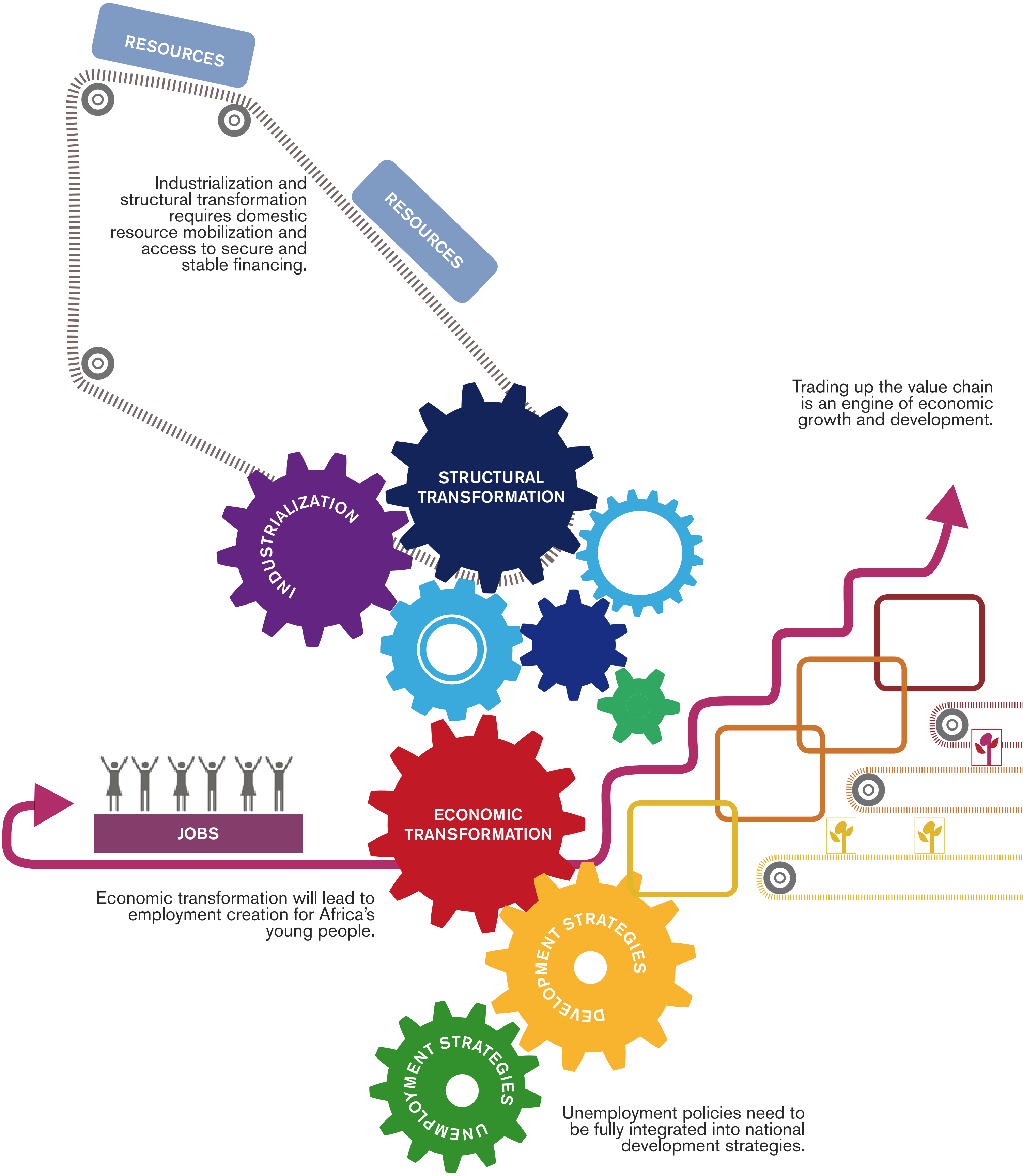
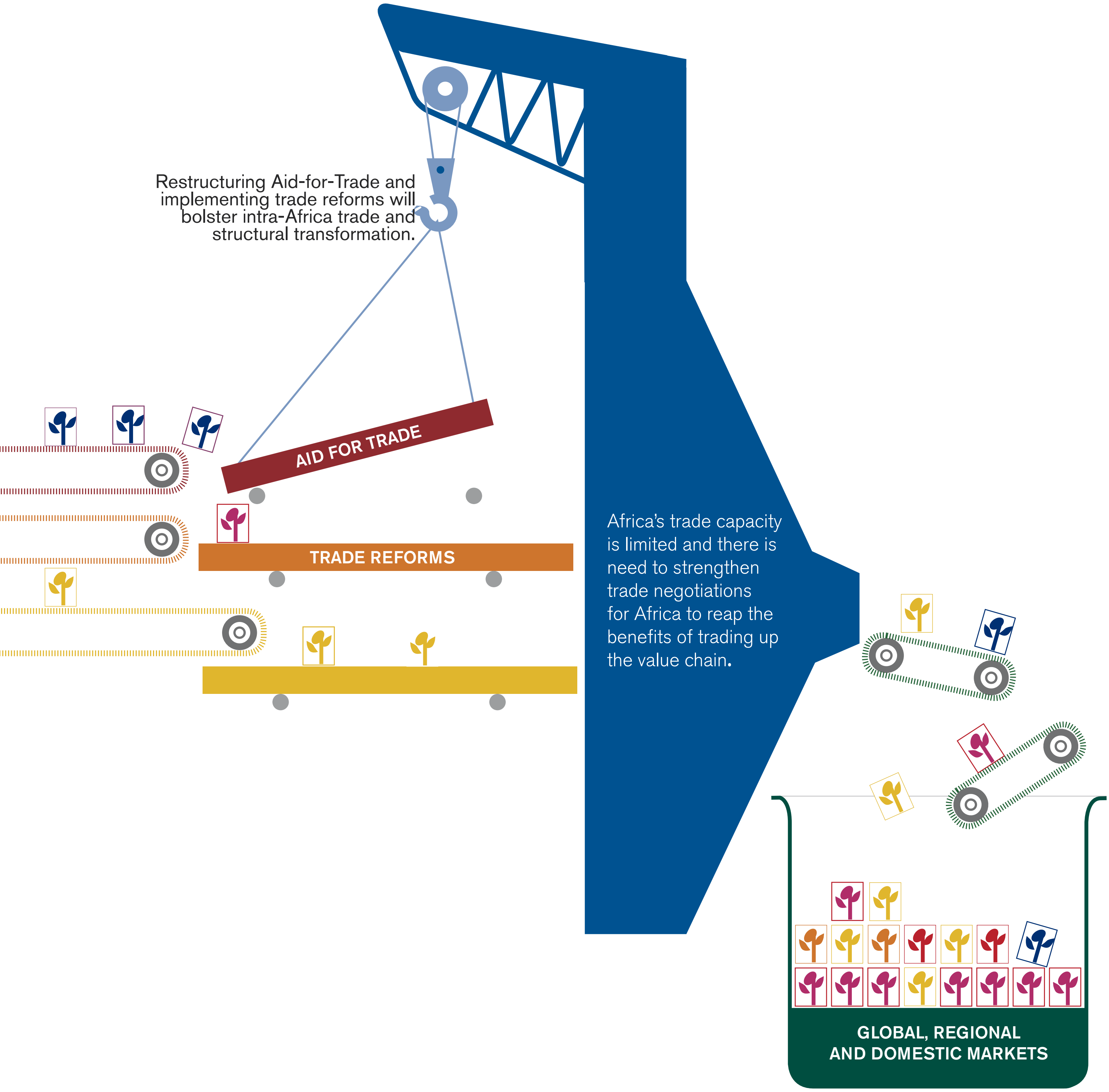
Trade, Financing and Employment imperatives for Africa's Transformation


