

## Working Paper

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# Global Trade and African Countries

Free Trade Agreements, WTO and  
Regional Integration

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## Starting Point: Africa's Position in the Global Economy

Africa is perhaps the only continent that tends to be examined and judged as a single entity. That approach fails to do justice to great differences between countries in terms of their histories and present situations. The following paper concentrates on Sub-Saharan Africa, where the majority of the world's Least Developed Countries (LDCs) are found.

### The Role of Trade for Poorer African Countries

Africa plays only a marginal role in world trade. Its share of global exports is 2.4 percent, with Sub-Saharan Africa accounting for just 1.7 percent.<sup>1</sup> Yet for these countries themselves, world trade in fact plays a major role. In many parts of Sub-Saharan Africa, foreign trade – measured in terms of imports and exports of goods and services – represents more than 50 percent of GDP.<sup>2</sup> This frequently means a great dependency on imports, not adequately balanced by corresponding exports. The comparatively strong import dependency of these economies is reflected in statistics showing the share of GDP accounted for by foreign trade as a whole to be considerably more than twice the share accounted for by exports. For Mozambique for example, trade represents 96 percent of GDP and exports only 26 percent, for Rwanda the figures are 45 percent to 15 percent, Kenya 50 percent to 16 percent. The situation is more balanced in South Africa with 64 percent to 31 percent (in other words, the trade share as a whole is roughly double the export share). The same applies to Germany (85 percent to 46 percent).<sup>3</sup>

Two-thirds of Sub-Saharan Africa's imports are finished products (see Figure 1), while fuel and agricultural products are also significant. Many of the finished products are in categories of interest to German exporters: engineering products, vehicles and chemicals. But as well as lower prices, technically less sophisticated alternatives that are better suited to the African markets in terms of maintenance and spare parts often give the edge to producers from other developing countries.

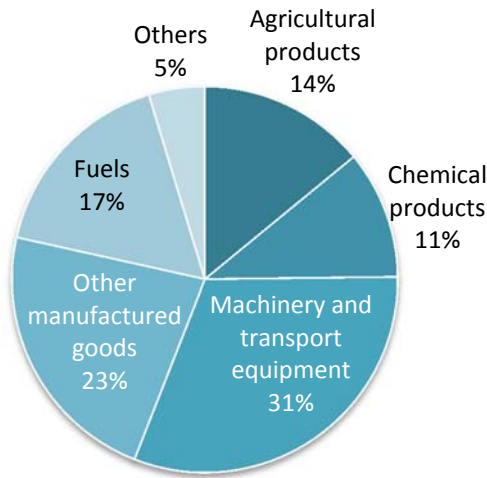
<sup>1</sup> Calculations using UNCTAD data.

