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Report on Africa's International Trade

I. Introduction

1. After a couple of years of rather strong rebound in the wake of the 2009 global recession, the expansion of Africa's trade flows had bottomed out in 2012 and 2013, in line with the dampening of global growth, and the downward trend of commodity prices. With approximately 15 per cent of the world's population, Africa's share in global trade continues to hover around 3.2 per cent. In these circumstances, the process of reorientation of Africa's trade towards Southern partners has continued steadily, to the extent that developing countries nowadays account for as much as 46 per cent of the continent's merchandise exports and 53 per cent of its imports, up from 27 per cent and 34 per cent respectively, only 15 years earlier.[1] Geographic diversification, however, has not been accompanied by any significant diversification in terms of exports composition, to the extent that primary commodities continue to constitute three quarters of the continent's merchandise exports.

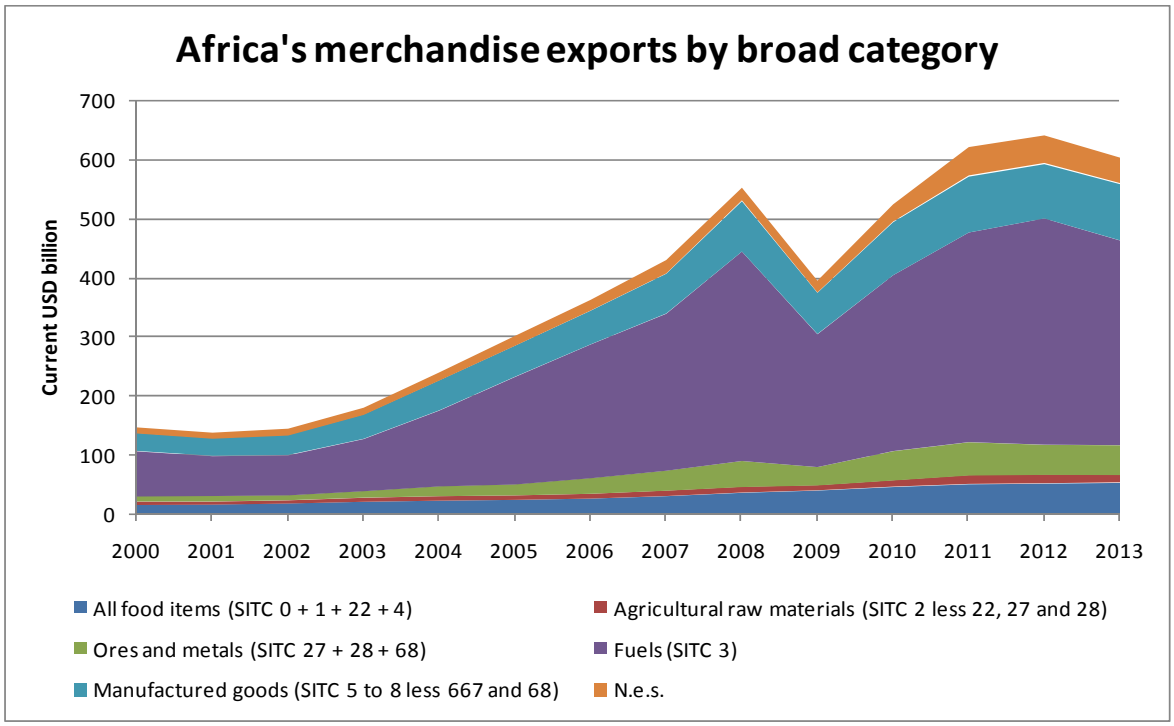
2. The present report focuses on developments in international trade in 2013, and data permitting 2014. It first outlines African trade performance focusing on recent trends in merchandise, and services. Second, it reviews the progress of negotiations under the Doha Development Agenda and the Economic Partnership Agreements, as well as the African Growth and Opportunity Act (AGOA) and the increasing importance of South-South cooperation with China and other Asian economies. Third, 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.

[1] Unless elsewhere specified, trade figures reported in the text are based on data extracted from the United Nations Conference on Trade and Development Statistics (UNCTADStat) database, consulted on 1 November 2014.

II. Africa's trade performance

A. Merchandise

3. The slowing down of global growth, and the downward trend in prices for primary commodities (in addition to ongoing conflicts) have taken a toll on Africa's trade performance, with the expansion of trade flows bottoming out in 2012 and 2013, after the strong rebound observed in the wake of the 2009 recession (see).



4. Compared to 2012, preliminary data for 2013 suggest a rather generalized decline in Africa's export revenues, from $640 billion to $603 billion – -6 per cent at continental level.[2] Merchandise imports appeared to be slightly more resilient, climbing up by 2 per cent at continental level: from $615 billion in 2012 to $628 billion in 2013.

[2] Not all data sources confirm, however, the decline in merchandise exports for 2013; according to the International Monetary Fund (IMF) DOTS database for instance, Africa's merchandise exports have 3 per cent increase.

