short to medium term? A recent UN report reminds us that "*the growing tendency to leave even LDCs to the mercies of the capital market to build power plants and upgrade their telecommunications facilities has led to growing under-provisioning of investments in this sector in the LDCs. ...Not all LDCs can access FDI in these areas or access it with sufficient urgency to meet their immediate demand for power or water*" (UN, 2000).

To achieve a better utilization of power resources, ERA 2004 recommends a number of policy guidelines:

1. Direct government control of the power sector has often produced disappointing results, although this is not always the case (see the Tunisian example above). One policy option is the transformation of power companies into independent and self- reliant corporations that can still be under government ownership. The success and efficiency of power companies will, however, depend on the extent to which they incorporate economic considerations in their operations.

2. African countries should promote energy efficiency. Energy efficiency reduces operating costs, enhances economic efficiency, and improves the productivity and international competitiveness of energy consuming companies. An energy efficient programme should include promotional and information dissemination activities to increase energy conservation awareness, and incentives to increase the ability and willingness of energy users to implement energy conservation measures.
3. Rural electrification programmes can also help promote the development of the energy sector and therefore ensure greater export diversification. African governments could promote rural electrification by playing a more aggressive and transparent role of promoting smaller village-based energy systems.
4. The increased reliance on private sector involvement in the energy sector requires good and credible regulation. Efficient regulation should prevent any abuse of monopoly power and limit price increases to levels that are compatible with profit margins. To perform effectively, it is essential that regulatory bodies be independent, and distanced from political, corporate, and other pressures.
5. Finally, the promotion of regional integration in energy services would help promote the development of the energy sector in Africa. A study by the Southern African Development Community (SADC) and the World Bank suggested that an estimated saving of US$1.6 billion over ten years could be realized through optimal use of regional electricity resources and installation in Southern Africa. The development of regional markets in energy would require common regulations for the international exchanges.

Effective strategies for trade facilitation…

Trade facilitation has been defined both narrowly and broadly.[29] The WTO, the UN Conference on Trade and Development (UNCTAD), and the OECD have restricted the scope of their definitions to a relatively free movement of goods, and more specifically, to customs procedures and technical regulations that can impair or delay trade. The World Bank, however, takes a broader approach to its trade facilitation programme, which primarily covers reforms in customs, regulatory frameworks, and standards. In this Report, we also subscribe to a broader definition of trade facilitation.

Many African countries acknowledge the benefits that could arise from improved trade facilitation and the economic gains that could be generated. These could include promotion of trade and investment; lower transactions costs; improved revenue collection; and better allocation of resources. Efforts need to be intensified to improve the state of trade facilitation in the African continent. This entails the strengthening of Africa's infrastructure network and harmonizing and implementing regional facilitation instruments including customs and administrative procedures.

The generally low density and quality of transport infrastructures in Africa raises transactions costs for trade substantially. Transaction costs are higher in landlocked African countries. These impose a large burden on the competitiveness of these countries. The ability of landlocked countries to trade does rely on the existence of efficient and easily accessible transit corridors. This implies that in addition to their own infrastructures, landlocked economies need good and reliable infrastructures in neighbouring countries over which they have little control.

In addition, efforts have been made at regional, sub-regional, multilateral, bilateral and national levels to facilitate trade in Africa. Regional Economic Communities (RECs), such as the Common Market for Eastern and Southern Africa (COMESA), SADC, the Economic Community of West African States (ECOWAS), West African Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC), have paid much attention to the harmonization of trade facilitation procedures in their subregions and to the facilitation of transport links. Cameroon has signed conventions on the transportation of goods by land with its landlocked neighbours of Chad and the Central African Republic. The Tunisia Trade Net, an automated system that provides a one-stop trade documentation-processing platform connecting the principal actors of international trade, introduced in 2000, is expected to reduce shipment clearance from an average of eight days to three days and to result in a productivity gain of 7 per cent. Several African countries are also using the Automated System for Customs Data (ASYCUDA), introduced by UNCTAD.