RESOURCES
RESOURCES
Industrialization and structural transformation requires domestic resource mobilization and access to secure and stable financing.
Trading up the value chain is an engine of economic growth and development.
STRUCTURAL TRANSFORMATION
INDUSTRIALIZATION
JOBS
ECONOMIC TRANSFORMATION
Economic transformation will lead to employment creation for Africa's young people.
DEVELOPMENT STRATEGIES
UNEMPLOYMENT STRATEGIES
Unemployment policies need to be fully integrated into national development strategies.

AFRICAN COUNTRIES NEED TO IMPROVE MARKET ACCESS FOR THEIR VALUE-ADDED PRODUCTS THROUGH AGREEMENTS WITH TRADITIONAL AND EMERGING PARTNERS.

THEIR STRATEGY SHOULD AIM TO REDUCE HIGH TARIFFS (ON COCOA TO INDIA, FOR EXAMPLE) AND REMOVE TARIFF ESCALATION (IN THE EU, FOR INSTANCE).



For the higher economic growth seen in the last decade to create decent jobs, eradicate poverty and achieve broad-based, sustainable development, Africa needs to industrialize massively, transforming its economies structurally.

Yet its current trade relationships and composition offer only limited prospects for Africa to do that, and add value to its export products. Africa relies on imported capital and industrial inputs, and its exports are dominated by low-value primary products. (Intra-African trade is, though, dominated by industrial products, but such trade is still quite low—around 10–12 per cent[1]—as a share of total trade.)

Still, Africa's trade rebounded vigorously after the global economic and financial crisis. Exports and imports by value are now at all-time highs, thanks particularly to strong increases in trade between Africa and emerging economies in particular China and India. China has become a strategic trade partner to Africa, slightly reducing the influence of the traditional partners—the European Union and the United States. These three economies together take more than 60 per cent of Africa's exports and are the source of over 50 per cent of its imports.