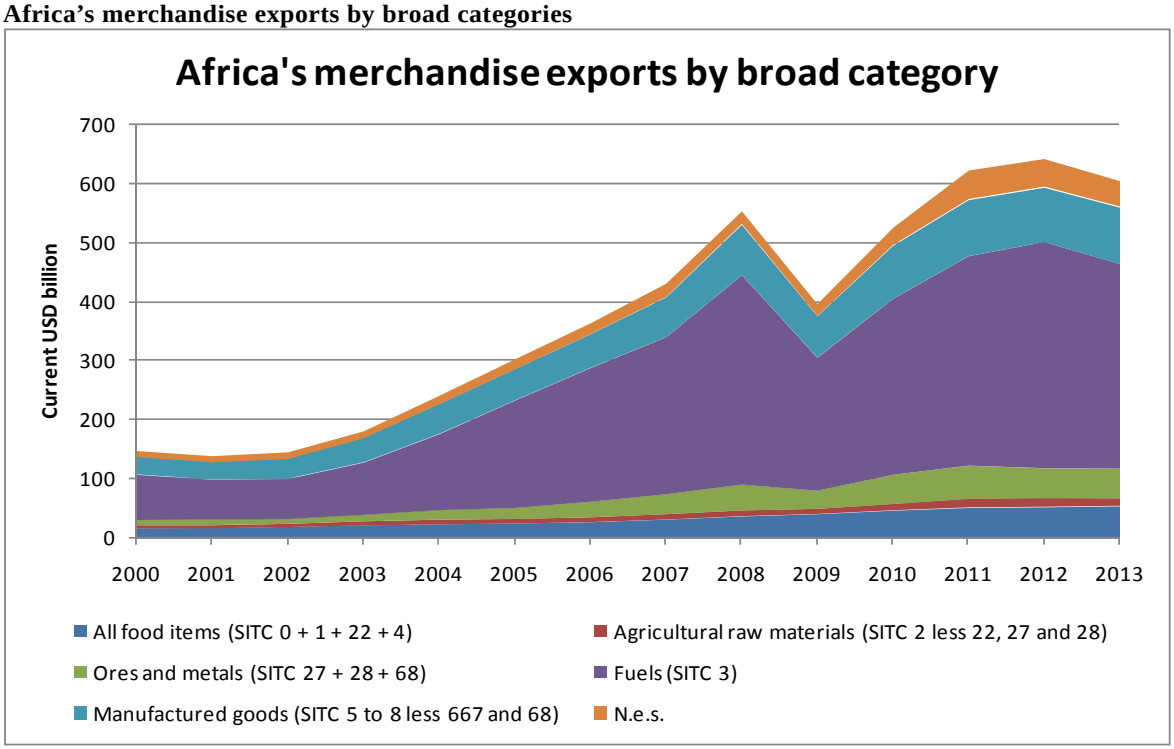
Figure 1
Africa's merchandise trade

Source: UNCTADStat, database (2014).

5. From a longer term perspective, it is encouraging to note that, notwithstanding recent developments, merchandise trade flows remain four times higher than 10 years ago. There is, however, no reason for complacency: the bulk of the expansion in imports and exports flows has stemmed from a price effect, rather than a volume one; if anything, in volume terms, the growth of exports has been increasingly outpaced by that of imports. In the same vein, the boom in exports has been accompanied by an increasing concentration on a narrow range of mostly primary products (Ofa, and others, 2012).

6. If anything, primary commodities now account for as much as 77 per cent of Africa's merchandise exports, up from an already high 66 per cent only 15 years ago. Fuels alone account for nearly 60 per cent of Africa's exports, compared to approximately 40 per cent 15 years ago. By contrast, even though over the past decade manufactured exports have increased in value terms at a rate of nearly 10 per cent per year, as a share of total merchandise exports they have steadily declined and account nowadays for 15 per cent of the total. Conversely, manufactured goods dominate Africa's imports, especially for what pertains to capital goods, and also intermediate products.

Figure 2
Africa's merchandise exports by broad categories



Source: UNCTADStat, database (2014).

7. Beyond the composition of trade flows, it is worth noting Africa's growing participation to South-South trade, including not only with Brazil, China and India – though they are obviously amongst the most visible – but also with other developing countries. As a matter of fact, the weight of developing countries in Africa's trade has been steadily on the rise at the expenses of traditional developed partners. This shift has been so pronounced, that developing countries nowadays account for as much as 46 per cent of the continent's merchandise exports and 53 per cent of its imports, up from 27 per cent and 34 per cent respectively, only 15 years earlier.[3] While the bulk of Africa's export to developing countries consists of primary products, the sustained increase of labour costs in some of the world manufacturing powerhouses (notably China) could create a growing opportunity to support Africa's industrialization, while still sustaining global demand for primary commodities.

B. Services

8. Trade in services constitutes one of the most dynamic components of international trade, and there is a growing recognition of the importance that the services sector as a whole plays in the creation of value added, with positive spillovers also on manufacturing productivity. In 2013, worldwide trade in services stood at over $4.5 trillion, with a slight expansion compared to 2012 ($4.3 trillion). Travel and business services represent the main component of these global international flows. For what attains to Africa, services imports and exports totalled respectively $171 billion and $96 billion (see figure 3). However, unlike in the global market, both flows displayed a slight decline

[3] These figures are based on 3-year averages spanning the periods 1996–1998 and 2011–2013.

when compared to 2012. Put differently, services imports (exports) are roughly one third (one sixth) of the corresponding merchandise imports (exports) flows.

Figure 3
Africa's trade in services

Source: UNCTADStat, database (2014).

9. Travel and tourism services continue to represent the backbone of africa's exports with a share of 40 per cent of the total, even with the adverse effect of the conflicts and political tensions in North Africa. Conversely, for the continent as a whole, it stands out the negligible contribution of exports of business, communication and financial services. Notwithstanding a 10 per cent slump compared to the peak of 2012, exports of travel services for the continent as a whole touched $39 billion in 2013. Travel and tourism receipts continue to play a key role not only in a number of small island developing states, but also in some key destinations such as Botswana, Namibia or the United Republic of Tanzania. Meanwhile, Ghana and Kenya in particular have benefited from exports of business-processing services, taking advantage of improved information and communications technology infrastructures and a reasonably well-educated and urbanized workforce (Anand, Mishra and Spatafora, 2011).

10. Overall, African countries continue to face numerous challenges to spureconomic transformation and diversify their export specialization patterns. Inadequate provision of infrastructure (notably transport and energy) and difficult access to credit (especially for small and medium enterprises) represent two of the most binding constraints taxing the competitiveness of African producers. In line with this, there is a clear scope for Governments to play a more effective role through public investment, providing key "social overheads", thereby crowding in more private investments.