At the multilateral level, trade facilitation was introduced into the agenda of multilateral trade negotiations, at the First WTO Ministerial Conference held in Singapore in December 1996, as one of the four “Singapore Issues” despite strong opposition from developing countries, including those from Africa. The opposition and concerns of many developing countries about agreeing to create a “multilateral framework” on trade facilitation was not due to lack of appreciation of the importance and role that disciplines on this issue can play in promoting development, but mainly reflected the lack of adequate human, financial and technical capacity to deal with the issue in a multilateral environment.

Mobilizing domestic resources…

Faced by insufficient external resources, a clear priority for African governments is to promote domestic resource mobilization. Savings and investment to GDP ratios remained low during 2001 (the latest year for which data are available), and generally well below the levels compatible with achieving the MDGs on growth and poverty reduction. No less than 27 countries in the region had savings ratios below 10 per cent of GDP in 2001, indicating a huge shortfall in resources needed to catalyse development. Although private investment has increased, investment rates have also yet to recover from the collapse during the processes of structural adjustment.

The key point here is that public investment fell sharply and has not been adequately compensated for by rising private investment. Given the stress on the importance of complementarities and synergies between public and private investment, what is clearly required is a recovery in public sector investment in essential infrastructure, health and education.

The Report also discusses the potential role of African capital markets. There is a long-standing debate over the best way of financing the corporate sector, with some authors stressing the difficulties associated with an excessive dependence on stock market financing in poor developing countries.[30] Africa’s experience bears out some of these criticisms. Although small by global standards, Africa’s capital markets have shown considerable growth over the last decade. For 17 out of 18 African stock markets for which data is available, market capitalization as a percentage of GDP has risen significantly in 16 countries between 1990 and 2002. Amid the poor performance of developed country stocks over the last two years, many African stock

markets have performed relatively well, reflecting Africa's partial insulation from global financial shocks due to the continent's low level of integration into the world economy. Large increases in the value of stocks traded have occurred primarily in the regional powerhouses of Egypt, Morocco and South Africa.

Overall, however, African capital markets remain marginal in the global and emerging markets: their share of world market capitalization fell from 1 per cent in 1992 to 0.7 per cent in 2001. This lacklustre performance is the result of external and institutional constraints which limit the growth of African stock markets. Political instability and patchy macroeconomic performance block the development of vibrant capital markets, while stock market infrastructures, such as their settlement and trading mechanisms, are often poorly developed. Markets frequently suffer from severe informational deficiencies and ineffective regulatory regimes.

In view of the relatively marginal role of African stock markets in financing the productive system, strengthening the domestic banking system is clearly a priority area. Unfortunately, here too there are many deficiencies to be rectified. Despite the pressure over the last two decades on African countries to liberalize their financial sectors, performance of the banking sector has not significantly improved, and portfolios continue to be dominated by non-performing loans and excess liquidity. This contrasts with the relatively dynamic performance of the informal financial system, which has expanded mainly in response to the financial requirements of informal sector businesses. Gaps in financial services have also emerged. A number of authors have talked of Africa's "missing middle", in the sense that many potential borrowers are either too large for the informal lenders or too small for the formal lenders.[31] None of this of course helps the cause of export diversification. Policy makers urgently need to address the issue of how to reform the banking sector so as it fulfils its social and developmental function adequately.

Challenges of fiscal reform in the face of trade liberalization…

African governments' financial dependence on trade taxes raises the problem of how to maintain the fiscal base and preserve macroeconomic stability in the face of trade liberalization. In other regions, this issue is receiving increasing attention from policy makers. For example, all the countries in Latin America, except for El Salvador, have either passed tax reforms or are in the process of doing so.[32]

The issue of fiscal reform is especially important for Africa. The overall tax base is excessively low. And taxes on international trade have been an important part of fiscal revenue in African countries where tax administration is inefficient. In Africa as a whole, international trade taxes generated on average 28.2 per cent of total current revenues over the last decade; for SSA the share rises to 30.5 per cent. This compares to 0.8 per cent for high-income OECD countries, 11.5 per cent for upper-medium income countries, 18.42 per cent for lower medium-income countries, and 22.5 per cent for low-income countries. In addition, while the data show a decreasing dependence on trade taxes worldwide, in Africa the share has fluctuated around a flat or even slightly increasing trend.