The endorsement by African Heads of State and Government of an African Union Action Plan for Boosting Intra-African Trade and the Establishment of a Continental Free Trade Area (CFTA) in January 2012 in Addis Ababa may offer great opportunities for value addition and structural transformation. If the CFTA is accompanied by trade facilitation measures (primarily to accelerate customs procedures and port handling), the share of intra-African trade could more than double over the next 10 years (Mevel and Karingi, 2012). While the establishment of the CFTA could also support industrialization, key priorities are improving infrastructure, building productive capacity, exploiting opportunities to diversify exports and identifying sectors with value- and supply-chain potential in Africa.

Industrialization is costly to finance and Africa's economic transformation requires it to mobilize domestic resources to meet the associated financing costs given that external capital inflows, especially official development assistance (ODA), are likely to decline over time. As government revenues and private savings are the main domestic financial resources in most of the continent, governments need to improve their tax systems' efficiency, staunch the huge illicit capital flight abroad, better capture (or formalize) the informal sector, eliminate tax preferences, and improve transparency and fairness in negotiating concessions with multinational corporations. Deepening the financial system is critical for mobilizing domestic savings to finance Africa's investment needs.

Using natural resource wealth in oil-rich countries can help to boost government financing for the transformation. Governments should also continue progressively reducing their dependence on aid, as well as stopping the illicit flight of capital.

Beyond improving its trade and finance, Africa needs to provide job opportunities to a large and growing young population. These should be decent jobs, which it can achieve by enhancing productivity and competitiveness, strengthening domestic demand, diversifying into higher value added tradable goods and services, strengthening social capabilities, reforming labour market institutions and transforming social protection.

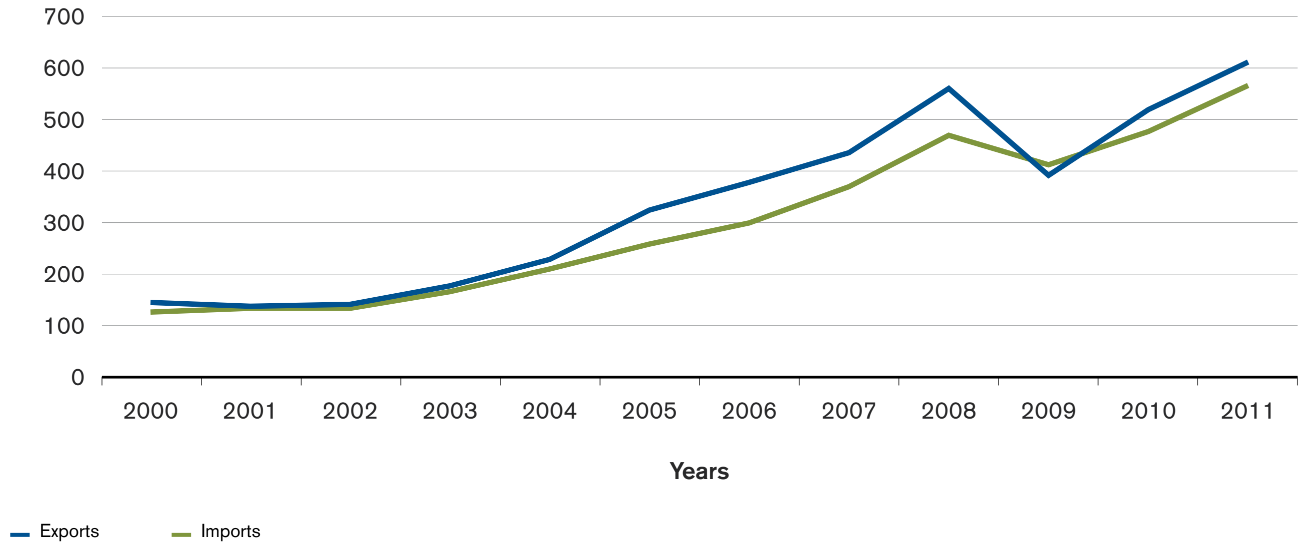
The continent's supply-side policy reforms must be backed by measures to support demand for domestically produced goods and labour, and should include improving education and training policies for skills development and broadening the social knowledge base, investing in research and development (R&D) and bringing in advanced technologies. Well-designed trade and export promotion measures will also serve to support productivity and knowledge gains, further widening options for diversifying and creating jobs.

2.1 ENHANCING THE ROLE OF TRADE IN ECONOMIC TRANSFORMATION

Trade rebounds as Africa strengthens ties with emerging economies

Latest data show that Africa's trade—hit hard by the global crisis—rebounded vigorously in 2011, exceeding pre-crisis volumes of 2008 (figure 2.1). The crisis worked through demand shocks and price movements, especially the free fall (and subsequent pick-up) of key commodities such as oil. Narrow export diversification in products[2] and destinations[3] renders the continent particularly vulnerable to external shocks, as epitomized by the collapse of export revenues suffered by oil exporters in 2009.