11. As argued repeatedly by the Economic Commission for Africa (ECA), a more conducive industrial policy framework may also be warranted to foster greater value addition, and nurture backward and forward linkages in order to diversify African economies (ECA and African Union Commission, 2013 and 2014). The emergence of regional and global value chains can indeed open the possibility for African producers to gradually embark on increasingly sophisticated activities, but the scope for this to occur depends on the

specificities of the value chain in terms of sector input–output structure, governance, institutional context and skills availability.

III. International trade: Doha Development Agenda, African Growth and Opportunity Act, economic partnership agreements, and other trade negotiations

A. Doha Development Agenda – Bali

12. Recent developments on the multilateral trading system pivot around the outcome of the ninth World Trade Organization Ministerial Conference held in Bali, Indonesia, from 3 to 7 December 2013. The Agreement reached in Bali was saluted as an historic achievement that could revitalize the negotiation process on the Doha Development Agenda. A year after the conclusion of the Bali Conference, though, the assessment is more sobering, and scepticism has resurfaced on the prospects of the Doha Development Agenda conclusion.

13. The implementation of the trade facilitation Agreement, which constituted the centrepiece of the Bali package, remains in limbo given the failure to reach a consensus on the adoption of the Protocol of Amendment to insert the Agreement into Annex 1A of the World Trade Organization Agreement. From an African perspective, concerns remain for the fact that precise commitments on the trade facilitation measures were not complemented by similarly binding commitments on technical and financial assistance. Moreover, some actors caution that trade facilitation measures may end up benefitting mainly transnational corporations, and providing a further boost to imports. In this respect, ECA research shows that African countries stand to gain significantly from a reduction of trade-related costs, and that disproportionately high trade costs are a burden not only to Africa's trade with the rest of the world, but also – and perhaps more importantly – to intra-African trade (Valensisi, Lisinge and Karingi, 2014). Against this background, many African countries have already started implementing – at national or regional and economic community level – a good number of trade facilitation measures. Accordingly, their sequencing and prioritization will continue playing a key role in making sure that African small and medium enterprises benefit from trade facilitation as much as transnational corporations, and that the trade facilitation agenda effectively enables regional integration.

14. Beyond trade facilitation, the agreement reached in Bali only encompassed a limited subset of the issues covered under the umbrella of the Doha Development Agenda, from specific topics belonging to agriculture, to the Monitoring Mechanism on Special and Differential Treatment, and the four items of the so-called "least developed countries package". With the notable exception of the interim peace clause on Public Stockholding for Food Security Purposes, in general the Bali Agreements dealt with most of the above issues through rather weak language and "best endeavour clauses". That was the case notably for agricultural export competition, duty-free quota-free market access for least developed countries, preferential Rules of Origin for least developed countries, as well as cotton.

15. Against this background, the uncertainty surrounding negotiations on agriculture and non-agricultural market access in the post-Bali work programme, remains a source of serious concern. Accordingly, there is a widespread feeling that, against the deadlock of the Doha Development Agenda, Africa's strategic priorities risk remaining largely unaddressed in the multilateral context. Moreover, the proliferation of bilateral agreements (including notably the so-called "mega-regional"), and the gradual move toward

plurilateral negotiations, threaten to erode the relevance of the multilateral trading system, leaving many developing countries at the margin.

B. Trade Preferences: advocating for the African Growth and Opportunity Act beyond 2015

16. As requested by the African Ambassadors to the United States of America, a strategic paper on, "Future (Post AGOA) Africa-US Trade and Economic" was prepared by the African Trade Policy Centre. This was complemented by a study on,"The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015", a joint effort between ECA and the Africa Growth Initiative at Brookings Institution. Both papers were presented to African Ambassadors to the United States and senior officials at the AGOA Mid-term Review, held in May 2013, in Washington D.C. The latter study was also presented to senior officials at the twelfth AGOA Forum in August 2013, in Addis Ababa.

17. The report from the empirical analysis is based on the examination of expected trade and income impacts on Africa and the United States with five scenarios, which imply changes in the current legislation such as: not extending AGOA beyond 2015; expanding product eligibility for AGOA; revising the current eligible countries; restructuring AGOA to resemble the economic partnership agreements of the European Union; and, the effects that a possible European Union-United States free trade agreement could have on AGOA or an economic partnership agreement-like situation, with an additional scenario examining how a continental free trade area (CFTA) would play into such integrated trade environment.

18. Key findings from the different scenarios can be summarized as follow:

(a) Discontinuing AGOA beyond 2015 would be detrimental to AGOA-eligible countries as Africa's exports to the United States would be considerably reduced;

(b) African exports would be stimulated if the most sensitive United States imports from AGOA-eligible countries (e.g. sugar, cotton and diamonds) are also added duty-free quota-free into the AGOA legislation. It is worth noting that United States producers would not be negatively affected even if the United States would grant 100 per cent duty-free quota-free on its imports from AGOA countries;

(c) If they are to become ineligible, African middle-income countries would suffer considerable trade losses, rendering the idea of graduation highly unsatisfactory for Africa;

(d) If reciprocity is introduced into AGOA, and modelled following an economic partnership agreement-like setting, then African exports to the United States would increase less than African imports from the United States following economic partnership agreement-like scenarios. Moreover, large declines in tariff revenues for African Governments would also be observed as preferential access granted would be granted to the United States on African markets;

(e) Two-way trade between the European Union and the United States would strongly increase after establishment of a European Union-United States free trade agreement. In this context, increased competition on the European Union and the United States markets would limit Africa's exports to the European Union and the United States. However, regional integration, in particular a CFTA, would help with undermining and in some cases, offsetting losses for Africa caused by an European Union-United States free trade agreement as well as economic partnership agreement-like scenarios.