Trade liberalization is therefore a potential source of fiscal instability for African countries. Revenue-collecting concerns are often mentioned as a reason for resistance to trade

policy reform in low-income countries. Despite this, some components of trade liberalization packages are likely to have a positive impact on revenues. These include the replacement of non-tariff barriers by lower tariff equivalents and the elimination of tariff exemptions and trade-related subsidies. Moreover, tariff cuts can also increase total revenues if they generate a sufficiently large increase in trade flows. Trade liberalization measures can also be combined with other tax and fiscal reforms to help buffer the revenue impact of trade liberalization.

Fiscal stabilization remains problematic for most African countries. Despite improvements in the second half of the 1990s, the average continental fiscal deficit (excluding grants) in 2002/2003 was around 7 per cent of GDP. Determinants of fiscal deficits include macroeconomic and growth performance, shocks to the terms of trade and political factors. After controlling for these other determinants, the effect of trade liberalization on revenues and the fiscal deficit depends on the existing level of trade restrictions. When trade restrictions are initially very high, trade liberalization increases trade tax revenues and reduces the deficit. When, instead, initial trade restrictions are low, further liberalization results in smaller revenues and a larger deficit unless some appropriate policy response is implemented. Initial liberalization is therefore less likely to pose a fiscal problem than liberalization at later stages. Because African countries have already carried out trade liberalization over the 1990s they are likely to face significant revenue reductions as a result of further liberalization (see Box 1.4).

Box 1.4: EPAs and their Fiscal Implications

One of the most important policy initiatives in recent years has been the planned Economic Partnership Agreements (EPAs) between the European Union and individual subregions in sub-Saharan Africa. The EPAs are an extension of the Cotonou Agreement with the African, Caribbean and Pacific (ACP) countries, and were initially discussed for the first time in 2000. Despite new initiatives on the part of the EU (like the aforementioned "Everything But Arms" agreement), generally speaking the results from preferential agreements have been disappointing. For instance, over the first two decades of preferential access to the EU market, under the Lomé accords, the exports of the ACP countries to the EU market fell from 6.7 per cent of world exports in 1975 to 2.7 per cent in 1995. There are, of course, explanations for this: most poor ACP countries have been locked into patterns of exports based on primary commodities whose share in world trade has been suffering a secular decline. Clearly, however, the concessions for the ACP countries were not capable of offsetting this structural imbalance.

The EPA initiative should thus be seen as a result of the growing frustration with preferential access agreements and a subsequent rethinking on the part of the EU regarding trading policy towards the poorest developing countries. The planned establishment of free trade agreements with the EU under the EPAs represents an enormous challenge to African countries. It will oblige them not only to liberalize completely their trade regimes with the EU, but also instigate a whole number of institutional and regulatory reforms. This is seen as one of the most important benefits of the EPAs – instilling greater "discipline" in the process of institutional reform and "locking-in" sub-Saharan countries into a reform programme, with the aim of making their economies more competitive internationally.

However, one particular area of concern is the impact of the EPAs on government revenues. Revenues from tariffs still amount to 2 per cent of GDP in the median sub-Saharan country, and for some countries that figure reaches 4 to 6 per cent of GDP (Hinkle et. al., 2003). For the countries most dependent on trade with the EU, like the Central African Republic or Uganda, the loss of tariff revenue on imports could be a significant percentage of total government revenue, reaching as much as 20 per cent.