FIGURE 2.1: AFRICA'S EXPORTS AND IMPORTS, 2000–2011 ($ BILLION)

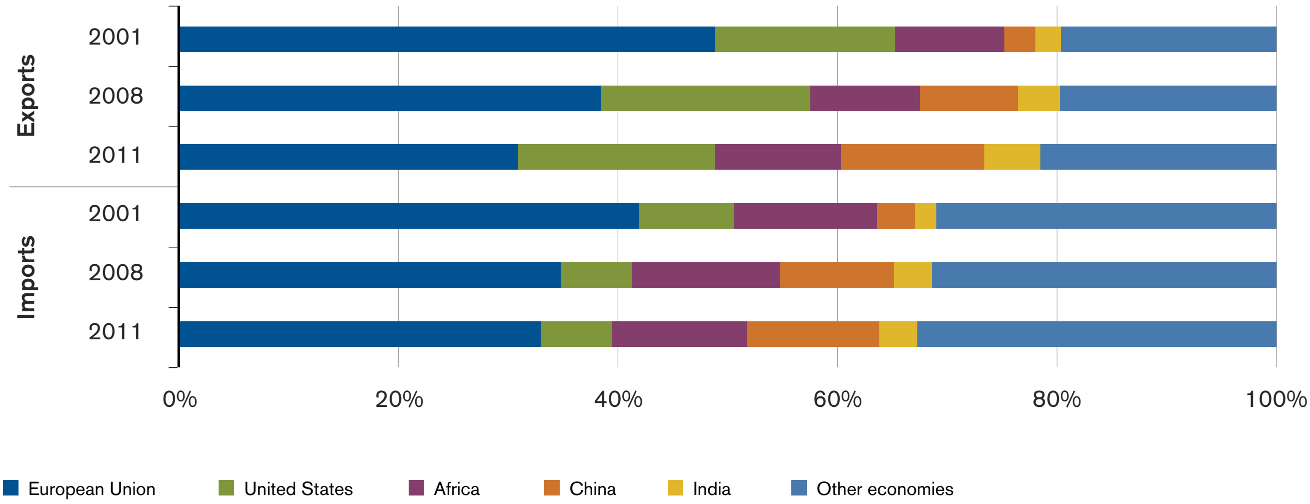


Source: Calculations based on UNCTADStat, accessed 18 September 2012.

Yet, thanks to the pick-up in primary commodity prices since the second half of 2009, and to strong demand for African products from China and other emerging economies, Africa's exports and imports increased in value terms by 28.3 per cent and 18.6 per cent, respectively, in 2010 and by 14.5 per cent and 19.5 per cent in 2011.These rates may well have fallen by at least half in 2012, owing to slower global activity (World Bank, 2012).

While the EU and the US together attracted about two thirds of African exports and sourced more than half of African imports just 10 years ago, their influence has been steadily declining over the last decade. Over that period, emerging partners, especially China and India, have passed from marginal to strategic partners as Africa continues to diversify its trade partners (figure 2.2), a trend reinforced after the global crisis through investment links, especially in commodities and infrastructure. Trade between Africa and its emerging partners has room to grow, given Africa's rich natural resource base and some of these partners' huge financial surpluses, notably China.

FIGURE 2.2: AFRICA'S MAIN EXPORT DESTINATION AND ORIGIN OF IMPORTS, 2001, 2008 AND 2011 (% SHARE)



Source: Calculations based on UNCTADStat, accessed 19 September 2012.

The continent's share of world exports has increased, but only slowly, over the last decade, from 2.3 per cent in 2000 to 3.2 per cent in 2010. Its total merchandise trade with the South (excluding intra-African trade) increased from $34 billion in 1995 to $283 billion in 2008, or from 19.6 per cent to 32.5 per cent of total trade (UNCTAD, 2010).

Africa needs better strategies and policies to promote transformation through trade

Most of Africa's exports towards outside partners—traditional and emerging—are fairly low-value products such as raw materials and primary commodities, while most of its imports are manufactured products. In that sense, emerging markets' burgeoning demand for primary commodities may not encourage Africa to diversify its export composition (and the continent cannot indefinitely rely on foreign capital and technology for its industrial needs, as discussed below).

Hence it must build required capacities to add value to the goods it produces. As elaborated later, increased domestic resource mobilization and staunched illicit financial flows—strongly linked to extractive and mining industries—have the potential to contribute significantly to meeting Africa's financing needs (ECA, 2012a). Success will eventually translate into more favourable terms of trade and reduce vulnerability to external shocks.