<sup>2</sup> <http://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

<sup>3</sup> World Bank: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>

**Figure 1: SSA major imported product groups, 2014**  
(percentage share of SSA total merchandise exports)

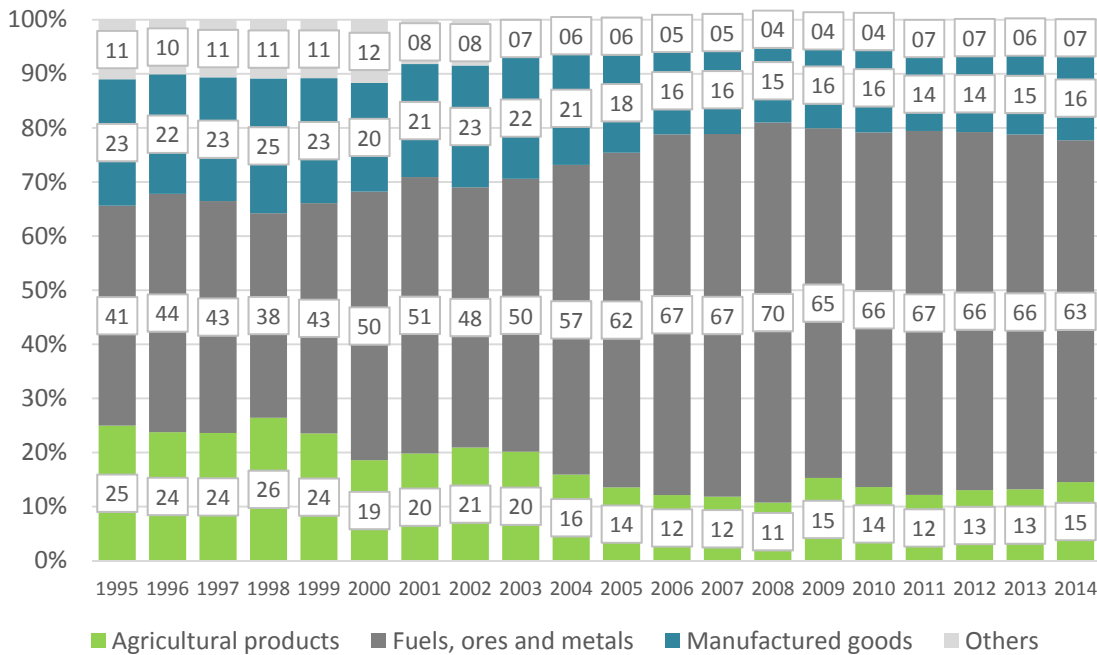
US\$406bn



Source: Compiled from UNCTAD data.

Sub-Saharan Africa's exports to the rest of the world remain dominated by raw materials; almost two-thirds comprise fuels, ores and metals, and another 15 percent agricultural products (see Figure 2). Only 16 percent are finished products, whose export are crucial for value creation and employment in these economies. In this respect there has been little change since colonial times.

**Figure 2: SSA major Export product groups, 2014**  
(percentage share of SSA total merchandise exports)



Source: Compiled from UNCTAD data.

### Other Sources of Foreign Exchange

The foreign exchange required to pay for imports is frequently generated not through exports of goods and services, but from other sources. That is fundamentally unproblematic as long as the sources are stable and reliable. Foreign direct investment is becoming the most important element of external financing (2015: \$73.5 billion), boosted by inflows from China, India and (within the region) South Africa.<sup>4</sup> FDI has increased sixfold since 2000, with Egypt and Nigeria the largest recipients. Here a diversification is under way, with investment flowing less into mineral extraction, more to consumer goods and services, with an increasing focus on urban centres in response to the needs of the growing middle classes. This indicates that economic production is diversifying; the growing proportion of finished products and services also means that a greater proportion of the value created by FDI remains within the respective country.

Remittances also play an increasing role as a source of foreign exchange, standing in second place after direct investment and today representing about one-third of international financial inflows to Africa (33 percent in the years since 2010; 2015: \$64.6 billion). This indicates the potential significance of the contribution of migrants as the source of remittances, for progress in development.

Official development aid stands only in third place as a source of external financing, and continues to decline in importance (2015: \$54.9 billion). Altogether these figures are welcome, as they reveal that development is occurring in many African countries, where a middle class is emerging and other parts of the world are beginning to take an interest in the new markets. This is also reflected, according to the Federal Association of German Industry (Bundesverband der Deutschen Industrie), in increasing interest in Africa among German companies.

### Impacts of Mega-Regionals

However, Africa is still marginalised in the global context, as reflected in the global trend towards bilateral free trade agreements. Although numerous regional agreements exist within Africa, the continent remains outside the major global developments. Taken together, the already concluded Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) still under negotiation comprise a significant proportion of the global economy (see Table 1), covering about three quarters of global trade.

<sup>4</sup> ADB, OECD and UNDP, *African Economic Outlook 2015*, "Overview", 7 July 15.

**Table 1: Importance of TPP and TTIP in the global economy, 2014 (percentage share)**

	TPP	TTIP
Global population	11.3	11.6
Global production	36.2	46.4
World trade	25.6	53.5
of which intra-trade	10.9	25.4
Global investment stocks		
internal	35.0	53.5
external	39.2	62.9

Source: compiled from IWF and UNCTAD data.