19. Overall, deepened regional integration in Africa should certainly be considered as a high priority to maximize trade gains for Africa as it appears to be critical in mitigating potential losses from other agreements (such as economic partnership agreements or the European Union-United States free trade agreement). Furthermore, it has the strong potential to stimulate intra-African trade and its industrialization, especially if CFTA is implemented.

20. In 2014, ECA continued to provide technical and financial support to the African Union Commission and its Washington office, especially conducting a retreat directed towards the African Ambassadors Group in Washington, D.C., in June 2014. The retreat was aimed at mobilizing the support of key stakeholders in the United States Administration, the Congress, private sector, civil society and think-tanks on the importance of extending AGOA Post-2015 for at least the next 15 years; and for the development of an AGOA compact for the eligible countries which have effectively developed and implemented a national AGOA export strategy.

21. ECA is also providing support to Ethiopia, Lesotho, Nigeria and Zambia in the formulation of their national AGOA response strategies with implementable and budgetized action plans in identified priority sectors for the purposes of increasing exports to the United States.

C. Economic partnership agreements: how to mitigate potential losses but still grab benefits associated with the agreements

22. The economic partnership agreements are reciprocal but asymmetrical trade agreements between the European Union and 79 African, Caribbean and Pacific (ACP) countries. Indeed, the European Union is supposed to grant (immediately) 100 per cent free market access to ACP countries, while ACP countries are expected to open (progressively) their markets free of duties for approximately 80 per cent of their imports from the European Union. ACP countries should also establish free trade areas at the regional level within the following seven regional negotiating groups (five of them in Africa): West Africa, Central Africa, Eastern and Southern Africa Eastern African Community, South African Development Community, Caribbean and Pacific.

23. The economic partnership agreements have been justified by the need to comply with the World Trade Organization rules of reciprocity and non-discrimination. They are also expected to have positive impacts on the economic growth of ACP countries. However, economic partnership agreements also raise a number of concerns. For example, they will reduce fiscal resources of ACP Governments, could potentially wash away nascent industries, and possibly generate a trade diversion harming third countries.

24. Initially, economic partnership agreements were supposed to enter into effect in 2008, but progress in negotiations surrounding these agreements have been slow. As of now, the situation can be summarized for each of the five African negotiating groups:

(a) West Africa: on 10 July 2014, Economic Community of West African States (ECOWAS) Heads of State endorsed the economic partnership agreement for signature;

(b) Eastern and Southern Africa: Madagascar, Mauritius, Seychelles and Zimbabwe are the sole countries that are provisionally applying the agreement since 14 May 2012;

(c) Central Africa: only Cameroon has signed and later ratified the interim economic partnership agreement on 22 July 2014 – Cameroon is expected to start provisionally applying the agreement soon;

(d) Eastern African Community: Burundi, Kenya, Rwanda, Tanzania and Uganda are currently negotiating a comprehensive regional economic partnership agreement;

(e) South African Development Community: on July 2014, economic partnership agreement negotiations have been concluded and this agreement is expected to replace the interim economic partnership agreement signed (but never ratified) by Botswana, Lesotho, Mozambique and Swaziland.

25. It should be highlighted that all the countries that did not sign or ratify an economic partnership agreement by 1 October 2014, may lose some preferences when exporting to the European Union based on their development and income levels, such as:

(a) Least developed countries would still remain eligible to everything but arms (EBA), implying zero duties on all tariff lines except arms (since early 2014, sugar and rice have also been exempted of duties);

(b) Non-least developed countries and low and middle-income countries would return to the European Union's Generalized System of Preferences (GSP), with reduction of duties on 66 per cent of tariff lines;

(c) Non-least developed countries and low and middle-income countries classified as "vulnerable" and fulfilling benchmark human, labour and environmental rights (only Cabo Verde falls under this category in Africa) would be eligible to GSP+ with larger tariff cuts on the 66 per cent of tariff lines specified under GSP;

(d) Upper-middle income countries would return to most favoured nation (MFN) tariff structures.

26. Prior to the 1 October deadline, ECA has commissioned a study specifically looking at the costs of not signing economic partnership agreements, based on the expected return to the different less preferential tariff schemes (GSP, GSP+, MFN). The analysis relies on a partial equilibrium framework, and quantifies in case economic partnership agreements are not signed: the implied increase in import duties to be paid on higher tariffs faced (due to return to GSP, GSP+, MFN) by African countries' exports to the European Union; and the possible decrease in export values from each African economy to the European Union. Findings show that both expected increase in import duties and reduction in exports for Africa would remain rather limited. Moreover, the study looks at the aid component from the European Development Fund granted to African countries that will be signing economic partnership agreements. It appears that not signing the agreements and therefore renouncing to the Fund would not generate great losses for African countries (less than 1 per cent of each African country's yearly gross domestic product [GDP]).

27. Following a request from the ECOWAS Commission and the Common Market for Eastern and Southern Africa (COMESA), ECA has also conducted analytical work to look at the expected trade and income impacts of economic partnership agreements on African economies. The key findings of the analysis suggest that for the countries that have already signed, or will decide to do so, the economic partnership agreements will bring benefits as far as trade is concerned. Nevertheless, these gains will essentially be concentrated in few agricultural sectors (e.g. rice, sugar, milk and meat) and countries, as only non-least-developed countries will get significant positive trade variations. As a consequence, this provides limited prospects to support structural transformation for African countries. It turns out that the agreement will bring better distributed gains for the European Union, which is expected to see its exports to Africa increasing in nearly all sectors. Furthermore, economic partnership agreements will actually generate some costs to African nations as they are expected to reduce intra-African trade (as African countries will

increase their exports to the European Union at the expense of their African partners), thereby diminishing tariff revenues for African Governments.