It is equally important that African countries meet their commitments to promoting regional and intra-African integration. The share of intra-African trade is extremely low relative to other major regions, hovering around 10–12 per cent.[4] Yet, as intra-African trade is more diversified and favours manufactured goods than Africa's trade with external partners, increased trading among African countries has huge potential to support industrialization and structural transformation. The low share of intra-African trade also underscores the necessity to overcome the numerous trade-related constraints within the continent, such as tariff and non-tariff barriers, poor infrastructure, lack of exploitation of supply chain potential, paucity of productive capacity, governance issues and instability of security.

Continental Free Trade Area and trade facilitation

Steps have already been taken on this. African Heads of State and Government endorsed in January 2012 an African Union (AU) Action Plan for Boosting Intra-African Trade and Fast Tracking the Establishment of the CFTA (Assembly/AU/Dec.426 XIX) by 2017.[5] This decision is of utmost importance as it aims to reinforce trade relationships among African economies, focusing on a few activities for seven key priority clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration.[6] AU member States hope that such measures will help to double the share of intra-African trade by 2022 (table 2.1), assuming trade facilitation measures; without the latter, the gain would be only half as large.

TABLE 2.1: TRADE REFORMS AND SHARE OF INTRA-AFRICAN TRADE IN TOTAL, 2012 AND 2022 (%)

2012	2022		
	Without trade reform	*After CFTA reform implemented*	*After CFTA reform implemented and complemented by Trade Facilitation measures*
10,2	10.6	15.5	21.9

Source: Mevel and Karingi (2012).

A quantitative assessment of the CFTA's economic effects reinforces this expectation, although some economies could see their real income decline (Mevel and Karingi, 2012). One of the reasons for this outcome is that tariff revenues often represent a major source of income for African governments, and so removing tariff barriers would inevitably entail revenue loss.

When specific trade facilitation measures are introduced, however—namely a halving of the time goods spend at African ports as well as a making twice as efficient customs procedures by 2017 relative to 2012—outcomes improve greatly. Potential real income loss would be offset for all African countries when trade facilitation measures are taken in parallel.

Intra-African trade of industrial goods particularly would benefit, as trading across borders improves. Indeed, if such trade sees progress in all main product categories (agriculture and food, primary and petroleum products, industrial products, and services), intra-African trade of industrial products would be stimulated the most, in relative and absolute terms (table 2.2).[7,8] The full removal of tariff barriers accompanied by trade facilitation measures would bring the share of industrial commodities in intra-African trade to about 70 per cent, offering greater opportunities for value addition.

TABLE 2.2: TRADE REFORMS AND INTRA-AFRICAN TRADE STRUCTURE BY MAIN PRODUCT CATEGORIES, 2012 AND 2022

	2012			2022
		Measure		
Product category		*Without trade reform*	*After CFTA reform but no trade facilitation measures*	*After CFTA reform and trade facilitation measures*
Agricolture and food products	17,9	16,3	16,3	12,4
Primary and petroleum products	18,5	18,4	16,9	15,6
Industrial products	59,3	60,7	62,7	69,4
Services	4,3	4,7	4,1	2,7

Source: Mevel and Karingi (2012).

Although this analysis did not highlight services (owing to lack of data), these steps are critical in promoting value addition of intra-African trade. Arnold et al. (2006) found that improved access to reliable and affordable services such as telecommunications, financial services and energy was associated with "significant positive trends in manufacturing performance" in 10 African countries. Information and communications technology is crucial for rapid diffusion of knowledge (Hoekman and Mattoo, 2011) and for effective communication (Arnold et al., 2006). Therefore, the efficiency of that sector (and most other services sectors) through healthy competition and appropriate regulatory frameworks is important. Overall, though, much needs to be done for the CFTA and trade facilitation to bring the needed changes in volume and composition of intra-African trade, as now analysed in three areas.

Facilitating trade and upgrading infrastructure through Aid for Trade

Implementing trade facilitation measures and improving infrastructure are extremely costly. The Programme for Infrastructure Development in Africa, for example, has identified 51 priority projects for 2012–2020, estimated at $70 billion.[9] Aid for Trade (AfT) can be instrumental in supporting Africa's efforts to secure funding in these areas. Africa has been the primary recipient of AfT with about $17.4 billion in commitments (42.2 per cent of total AfT commitments to the world) in 2010. However, the share of trade facilitation support in total AfT commitments remains marginal: in 2010, only 1.2 per cent of total AfT commitments to Africa were devoted to trade facilitation.[10] That share must increase, to boost intraregional trade.