### Displacement of African Exports – Trade Diversion

Bilateral and regional free trade agreements always in effect discriminate against third countries. Trade is diverted to those participating in the agreement, while trade flows from those that are not tend to suffer. Exports of certain products from African countries, especially agricultural, will therefore suffer losses when the mega-regionals come into effect. In a study on the effects of TTIP, the IFO-Institute points out that Guinea, Ivory Coast, Tanzania, Uganda and others have reason to fear parts of their exports to the European Union being displaced by the United States.<sup>5</sup> In 2014, Mendez Parra and Rollo investigated the overlap of export categories between the states of the British Commonwealth and internal TPP exports, in order to assess the extent of displacement effects. Their small magnitude (less than 10 percent) reflects the very different trade and production structures of the TPP members and the investigated third countries. It can therefore be assumed that the impact of TPP on the developing countries of the Commonwealth (and other African developing countries) will tend to be weak.<sup>6</sup> That however, does not exclude the possibility of severe impacts on important industrial sectors of industry in particular countries.

### Possible Positive Effects

It is also possible that the mega-regionals could have positive effects on poorer third countries. Three factors are particularly relevant. New trade flows might emerge between the European Union and the United States (or within the Trans-Pacific space) and existing ones may grow (trade creation). To the extent that developing countries are involved in the relevant value chains (for example Morocco as a supplier for European vehicle

<sup>5</sup> CESifo, *Mögliche Auswirkungen der TTIP auf Entwicklungs- und Schwellenländer, Studie im Auftrag des Bundesministeriums für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ)* (Munich, 2014).

<sup>6</sup> Max Mendez Parra and Jim Rollo, “The Trans-Pacific Partnership and Excluded Commonwealth Developing Countries”, *Commonwealth Trade Hot Topics*, no. 109 (2014), p. 3.

exports to the United States), they could also benefit. But these effects will tend to affect the production of finished or semi-finished products and will therefore as a rule not apply to Sub-Saharan Africa. But a second positive effect could ease market access in the United States and the European Union for all third countries: namely, if the European Union and the United States can agree on harmonisation or mutual recognition of standards, and in future only one set of technical, sanitary and phytosanitary standards needs to be satisfied in order to export to both markets. Thirdly, it can be assumed that the agreements will spur economic growth at a general level, with commensurate effects on demand for products from third countries. However, here the stimulus is likely to be weak.

### **Systemic Effects**

Free trade agreements between important trading blocks also have wider systemic effects. To some extent these are explicitly desired, with the European Union and the United States hoping that TTIP will establish rules that can later serve as a model for WTO arrangements (specifically in relation to the sustainability chapter, public procurement and investment dispute settlement). Whether this will actually occur, however, is completely open. Especially where the European Union and the United States agree on rules, this can generate mistrust on the part of the developing countries. The OECD's experience in 1998 with its proposal for a multilateral investment agreement and the responses to it do not bode well. Whether such rule-setting in the scope of bilateral agreements is ultimately helpful for developing countries, is discussed below in connection with developments in the World Trade Organisation (WTO).

The formation of the mega-regionals could potentially have a major geopolitical impact, given that TPP and TTIP create two economically powerful blocks representing between them most of the global economy. Africa is left outside – as are the so-called BRICS states: Brazil, Russia, India, China and South Africa. Recent years have witnessed great differences of opinion, especially between the BRICS and the industrialised countries. The industrialised countries believe that the BRICS states have demonstrated insufficient willingness to assume greater responsibility within the global economy in line with their growing economic weight – in the sense of more market opening or interest in formulating new rules in the WTO. To that extent, the formation of regional economic blocks that create new rules for themselves and advance liberalisation internally represents an attempt to respond to the weakness of the WTO. If the mega-regionals turn out to be economically successful, the BRICS states would be expected to show greater motivation to achieve results in their own interests at the multilateral level and to engage correspondingly in the WTO framework, in order to avoid being marginalised in the global economy. In this sense the mega-regionals can be understood as geopolitical projects that could in the medium term perhaps even revive the significance of the WTO.