28. However, African economies can still grasp the few benefits associated with these agreements, and at the same time, be able to more than offset the expected negative effects from the agreement. This could be achieved, by at least:

(a) Deepening Africa's regional integration, as it is found that an African CFTA, which would be effectively functioning before economic partnership agreements, fully implemented could go a long way in significantly expanding intra-African trade and its content in industrial products;

(b) Redoubling efforts in reducing costs to trade across borders (in particular by making customs procedures more efficient, and building the infrastructure to speed up movements of goods and services). This is expected to not only help further expand Africa's trade and its industrialization (especially in Africa), but also stimulate real incomes of African economies and allow for better support to Africa's structural transformation agenda.

29. It should not be overlooked that expected outcomes from empirical analysis undertaken by ECA depend on African member States and regional economic communities, and can only be realized if, in particular: commitments to undertake envisaged policy reforms (such as implementation of CFTA reforms) are translated into effective measures on the ground (e.g. reduction of tariff and non-tariff barriers throughout the African continent); and adequate capacities to ease trade across borders are built and become rapidly operational.

D. South-South cooperation: Africa-BRICS[4] cooperation as a credible avenue for strengthening Africa's trade performances

30. While South-South trade has been increasing strongly over the past fifteen years – passing from a share of 10 to 20 per cent of world trade – it is still significantly lower than North-North trade, which has contracted from a share of above 50 per cent of world trade to just below 40 per cent (UNDESA, 2012). The remaining of world trade is made up of two-way South-North exchanges.

31. Africa-BRICS cooperation is a credible avenue to explore in order to strengthen Africa's trade performances. Indeed, BRICS constitute a large and growing market with 40 per cent of the world's population (ECA, 2013a), more than 20 per cent of the world's GDP, more than 20 per cent of global trade, and global foreign direct investment flows from BRICS increased from $10 billion in 2002 to $146 billion in 2010 (UNCTADStat, 2014).

32. In 2009, the BRICS economies together became the second largest trading partner of Africa, excluding South Africa, after the European Union. China alone captures nearly 50 per cent of BRICS trade (both exports and imports) with Africa, excluding South Africa. While Africa, apart from South Africa, essentially exports fuels to BRICS – with the exception of Russia that mainly imports manufacture goods from Africa – imports of Africa from BRICS are essentially manufactured goods, although imports from Brazil are dominated by food items and those from Russia are mainly food and fuels.

33. Accordingly, the current trade characteristics between Africa and BRICS reflects the fact that Africa has the natural resources demanded by BRICS, particularly China, whereas BRICS have the capital and capital goods which can be used towards improving Africa's infrastructure. Such a relationship can raise concerns which should not be overlooked, as high and sustained demand

[4] BRICS, Brazil, Russia, India, China and South Africa.

for primary commodities from BRICS would not encourage export diversification of African economies.

34. In these conditions, it is critical for Africa to upgrade its strategies and capacities when dealing with BRICS. For example, the exploitation of African primary commodities by BRICS could be made more systematically linked to aid or foreign direct investment (or both) in return. The case of Brazil exporting essentially food products to Africa stands out with mutual interests that seem well exploited. Indeed, transfer of research and technology is already taking place between Brazil and African countries focusing on high-value crops (such as soy in Mozambique) with efforts to connect to global value chains. In fact, a private fund has been established to attract capital from Brazil for large-scale investments in soy and other cash crops in the Nacala region of Mozambique (a region with similar climate to the Brazilian Cerrado).

E. Traditional and emerging forms of partnerships for Africa's development

35. The features and evolution of current partnerships for Africa's development have been the theme of two more initiatives that were carried out by the ECA Regional Integration and Trade Division (RITD) in the past biennium. These were; the training workshop on "Success, Gaps and Lessons in International Efforts towards Achieving MDG 8: Global Partnership for Development"[5]; and the thematic area on "New Forms of Partnerships" of the ninth African Development Forum.[6]

36. Both events discussed the implications of the current multilateral trade and financial system for Africa's development prospects, highlighting the shortcomings of partnerships for development based on the donor-recipient dichotomy. With an eye to the sustainable development goals and the post-2015 development agenda, discussions highlighted the inability of the global development architecture to promote mutual accountability, and enable an authentic ownership of the development agenda. The debate also pointed to the failure to redress the imbalances of the multilateral trade and financial systems – with no end in sight for the Doha Development Agenda and only a limited number of successful initiatives in the financial sphere (notably debt relief) – and to assure global public goods, which intrinsically call for the application of the principle of common but differentiated responsibilities, such as environmental sustainability or financial stability.

37. Moving to regional issues, discussions emphasized the need to change the African narrative, from that of a "hopeless continent" – as the Economist's cover reported in 2000 – to the African renaissance. In this respect, it was highlighted how the continent's GDP had doubled in real terms between 1995 and 2012, from $656 billion to $1,369 billion (in constant 2005 USD), with the emergence of a rising African middle class creating concrete prospects of a vibrant market and for greater efforts towards domestic resource mobilization. It was noted how these positions are indeed reflected in the common African position on the post-2015 development agenda, which calls for assuming ownership and reaffirming Africa's common interests. Experts from the region

[5] The training workshop on, "Success, gaps and lessons in international efforts toward achieving Millennium Development Goal 8: Global partnership for development" was organized jointly by the African Trade Policy Centre and the African Institute for Economic Development and Planning in Addis Ababa from 17 to 19 December 2013.

[6] The ninth African Development Forum took place in Marrakech, Morocco, from 12 to 16 October 2014, under the theme, "Innovative Financing for Africa's Transformation."

also welcomed the renewed emphasis on economic transformation and inclusive growth, science technology and innovation, and environmental sustainability.