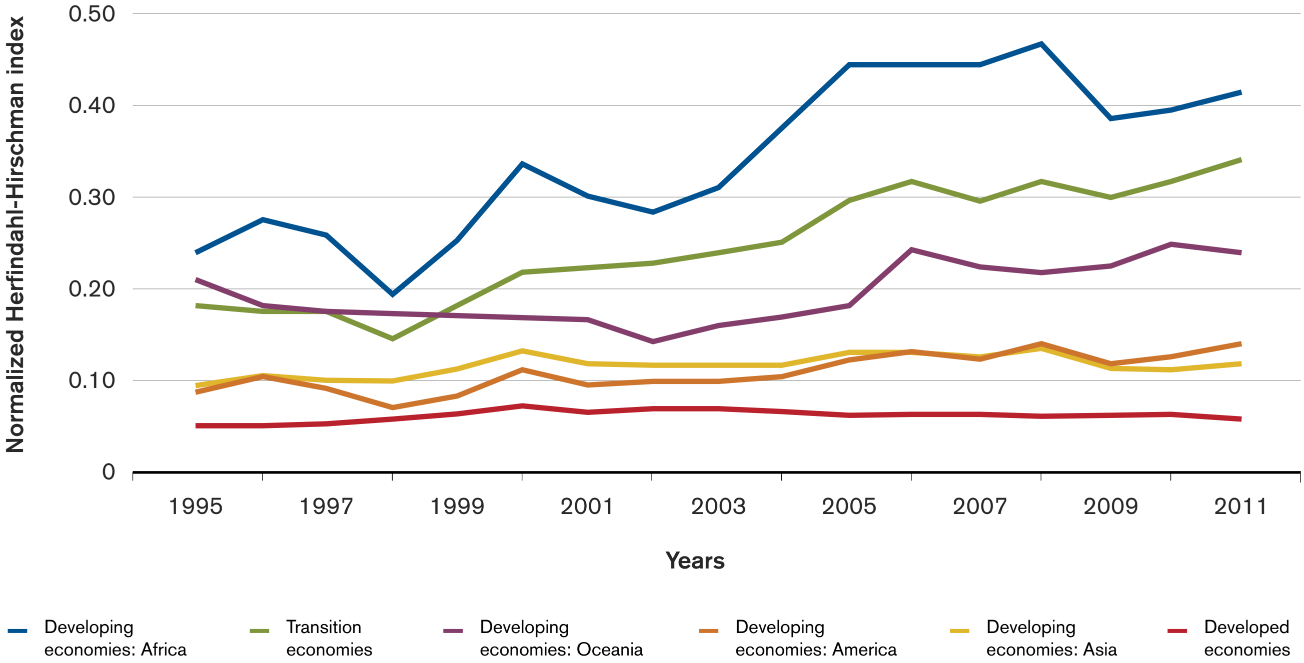
At the same time, other sources of funding must also be explored, including public–private partnerships in infrastructure financing, as well as a special continental fund for such financing and for trade facilitation.

Diversifying exports

With exceptions, export diversification remains weak in most African countries, and the continent lags far behind other major regions (figure 2.3).[11] There is a strong positive correlation between intra-industry trade and export diversification by destination and product (Ofa et al., (2012). This suggests that export diversification could be achieved through increased exports of old products to new markets, through export of new products to old and new markets, and through increased trade of similar but differentiated products (products from the same industry but differentiated according to quality or final use) to both old and new destinations.

Increasingly diversified trade can help to transform African economies by shifting resources from low- to high-productivity activities and by exploring new sectors with potential dynamic comparative advantage, instead of their continuing to rely on sectors with static comparative advantage, as old trade theory suggests. This will require effective industrial policy frameworks to allow countries to identify sectors with dynamic comparative advantage and supply chain potential, and thus support investment in new and differentiated products that meet quality standards.

FIGURE 2.3: EXPORT DIVERSIFICATION BY MAIN REGION, 1998–2009



Source: Calculations based on UNCTADStat,http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx, accessed 19 September 2012.

Note: The higher the normalized Herfindahl-Hirschman Index, the lower the export diversification.

Export diversification will also require investment in human capital, R&D, scientific and technological innovation and entrepreneurship. Concrete incentive mechanisms directly fostering higher-value output should be introduced. For instance, a clear policy on duty-exemption for capital machinery would facilitate access to imported capital goods and favour technological upgrading, with beneficial effects on domestic production and value addition. A more specific example comes from Ethiopia, where the government provided incentives to floriculture exporters through export credit guarantees and foreign exchange retention schemes, making the country the world's fifth-biggest cut-flower exporter by 2007 (UNIDO and UNCTAD, 2011).

Enforcing regional and subregional decisions

All African countries should make concerted efforts to rapidly implement regional and subregional decisions aimed at overcoming trade-related constraints. These endeavours must be supported by specific measures including:[12] a comprehensive programme of capacity building to assist the eight AU-recognized regional economic communities that may be having difficulty in meeting the target date for concluding their free trade agreements (FTAs) to ensure that they can be ready for the CFTA;[13] measures to reduce border-crossing times towards international standards by setting up one-stop border-posts; a comprehensive industrial policy that includes industrial performance criteria, addresses structural changes, narrows the technological gaps of domestic with foreign firms and forges agricultural links with industry and the private sector; and establishment of an African Infrastructure Fund as a special-purpose vehicle co-guaranteed by member States. Governments should also found special banks for small and medium-sized enterprises.