The TTIP process will certainly also have unintended systemic effects. It can be assumed that at least some of the developing countries will follow

very closely the discussion between the European Union and the United States about dispute settlement instruments in TTIP (and CETA). They can be expected to increasingly distance themselves from the traditional investor-state model, now that the European Union has come to the conclusion that dispute settlement within TTIP needs to encompass important reforms in relation to transparency, appeals and the state's right to regulate. The old, unreformed investor-state model still applies in traditional investment protection agreements between industrialised countries and developing countries.

## **Where Does the Multilateral Trading System Stand?**

### **Doha Development Round**

Although the WTO's Doha Development Round has been under way since 2001, it remains unfinished and it is completely unclear whether it will ever be concluded. The poorest developing countries in particular insist that new topics cannot be negotiated at the WTO until the Doha work programme has been brought to a conclusion. Some industrialised countries, first and foremost the United States, believe this to be fruitless and argue that the truly important issues of the twenty-first century – digital commerce and sustainability, to name but two – need to be addressed with urgency. The conflict is currently unbridgeable, and led to the WTO Ministerial Conference in Nairobi in December 2015 adopting a non-consensual final declaration for the first time ever.<sup>7</sup>

### **Pragmatic Progress without “Single Undertaking”**

These divergences must not, however, automatically bring the WTO to a standstill, as demonstrated by the last two Ministerial Conferences, which may not have concluded the Doha Round but were nonetheless able to produce results. Since Bali in 2013 the WTO has pursued a pragmatic path of tacitly ceasing to apply the principle of the “single undertaking”, under which “nothing is agreed until everything is agreed”. This left interim results subject to great uncertainty. The Trade Facilitation Agreement (Bali 2013) and again the decisions of the 2015 Ministerial Conference in Nairobi demonstrate a feasible alternative: simply to conclude agreements in areas where agreement is possible. The slow process of ratification of the agreement may, however, indicate some hesitation on the side of developing countries to give up the single undertaking.

### **Plurilateral Agreements as Double-edged Sword**

Another pragmatic approach under the WTO system is to conclude plurilateral agreements between motivated members. Examples include the expanded Information Technology Agreement agreed in Nairobi and the planned Trade in Services Agreement (TiSA). But plurilateral agree-

<sup>7</sup> Evita Schmiege and Bettina Rudloff, *The Future of the WTO after the Nairobi Ministerial Conference*, SWP Comment 12/2016, March.

ments have disadvantages too, even if the trade liberalisation resulting from the two named agreements will be implemented on a most-favoured-nation basis. Weaker countries stand under no obligation to participate in the talks or implement any agreement that might overburden or disadvantage them (but would in principle be able to join later). But this can be problematic, because agreements negotiated in such a context naturally take no account of their situation and needs. This de facto impedes later accession. The conclusion of plurilateral agreements is therefore a double-edged sword for weaker developing countries that do not participate. While they may benefit to a limited extent from tariff liberalisations – which apply to all under WTO rules – there is a danger of such agreements further marginalising smaller countries in the world trade system. However, agreements that are not implemented on a most-favoured-nation basis are even more problematic, since they also exclude non-participants from the improved market access.

#### **Flexibility to Link Implementation of Trade Agreements to the Development Progress**

Another innovation at the WTO in recent years addresses precisely this issue. The Trade Facilitation Agreement (2013) contains an innovative element that could pave the way for future results: For the first time, it fundamentally matches the extent and speed of implementation of a trade agreement to the administrative and financial capacities of developing countries, not using exemptions but as the fundamental structure of the agreement. It also provides for poorer countries to make implementation conditional on support in the form of development cooperation funding. While this raises the risk of reform-averse countries delaying implementation, it can be key to making the process possible for other reform-oriented countries. Overall, this approach is likely to enable many countries with weak capacities to sign an agreement where they would not otherwise have been able to do so otherwise.