The EU is aware of this problem, and has promised substantial financial help to aid industrial restructuring and compensate for the lost tariff revenues. Unfortunately, the precedent of the Euro-Mediterranean Agreements, with the relatively low level of funding provided by the EU for the *mise-au-niveau* programmes in North Africa, does not provide the basis for much optimism (Guggenbuhl and Theelen, 2001). African countries are aware that the European budget is already overstretched by the EU enlargement and by many other commitments. The EU may not therefore be able to meet its commitment of substantial economic support to finance the transition period. There are also concerns that any additional financial help could come attached with new conditionalities. These points explain in large measure the tepid reaction to the initiative of some ACP countries and sub-Saharan countries. Negotiations were originally scheduled to start from September 2003, but the Pacific islands argued that they would not be ready for negotiations until November 2004. West Africa (i.e., UEMOA and ECOWAS) actually walked out of the initial negotiations in late 2003, and demanded an EU aid commitment up-front before entering negotiations (Morrisey et. al, forthcoming).

Sources: Guggenbuhl and Theelen, 2001, Morrisey et. al, forthcoming

Most of the African countries that made the fastest progress on trade liberalization over the last ten years saw a significant decrease in revenues from international trade taxes. But in some, such as Morocco, Ghana, Tunisia and Senegal, this did not translate into higher deficits. Their experience can therefore suggest policy responses to buffer the negative fiscal impacts of trade policy reforms. Firstly, trade liberalization should be co-ordinated with measures on the revenue and spending side of the budget including raising domestic indirect and direct taxes, strengthening tax administration and collection and improving the effectiveness of public spending. Secondly, a sound macroeconomic environment is critical to preventing fiscal distress during trade liberalization.

Conclusions – a strategic approach to trade policy

In the *Economic Report on Africa 2004* we stress the progress that Africa has made in the last few years. After the disappointing economic performance of the 1980s and 1990s, there has been a return to positive rates of per capita economic growth in most of the continent, and with an acceptably good macroeconomic performance. However, Africa's rates of growth are still well below the annual average 7 per cent needed to fulfil the MDGs. Moreover, the economic recovery is fragile and in some parts of Africa it has been overly dependent on better climatic conditions and harvests, something which obviously cannot be counted upon in the future. A number of political and military conflicts also continue to jeopardize the achievements of recent years.

We argue that in order to consolidate improved economic performance, there are various long-term priorities which need to be addressed, the chief ones being higher rates of saving and domestic investment, greater investment in human capital, and a more dynamic export performance. In this report, we try to signpost the way towards policies for strengthening the competitive capacity of the African economies. A more concerted effort on the part of African policy makers for promoting export capacity and facilitating structural diversification is required, through the adoption of a coherent diversification policy. In the final result, this all amounts to a reconsideration of the way in which Africa has up until now attempted to achieve its integration in the world economy. Although this is implicit in the context of initiatives like the NEPAD, it is something which, in our view, needs to be spelt out more explicitly in the future.

Despite the main argument of this Report – that in the final resort, successful export promotion and structural change is dependent upon African governments themselves – it must be recognized that for most African countries the resource requirements for diversification are beyond what could possibly be mobilized at the domestic level. UNCTAD (2003) has tabled the need to work out a financing mechanism at the international level to help these countries develop a system of supply rationalization and diversification into other products in order to remove excess supply of these traditional commodities from the markets. According to UNCTAD, this might necessitate revisiting the concept of a "diversification fund" for African countries.[33]

In the meantime, there is an urgent need for Africa to achieve more tangible results through the multilateral trading system. The provision of a more accommodating international context for African exports, through the removal of trade impediments by the industrialized countries, is a *sine qua non* for African development. Policy makers in Africa and elsewhere should be aware of the urgency of these reforms. Over the short to medium term, African countries must place the emphasis on enhancing their ability to compete. Meanwhile, the door should not be closed through unreasonable limits on special and differential treatments required in aiding African countries to participate in the world economy. Over the long term, if the multilateral system of trade liberalization does not produce the desired results, despite credible efforts by African countries, then there is a very real possibility of a backlash against trade liberalization and the multilateral system. While trade liberalization has an important role in an overall strategy for economic and social development, the overarching principle must be to adhere to policies which produce substantial results within a reasonable timeframe. African leaders and policy makers in the industrialized countries should be conscious of the fact that time is running out.