Boosting the development impact of trade negotiations

Parallel to regional integration, African countries are negotiating trade agreements with countries outside the continent: the African Growth and Opportunity Act (AGOA), Economic Partnership Agreements and the multilateral trade negotiations under the aegis of the World Trade Organization (WTO).

African Growth and Opportunity Act

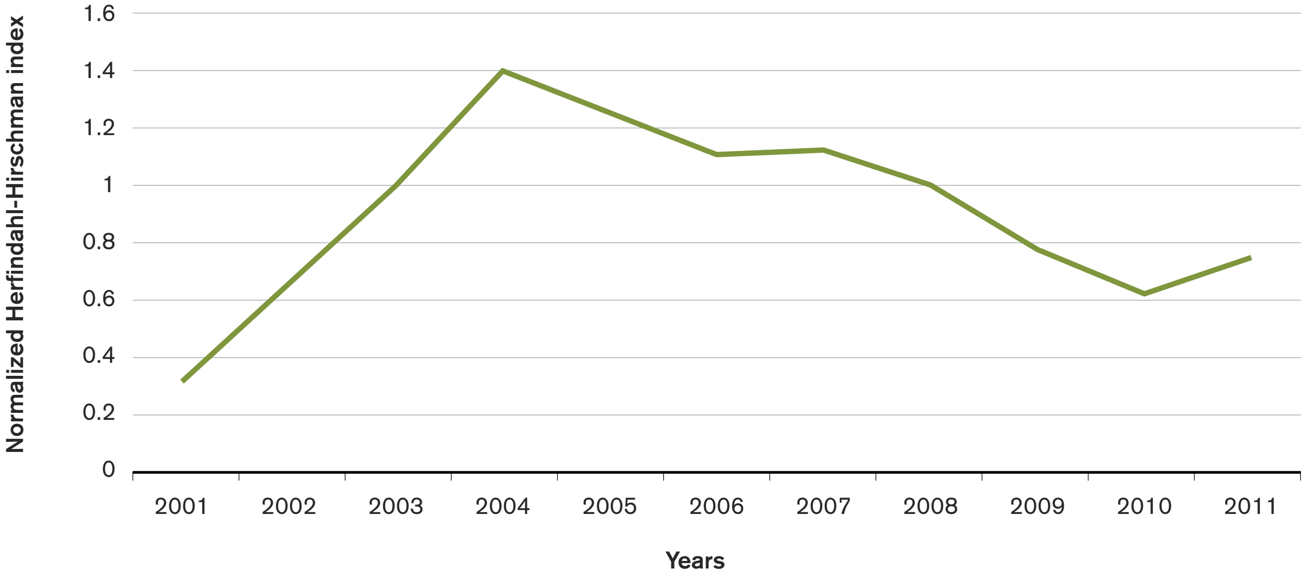
AGOA was enacted by the US President on 2 October 2000 for eight years, but was extended in 2004 until 30 September 2015. In principle, AGOA grants duty-free access for selected exports from African countries (excluding North Africa) to the US. More specifically it adds about 1,800 eligible product lines to the US Generalized System of Preferences, which already grants duty-free access for nearly 4,600 export products from developing countries to the US.[14]

In 2012, three developments stood out. First, South Sudan, which had proclaimed its independence in 2011, became the 41st AGOA-eligible country on 26 March.

Second, the third-country fabric provision, set to expire on 30 September 2012, was extended on 2 August until 30 September 2015. This is crucial as the provision allows 27[15] of the 41 countries to source raw material from third countries—including, critically, China—for making clothing that can then be exported duty-free to the US.[16] The third-country fabric provision has allowed textile and apparel exports from African countries to the US to be particularly successful, accounting for more than 48 per cent of total non-oil trade exports from AGOA countries in 2001–2011.[17] It has also created about 300,000 direct jobs (ACTIF, 2011) and indirect jobs of possibly twice that.

The trends in figure 2.4 can be explained as follows. On 1 January 2005, quotas imposed on developing countries' exports of textiles and apparel to developed countries were removed when the Multifibre Arrangement expired, offsetting part of the preference margin granted to African countries under AGOA, and resulting in fierce competition from Asian economies that were particularly efficient in textiles and apparel. Then in 2008–2010, the global crisis reduced US demand, which picked up as the crisis eased.

FIGURE 2.4: US IMPORTS OF TEXTILES AND APPAREL FROM AGOA COUNTRIES, 2001–2011 ($ BILLION)



Source: Calculations based on US International Trade Commission, DataWeb, http://dataweb.usitc.gov/, accessed 20 September 2012.