The flexibility and development funding conditionality introduced with the Trade Facilitation Agreement is therefore perhaps better suited than plurilateral agreements to address new topics at the WTO incrementally and ultimately to advance the multilateral system. Developing countries would certainly have interests of their own to contribute on many issues. That applies for example to the topic of investment, which the developing countries have to date refused to address. For investing countries the aspects of investment protection and profit transfer are uppermost in connection with foreign direct investment. Poorer countries therefore fear that investment rules could only be to their disadvantage. But they would have interests of their own to contribute; for example to stem the competition to attract companies by means of subsidies, which their meagre state budgets leave them unable to win. So it should certainly be possible to create a package that is attractive to all involved and takes account of the different interests and situations. It is interesting in this context that the ACP states proposed to decide on limiting subsidies in the fisheries sector



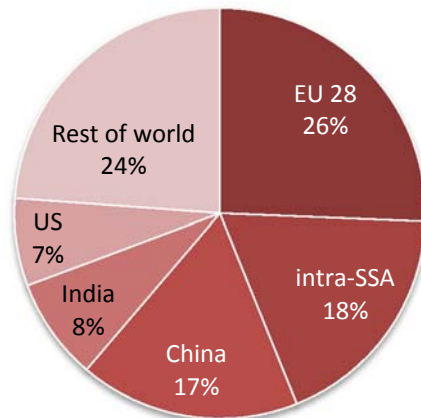
at the WTO Ministerial Conference in Nairobi. The example demonstrates that developing countries can also actively pursue their interests in talks over rule-setting at the WTO.

## What Contribution Can Europe and Other Partners Make to Improving the Trading Position of African Countries?

### Declining Importance of Europe

The structure of Sub-Saharan Africa’s trading partners has changed strongly over the past two decades; although Europe remains the biggest destination for African exports with a share of one quarter (see Figure 3), this marks a sharp decline since 1995 when it was 41 percent. Today the European Union is followed by China (17 percent), which played virtually no role at all in 1995. India (with 8 percent of African exports) has overtaken the United States. The Sub-Saharan Africa region itself is also a relevant export destination (18 percent), although with only marginal growth since 1995 (15 percent). The importance of Europe and its trade and investment instruments for Africa has thus decreased significantly, and must be seen in this context.

**Figure 3: Main destinations of SSA exports, 2014** US\$403bn  
(share of SSA total merchandise exports)



Source: Compiled from UNCTAD data.

### The EU’s Trade and Development Instruments

The EU-ACP Economic Partnership Agreement created instruments intended to place trade reforms firmly in the service of development and regional integration. But the significance of such agreements should not be overestimated, as implementation plays a great role.<sup>8</sup> The effectiveness of the EPAs has to be demonstrated in implementation, as it is only then that the development provisions will come to life. Fundamentally,

<sup>8</sup> For a detailed discussion of this instrument, see Evita Schmieg, Trade and Investment Agreements for Sustainable Development? Lessons from the EU’s Economic Partnership Agreement with the Caribbean, SWP Research Paper 6/2015, July, Berlin.

however, duty-free and quota-free access to the European Union since January 2008 with improved rules of origin create new market opportunities that have not been offered by any other industrialised country. Especially in the field of processed agricultural products, this can encourage development processes. In principle, the EPAs contain all the provisions required to prevent the liberalisation of the partner countries having negative effects on internal development processes – although for this to occur it is important for the planned monitoring instruments to take effect in good time. Aid for trade can support partner countries in all aspects of trade policy.

The European Union has a longstanding commitment to the issue of policy coherence, while the Sustainable Development Goals (SDGs) agreed in 2015 also formulate an objective of improving policy coherence. In relation to TTIP this means that the European Union must examine the extent to which it can support poorer countries in dealing with the third-country effects of the trade deal. Conclusion of TTIP will, as touched upon above, also be associated with negative effects for Africa. Relaxing rules of origin within TTIP as far as possible could dampen these effects, but not prevent them. A proposal to harmonise under TTIP European and American unilateral trade preferences for developing countries has been discussed, but in view of the great differences between the two systems the idea would appear very unrealistic. Through the African Growth and Opportunity Act (AGOA), the United States grants far-reaching trade preferences for certain specific products to a selection of African countries. The European Union, under the everything-but-arms initiative, grants all LDCs duty-free and quota-free market access for all products, likewise to its Economic Partnership Agreement (EPA) partners. In view of the difficulties the TTIP negotiations are already causing for both partners, it is implausible that the issue of preferences for developing countries will also be tackled. Nor is it necessarily required: In order to ameliorate the possible negative consequences of TTIP it would be at least as helpful if the European Union and the United States undertook the largest possible unilateral steps. That includes improving their unilateral trade preferences, for example by expanding preferences in trade in services or introducing further relaxations on rules of origin in the area of goods. Aid for trade should also be used more intensively to assist developing countries not only to cope better with the consequences of mega-regionals but also generally to improve their trade positions.