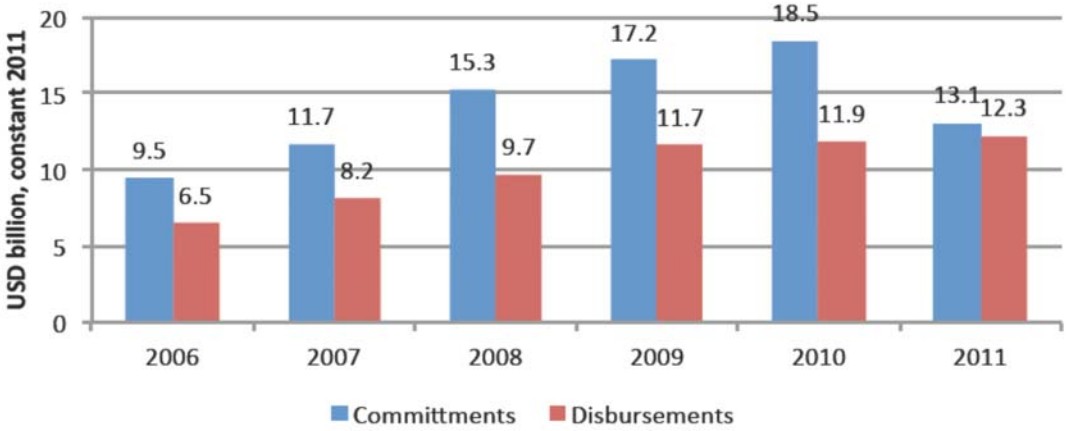
38. It was also strongly emphasized that Africa needs to regain confidence and engage its partners on an equal footing, with clearly articulated development strategies and action plans for implementation. Accordingly, it is in Africa's own interest to speak with one voice, in both multilateral and bilateral forums, avoiding internal disputes and "race to the bottom", for instance, in an effort to attract foreign direct investment.

IV. Trade financing: securing aid for trade and curbing illicit financial flows

A. Aid for trade initiative in Africa

39. Today, Africa is the second largest recipient of AfT after Asia. AfT commitments and disbursements both increased significantly between 2006 and 2010 but the trend got discontinued in 2011, with commitments to Africa decreasing when disbursements slightly increased (see figure 4). This strong drop in AfT commitments is rather worrisome looking forward as a direct consequence could be a contraction in AfT disbursement to Africa in the years to come.

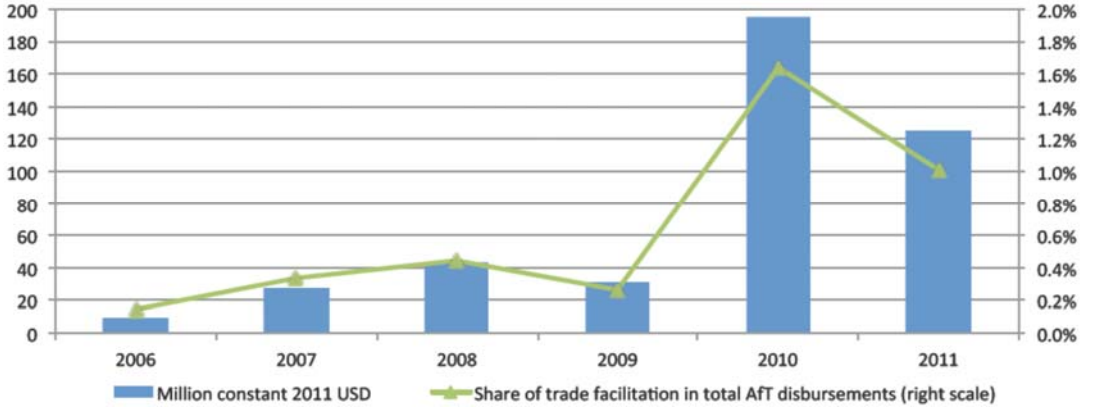
Figure 4
Evolution of aid for trade commitments and disbursements to Africa between 2006 and 2011



Source: ECA (2013b).

40. AfT to Africa is also characterized by a strong concentration of recipient countries and donors as the top five African AfT recipients (Morocco, Ethiopia, Egypt, United Republic of Tanzania and Ghana) receive 30 per cent of total AfT to Africa, and the top five AfT donors to Africa (the International Development Association, European Union Institutions, the United States, the African Development Bank and France) provide 63 per cent of total AfT to Africa. Similarly, AfT to Africa is essentially and nearly equally concentrated into trade-related infrastructure (mostly transport storage and energy) and building productive capacities (mainly agriculture and banking and financial services).

Figure 5
Evolution of aid for trade disbursements to Africa for trade facilitation between 2006 and 2011



Source: ECA (2013b).

41. While trade facilitation measures are expected to strongly stimulate intra-African trade (ECA, 2012a) and that the need for financial resources to improve trade facilitation is considerable, the AfT that is devoted towards trade facilitation in Africa remains very marginal (see figure 5).

42. In responses to a questionnaire administrated by the World Trade Organization, the African Union Commission and ECA from a sample of 30 African member States, 5 regional economic communities and 16 donors and analysed in a report on, "Building Trade Capacities for Africa's Transformation: A Critical Review of Aid for Trade" (ECA, 2013b), African countries indicated that they see regional integration strategies as a priority with AfT towards trade facilitation perceived by nearly all of them as essential to boost intra-African trade.

43. The Aid for Trade initiative remains critical for Africa, especially as the African Heads of State and Government[7] have agreed to deepen the costly regional integration process with the key objective to boosting intra-African trade.