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[1] See Fosu (2002) and (2003).

[2] More than US$12 billion of total aid (including most TA and emergency assistance) to developing countries is tied (or partially tied) to exports from the supplying country, which reduces its value to the recipient country by 25-40%.

[3] On both AGOA and the EBA, see recent research published by UNCTAD (2003b)

[4] "AGOA Gives Strong Boost to South African Exports to US", www.allafrica.com , 8/8/2003.

[5] United State Department of Commerce – U S-African Trade Profile, March 2003.

[6] "Trade Liberalization under the Doha Development Agenda: Options and Consequences for Africa".

[7] Policy changes envisaged in the "little" scenario are tariff reductions (agricultural goods by 36%, all other goods by 20%); reduction in export subsidies by 20%; reduction in domestic support by 20%; and trade facilitation by 1%. The "modest" scenario envisages tariff reduction of all goods by 50%; reduction of exports subsidies by 50%, and trade facilitation by 1.5%. The "full" scenario encompasses 100% reduction in tariff, export subsidies, and domestic support, and trade facilitation by 3%.

[8] ERA Reports on Commodity Dependence.

[9] See also UNCTAD (2003) "Trade Performance and Commodity Dependence".

[10] World Bank (2000), Can Africa Claim the 21st Century?, page 20-22.

[11] See, in particular, Lall (2003).

[12] See Chang (2003). On the form which industrial policy should take in a globalizing world, see the discussion by Reich (1991).

[13] Trade Liberalisation and Development, op.cit.,page 6.

[14] High Level Panel on Financing for Development, page 9.

[15] The classic reference to the importance of trade in development strategies has become Warner and Sachs (1998).

[16] Data from WDI 2003.

[17] Although the volume of trade is only loosely related to economic success, econometric investigation reveals that the share of manufactured goods in total exports is a more significant indicator of economic success (Fosu 2002).

[18] See, among others, Fosu (2001).

[19] The case of Togo also stands out as a country which has apparently achieved a higher level of manufactured exports than the norm for Africa. However, this high figure is principally the result of transhipment, rather than the diversification of the economic structure towards manufacturing.

[20] [being researched]

[21] US Commission on Capital Flows to Africa, 2003.

[22] An example would be the US Small Business Administration.

[23] See Kasirim Nwuke, "Youth and Employment in Africa." Paper prepared for the Youth Employment Summit, ECA, ESPD Background Paper No. 1, September 2002.

[24] See the recent study by Barrett, Holden and Clay (2004). A good example of this kind of model is the Mahararastra Employment Guarantee Scheme, in India, which provides a minimum basic wage for rural workers during periods of economic hardship, and is financed by a consumption tax on urban areas.

[25] [being researched]

[26] See ARIA studies for discussions on other types of transport infrastructure.

[27] For a discussion on this, see Ford (2002) and Globalization Challenge Initiative (2002). On more than one occasion, the World Bank has questioned deals reached between multinationals and African governments. Such was the case of Enron's $800 million deal with the Nigerian government. The World Bank and other foreign consultants were widely reported to have objected to the terms of the agreement, saying that in haste to solve the electricity supply problem the Nigerian government had offered terms that were excessively favourable to Enron (Economist Intelligence Unit, 2000; 30).

[28] See Ford (2002:19).

[29] Nitay Nanda, "WTO and Trade Facilitation. Some Implications," EPW Commentary, June 28, 2003.

[30] See Singh and Weisse (1998).

[31] See "Financial Integration and Development: Liberalization and reform in Sub-Saharan Africa", Routledge Studies in Development Economics 11, by Machiko Nissanke and Ernest Aryeetey 1998.

[32] See ECLAC's Annual Report (2003:14).

[33] See UNCTAD (2003), op.cit., pages 56-57.