#### **Fundamental Change Needed – SDGs Show the Way**

Fundamental improvements in the position of African countries in globalisation would, however, presuppose much more far-reaching steps. The SDGs formulate goals to be implemented by every country internally and internationally. The goals are quite far-reaching and not easy to reach. Strictly speaking, they demand changes in structures of consumption and production to improve social and economic sustainability and reduce national and international inequality. Examples of areas where change can

play a central role for Africa include:

- Climate change – for which African countries are least to blame – is affecting African agriculture particularly hard. Determined climate protection efforts in the industrialised countries and support for developing countries to strengthen their resilience would be necessary responses.
- More sustainability in production and consumption in industrialised countries would also help African countries. In one widely discussed example, exports of European poultry parts are not subsidy-driven. Instead these are waste products that are worthless in satiated consumer markets. When sold cheap in Africa they displace local production.
- The effect of lack of international coordination is especially negative in countries with limited capacities. Africa loses more than \$40 billion annually – or more than 4 percent of its GDP – to tax avoidance in the scope of profit transfers by multinationals. International rules could improve the situation.

The European Commission's new trade strategy (autumn 2015)<sup>9</sup> contains starting points for integrating the SDGs and helping ensure that the EU's external trade includes sustainability goals in all instruments and promotes their implementation. In view of the Commission's frequently rather unpolitical free trade/technocratic approach in trade policy, it is a real challenge to concretise this strategy for sustainability. It would therefore be helpful to closely monitor the Commission in this process. While there would certainly be an opening here for critical civil society, that is not really to be expected in light of the developments in recent years. In the field of trade policy critical civil society has increasingly adopted the role of the naysayer, and rejected trade deals out of hand (as in the "Stop EPA" and "Stop TTIP" campaigns). This is very regrettable, given the need for constructive and innovative proposals for integrating the SDGs in trade policy. Outright rejection of trade agreements only supports the preservation of the status quo, not any improvement of Africa's situation in globalisation. All the larger, then, is the role of parliamentarians, in particular the European Parliament, in anchoring the SDGs in the concretisation of trade strategy. Researchers should also think innovatively and come up with corresponding background information and proposals.

In the WTO framework modest steps have been made towards improving the situation of the developing countries in the international trade system, most recently in Nairobi with the final abolition of agricultural export subsidies and comparable instruments. These, however, are relatively small steps, and further structural reforms in the international system would be required to improve the framework for developing countries. These would include restricting further internal subsidisation of

<sup>9</sup> European Commission, Trade For All, Towards a more Responsible Trade and Investment Policy, European Union 2015.

agricultural and fishery products by industrialised countries, which continuously distorts global markets.

The Sudanese-British businessman Mo Ibrahim underlines the centrality of “good governance” for development.<sup>10</sup> He argues, that where governance improves, this should be rewarded by the international community. This is meant to encourage donor countries to direct greater attention to this issue, also as a criterion for the distribution of development funds.

## **The Contributions of African Governments ...**

African governments themselves hold the key to advancing their countries’ development. The *2015 African Economic Outlook* highlights three factors as principally responsible for strong rates of growth in certain African countries since 1986: a) greater political stability, b) strong demand for raw materials and rising prices, and c) improved macro-economic policies and structural transformation, offering an improved environment even for small and medium-sized enterprises. Thus political and also social stability have transpired to be preconditions for economic growth.<sup>11</sup> This corresponds with the results of evaluations in development cooperation, which usually show the overarching importance of ownership and good governance.