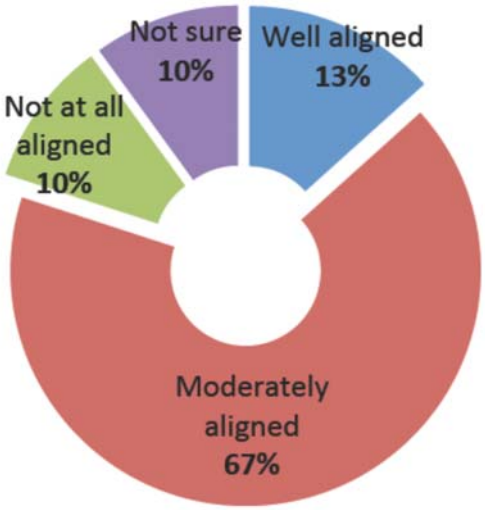
44. However, there is a need to strengthen capacities of project developers as well as improve coordination between them and donors to make sure AfT becomes more effective. Indeed, from the ECA report[8] (ECA, 2013b) analysing the questionnaires directed to African member States, regional economic communities and donors, it comes out clearly that African member States and regional economic communities encounter difficulties to formulate bankable AfT projects. Additionally, two thirds of African member States have the perception that AfT projects are too often poorly aligned with African needs (see figure 6). From their responses, the lack of monitoring and evaluation of AfT projects being carried out is also highlighted, which can be a factor that potentially discourage donors from investing in African projects.

[7] At the 2012 African Union Summit, African Heads of State and Government endorsed an African Union Action Plan to "Boosting intra-African trade and establishing a Continental Free Trade Area".

[8] The report prepared as input to the fourth Global Review of Aid for Trade, held in July 2013, was peer-reviewed by African member States and regional economic communities during a seminar organized jointly by ECA and the World Trade Organization in Addis Ababa, from 4 to 6 June 2013.

45. In response, ECA has been leading – in collaboration with the four other regional commissions (ESCAP, ESCWA, ECLAC and ECE[9]) – the implementation of a development account project, with the objective of strengthening the capacity of selected developing countries to formulate bankable projects to benefit from AfT interventions. AfT activities organized in each of the five regions were regional commissions operate.

Figure 6
Is donor support aligned to your national trade strategies?



Source: ECA (2013b).

46. As far as Africa is concerned, and to address the key objective of the development account project, guidelines on the "Formulation of Bankable Aid for Trade Projects in Africa" have been developed. In addition, three pilot projects[10] were selected in collaboration with focal points of the Programme for Infrastructure Development in Africa (PIDA)[11] capacity-building working group (the African Development Bank, the African Union Commission and the New Partnership for Africa's Development [NEPAD]) using the following criteria:

- Regional dimension of the project
- Capacity to boost intra-African trade
- Geographic representation of African continent
- Project in intermediate phase (not in early concept proposal and not in implementation and operation).

47. Selected project developers and representatives from regional economic communities were invited to a training and workshop on the formulation of bankable AfT projects organized by ECA and the African Institute for Economic

[9] ESCAP, Economic and Social Commission for Asia and the Pacific; ESCWA, Economic and Social Commission for Western Asia; ECLAC, Economic Commission for Latin America and the Caribbean; and ECE, Economic Commission for Europe.

[10] The Abidjan-Lagos Corridor (ALCO), the Corridor Pointe-Noire-Brazzaville-Bangui-N'Djamena, and the Northern Corridor.

[11] Projects from PIDA were targeted, considering the fact that 51 priority projects are to be implemented between 2012 and 2020, for which the total cost is estimated to about $70 billion with a funding gap of nearly $40 billion (AUC, AfDB and ESA, 2011).

Development and Planning, from 25 to 27 June 2013 in Lusaka, Zambia, and to an Expert Group Meeting on the monitoring and evaluation of AfT projects held by ECA on 9 and 10 October 2013, in Addis Ababa. In parallel, technical support was provided to the three developers of selected projects by ECA – through an expert on the formulation of AfT projects – in identifying funding gaps and writing corresponding AfT concept notes, which have all been submitted for potential funding to the Africa Trade Fund of the African Development Bank.

48. The development account project was concluded in Tunis, Tunisia, 22 – 24 April 2014, with an Interregional Forum jointly organized by the five regional commissions, and where stakeholders and AfT donors (including the African Development Bank) from all over the world were invited. This was an opportunity for AfT project developers (including the ones from the African region) to meet with donors and also to share experiences and lessons learned between the different regions.

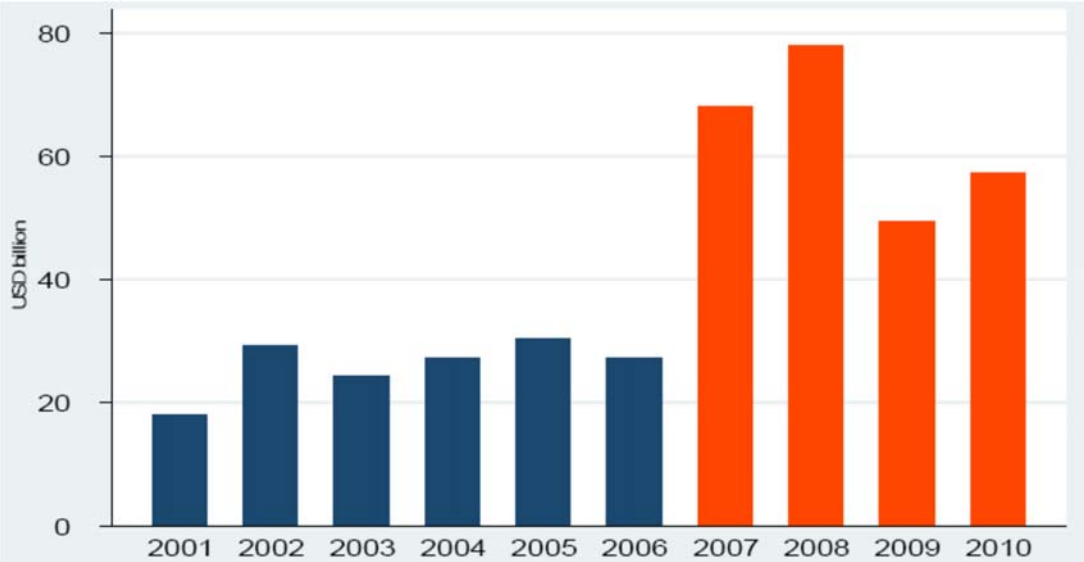
B. Illicit financial flows

49. In addition to securing more AfT, African countries must urgently limit illicit financial flows (IFF) which undermine further critical trade finance capabilities. Illicit finance flows can be defined as money that is illegally earned, transferred or used at its origin, or during movement or use, of which the flow of money has broken laws (Reuter, 2012). IFF can be divided into three main components: corruption, which is the proceeds from theft and bribery by government officials; proceeds from criminal activities, including drug trading, racketeering, counterfeiting, contraband, and terrorist financing; and proceeds from commercial tax evasion, mainly through trade mispricing and laundered commercial transactions by multinational corporations (ECA, 2012b).

50. ECA has recently undertaken an empirical analysis aimed at quantifying the magnitude of illicit financial flows out of Africa and its impact on Africa's trade (Mevel, Valensisi and Karingi, 2014a). The focus of the analysis was placed on trade mispricing (or misinvoicing) for two reasons: corruption and criminal activities are extremely difficult and sensitive to measure, while trade statistics are available to measure IFF through trade mispricing; and commercial tax evasion component of IFF (inclusive of trade mispricing) is supposed to represent the biggest share of IFF (e.g. 65 per cent versus 35 per cent for corruption and criminal activities).

51. Findings show that cumulated illicit financial flows out of Africa through trade mispricing between 2001 and 2010 are estimated at $409 billion – 62 per cent of which were found over the past 4 years (see figure 7). Accordingly, Africa is a net creditor of IFF through trade mispricing. Illicit financial flows out of Africa are highly concentrated in a few African countries (e.g. Egypt, Morocco, Nigeria and the Southern African Customs Union) and a few primary sectors (copper, oil and precious metal and mineral). These flows are mainly benefiting a handful of countries, such as the European Union, China, India and the United States.

Figure 7
Evolution of illicit financial flow out of Africa between 2001 and 2010



Source: Mevel, Valensisi and Karingi (2014a).

52. Analysis shows that the recovery of funds lost from IFF is difficult. The findings also show that partial returns of IFF to Africa can be beneficial, but only if these funds are reinvested towards targeted reforms such as those aiming at improving trade facilitation measures, which could strongly support the regional integration process by enhancing intra-African trade and favouring industrialization of African economies. Yet, it also appears that the potential benefit of IFF returns do not fully offset the initial losses from IFF. It is therefore critical and urgent to curb IFF in the first place by adopting more transparent and stringent rules, regulations and policies. For example, it would be very important that outside partners force their multinational corporations to disclose more systematically financial data relating to their overseas operations.

53. Additionally, it is highly advisable that African Governments: enforce the Extractive Industries Transparency Initiative (EITI), which obliges locally operating firms to disclose information on tax, dividend and royalty payments; and make public the information they receive. This is paramount as costly reforms are required to make the regional integration process more effective. For instance, the Africa50Fund initiative from the African Development Bank to support Agenda 2063 for Africa's structural transformation needs, and to gather $100 billion per year to tackle Africa's infrastructure financing gap.

54. In addition, the African Trade Policy Centre is providing secretariat support to the High-level Panel on Illicit Financial Flows from Africa. This includes, among other activities, the publication of a background paper on illicit financial flows (ECA, 2012b), a progress report on the Panel's work (ECA, 2014), and support to regional consultations across Africa with Governments, civil society, the media and the private sector. ECA is also working on a forthcoming research on how illicit financial flows may change calculations of income inequality.

V. Conclusion and recommendations

55. Having reviewed the issues and trends of international and intraregional trade in Africa over the past couple of years, this section summarizes key messages and distils relevant policy recommendations from the previous sections.

56. Notwithstanding global recession, the expansion of Africa's trade flows has been largely due to a price effect, and was accompanied by an increasing concentration of mainly primary products. As a consequence, Africa continues to face numerous challenges towards spurring an authentic economic transformation capable of diversifying export specialization patterns.

57. While the private sector is the key driver of the transformation process, a number of well-known market failures, ranging from positive spillover of research and development to coordination failures and information asymmetries in credit markets, may justify some degree of policy intervention to foster the emergence of a vibrant industrial sector.

58. Global value chains can indeed open the possibility for African countries to gradually climb up the product ladder and embark on increasingly sophisticated activities, but the scope for this to occur depends on the specificities of the value chain (notably in terms of input-output structure, governance, institutional context and skills availability).

59. Regardless of the World Trade Organization process, trade facilitation remains a priority, as explicitly recognized by the African Union Action Plan for Boosting Intra-African Trade adopted in 2012. Cumbersome custom procedures and disproportionately high trade costs create a competitive wedge penalizing African firms, and thereby hindering both trade with the rest of the world and in Africa. In that respect, the continent's "proximity gap" (e.g. the fact that African economies do not trade with one another as much as economic theory would predict) is rooted not only in the uneven progress at regional economic community level, but also, and perhaps more importantly, in the lack of integration across regional economic communities. Given the strategic importance of regional integration issues, they are the object of a separate background document entirely devoted to them.

Recommendations

- Greater attention should be given to the infrastructure sector, notably transport and energy, which represent key enablers of any successful industrialization strategy;
- Investments should be bolstered to allow manufacturing firms – especially small and medium enterprises – to upgrade their machineries and adopt more efficient technologies, in order to improve their competitiveness;
- African countries should develop a more conducive industrial policy framework that will foster greater value addition, and nurture backward and forward linkages in order to diversify African economies;
- Efforts should be made to tackle some degree of policy intervention that will allow for the emergence of a vibrant industrial sector;
- Trade facilitation should be prioritized in order to enhance African trade, both within Africa and globally;
- African countries should work together to tackle cumbersome custom procedures and disproportionately high trade costs, which create a competitive wedge that penalizes African firms;
- African countries must deal with the proximity gap issue, especially at the regional economic community level.

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