### ***... Agriculture at the Heart of Development***

In Africa, especially the countries of Sub-Saharan Africa, the starting conditions are often very different to those in other regions. Even in the longer term, agriculture will play a central role in sustainable development processes. The *Economist* highlights considerable growth in agricultural productivity in certain African countries since 2000: almost tripling in Ethiopia, growing by almost 50 percent in Cameroon, Ghana and Zambia, with Kenya not far behind.<sup>12</sup> In view of forecasts predicting Africa’s population doubling to two billion by 2050, this is very good news, because it shows that many African countries can feed themselves by making better use of their resources. Growing rural productivity and prosperity are also crucial in the context of 74 percent of the poor living outside the cities. The World Bank estimates that even in 2030, 19 percent of the African population will still be living in poverty; these 300 million people will then represent 80 percent of the global poor.<sup>13</sup> The cities are not in a position to absorb the population growth, above all because urbanisation in Africa has occurred without industrialisation.<sup>14</sup>

These preconditions imply a development strategy based on agriculture and promoting the processing of agricultural products, in order to ensure

<sup>10</sup> <http://www.mo.ibrahim.foundation>

<sup>11</sup> ADB, OECD, and UNDP, *2015 African Economic Outlook*, “Overview”, 7 July 15, p. x.

<sup>12</sup> “A Green Evolution”, *Economist*, 12 March 2016, pp. 19–21.

<sup>13</sup> ADB, OECD, and UNDP, *2015 African Economic Outlook*, “Overview”, 7 July 2015, p. viii.

<sup>14</sup> ADB, OECD, and UNDP, *2015 African Economic Outlook*, “Overview”, 7 July 2015, p. xvi.

growth in rural value creation and employment. This is only partly about further developing traditional export products, where fossil fuels and minerals still dominate (see Figure 2). In this context the best opportunity to boost value creation in extra-African exports is offered by niche and quality products, for example on the basis of regional designation of origin (such as Ethiopian highland coffee). New opportunities in external trade also emerge in the scope of the Economic Partnership Agreements between African regions and the European Union, which provide duty-free and quota-free market access – and thus trade preferences in comparison to other regions – also for numerous processed agricultural products that were still subject to import barriers until 2007.<sup>15</sup>

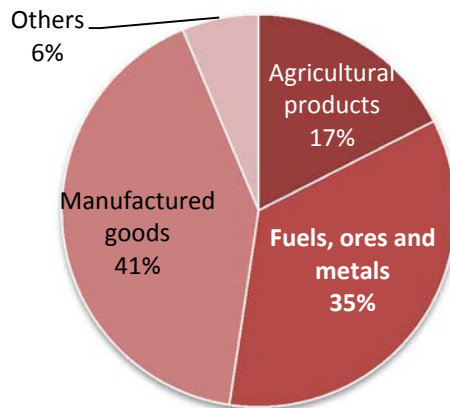
### *... Expand the Potential of Regional Integration*

Regional integration and the growing internal market play an even more important role in the African development process, however. Africa's demographic trends and the emergence of a middle class make the continent an increasingly interesting market. Here, intra-African trade bears particular potential for growth. While trade within the African integration communities recorded average growth of 15 percent over the past decade, intra-African exports grew even faster with 25 percent.<sup>16</sup> What this indicates is that the configuration of the regional integration communities does not ideally match the internal trade flows. The African Union emphasises this in connection with implementation of the continental free trade area, which is now sure to miss its planned starting date of 2017.

Regional trade also offers greater potential than external exports to contribute to value added, job creation and employment: 41.3 percent of regional trade (2013) comprised finished products – compared to 14.5 percent of exports to the rest of the world.

<sup>15</sup> The regional Economic Partnership Agreements (EPAs) between the EU and African regions were initialled in 2014 and are awaiting signing. Duty-free and quota-free access to the EU has existed since 1 January 2008 on the basis of interim agreements.

<sup>16</sup> Economic Commission for Africa, *Boosting Intra-African Trade, Issues Affecting Intra-African Trade, Proposed Action Plan for boosting Intra-African Trade and Framework for the fast tracking of a Continental Free Trade Area*, Assembly/AU/2(SVIII), p. 6.

**Figure 4: Intra SSA-Exports, major product groups 2014** US\$73.6bn

Source: Compiled from UNCTAD data.

The potential of regional trade only becomes really clear, however, if one considers the regional importance of transport costs and tariffs. For example, transport costs in West Africa are three times higher than in other regions.<sup>17</sup> The reason for this is not only bureaucratic formalities, but above all weak infrastructure, which has for decades prioritised trade outside the continent. An exacerbating factor is that there are currently not only no trade preferences between Africa's regional integration communities, but there is a de facto trade discrimination: certain African countries levy average tariffs of up to 13.3 percent on imports from other African countries, while Africa's average external tariff is 8.7 percent.<sup>18</sup> The average tariff imposed on African exports to the rest of the world is 2.5 percent.<sup>19</sup> All the current incentives thus encourage exports outside the continent more than within it.

The African free trade area therefore contains great potential to contribute to increasing trade, creating value added and prosperity. But trade liberalisation is always associated with adjustment costs. Fear of these is also the reason for the slow pace of progress towards a trans-continental free trade area. Tariffs are not the only lever for simplifying and reducing the cost of regional trade. Great potential is also found in the area of trade facilitation, especially in reducing the currently high transaction and above all transport costs. Trade facilitation could reduce trade costs by 17 percent, more than in any other region of the world.<sup>20</sup> The high costs of

<sup>17</sup> OECD and WTO, "Connecting to Value Chains: The Role of Trade Costs and Trade Facilitation", in *Aid for Trade at a Glance: Reducing Trade Costs For Inclusive, Sustainable Growth* (Paris: OECD Publishing, 2015), chap. 6., p. 172.

<sup>18</sup> Economic Commission for Africa, *Boosting Intra-African Trade, Issues Affecting Intra-African Trade, Proposed Action Plan for Boosting Intra-African Trade and Framework for the Fast-tracking of a Continental Free Trade Area*, Assembly/AU/2(SVIII), S. 8.

<sup>19</sup> "A Green Evolution", *Economist*, 12 March 2016, pp. 19–21 (21).

<sup>20</sup> OECD and WTO, "Connecting to Value Chains: The Role of Trade Costs and Trade Facilitation", in *Aid for Trade at a Glance: Reducing Trade Costs For Inclusive, Sustainable Growth*

trade are also the main reason why Africa is comparatively weakly integrated in international value chains. Alongside dismantling border impediments and formalities, it is therefore especially necessary to improve infrastructure in Sub-Saharan Africa. Many measures of the kind agreed in the WTO Trade Facilitation Agreement benefit trade in general, whether regional or international. But at certain points – such as infrastructure investment – the question will arise which regions and which types of trade are to be facilitated or promoted. The arguments outlined above imply a clear priority for regional trade vs. international trade. This underlines the importance of completing the envisaged Continental Free Trade Area (CFTA), which would not only contribute to increasing trade within Africa, but could also diminish the danger of diversion harming African trade flows to Europe, which is an unlikely but possible negative effect of the Economic Partnership Agreements.

## Conclusions

The evolving international trade regime, with the increasing importance it gives to free trade agreements and plurilateral agreements within the WTO framework, bears the danger of further marginalising Sub-Saharan African countries in the international trade system. However, Sub-Saharan Africa's external trade needs to become more diversified and create more added value in order to contribute to creating decent jobs for an increasing population. Job creation and economic and social development perspectives are most urgently needed in the countryside, since that is where the majority of poor people live, and African urbanisation has largely occurred without industrialisation. Strong growth rates in agricultural production are a promising perspective in certain countries. The Economic Partnership Agreements with African regions provide a good basis for increasing value added, since the duty-free and quota-free import regime finally completely opens the European market for all agricultural goods, including processed products. It thus creates new incentives for diversification in more developed African states. EPA implementation needs to be monitored and supported by aid for trade in order to maximise positive effects, however. Intra-African trade bears great potential for increasing trade, especially in value added products. In order to realise this potential, a rapid conclusion of the Continental Free Trade Area should be sought, and accompanied by reform measures in the area of trade facilitation. The CFTA is also the solution to the (albeit quantitatively small) danger inherent in the EPAs that imports from the EU might displace trade between African regions.

(Paris: OECD Publishing, 2015), chap. 6., p. 178.