Many argue that without the third-country fabric provision, textile and apparel exports from AGOA countries to the US could have simply disappeared after the Multifibre Arrangement expired, with potential devastating impacts on jobs across the continent. The recent extension is therefore a great relief to the countries that benefit.

Unfortunately, AGOA's benefits are concentrated in only a few countries and products, giving little impetus to export diversification, overall value addition or industrialization. In 2011, textiles and apparel accounted for only 4 per cent of exports from AGOA countries to the US, against 85 per cent for oil (table 2.3). Oil producers unsurprisingly head the list, while South Africa exports mainly motor vehicles and Lesotho textiles and apparel.

TABLE 2.3: SHARE OF TOP FIVE EXPORTING COUNTRIES AND TOP FIVE EXPORT PRODUCTS IN AFRICA'S EXPORTS TO THE US UNDER AGOA, 2011 (%)

Top five exported products		Top five exporting countries	
Oil	85,1	Nigeria	50,1
Motor Vehicles	7,1	Angola	29,8
Textile and apparel	4,3	South Africa	9,6
Iron and steel	1,2	Congo	2,4
Fruit and nuts	0,6	Lesotho	1,8
Total	**98,3**	**Total**	**93,7**

Source: Calculations based on the US International Trade Commission, DataWeb,http://dataweb.usitc.gov/, accessed 20 September 2012.

The third development came during AGOA's Annual Forum in June 2012, where African countries expressed their wish to see AGOA extended up to 2025 but with a broader product and country coverage. They also lobbied for measures to improve infrastructure development, as numerous trade-related constraints prevent Africa from fully benefiting from AGOA.

The US did not rule out extending AGOA but emphasized that it was not designed to run for ever and that other US–African trade relationships should be envisaged. Besides, AGOA is not WTO compatible (it does not comply with the reciprocity and non-discrimination clauses). Though AGOA currently enjoys a WTO waiver, it is uncertain whether WTO will extend it beyond 30 September 2015.

Economic Partnership Agreements

On 14 May 2012, the first Economic Partnership Agreement (EPA) between the EU and an African region came into effect: four countries from the Eastern and Southern African regional negotiating group (one of five) have started implementing their agreement. Other groups are still negotiating (box 2.1).

BOX 2.1: EPAs IN EARLY 2013

As of 21January 2013 only Madagascar, Mauritius, Seychelles and Zimbabwe had an EPA in force. Côte d'Ivoire from the West African region; Cameroon from the Central African region; and Botswana, Lesotho, Mozambique and Swaziland from the Southern African Development Community had signed "stepping stone" or interim EPAs, although the agreements were not yet in effect.

Seven others—Ghana from the West African region; Burundi, Kenya, Rwanda, Uganda and Tanzania from the East African Community; and Namibia from the Southern African Development Community—have initialled EPAs but have not signed them. The remaining countries have not made any official commitments towards ratifying EPAs.

At least five outstanding issues deter African countries from officially engaging in or finalizing EPAs: the WTO's most-favoured-nation clause, which requires preferences granted outside EPAs also to be granted within the agreement; export taxes are prohibited in EPAs, but not by WTO; a non-execution clause in EPAs, which envisages unilateral trade sanctions for political violations (such as no respect of human rights or democratic principles); the notion of "economic development and cooperation" under EPAs, as this could potentially limit policy space for Africa's moves to industrialize and transform structurally; and potential conflicts over regional integration, because the five regional negotiating groups, which must establish regional FTAs, do not match the eight regional economic communities, which must also form regional FTAs and which are intended to be the building blocks for regionally integrating Africa.

To accelerate EPA negotiations, the European Commission announced towards the end of 2011 that all middle-income African countries not having ratified their EPAs by January 2014 would lose their Market Access Regulation preferences. This implies that exports from the countries that have not ratified their EPAs by the indicated deadline will face tariff barriers in the EU Generalized System of Preferences.

Africa's least developed countries(LDCs) will, however, continue enjoying preferences, owing to the Everything But Arms initiative: thus 33 of these countries will keep their preferential access to the EU even if they do not ratify their EPAs by 2014, while African non-LDCs that fail to ratify the EPAs by that date will experience a differential treatment as they compete with other developing countries under the EU Generalized System of Preferences.

World Trade Organization negotiations

WTO negotiations saw a change of focus in 2012 as trade facilitation came to the fore, relegating major topics such as agriculture and non-agriculture market access. Discussions on trade facilitation started at the Singapore Ministerial Conference in December 1996 and were integrated into the current, Doha Round in July 2004. Still, as negotiations were stalled by disagreement over the special safeguard mechanism (on special and differential treatment) between the US, China and India in July 2008, trade facilitation can be seen as a possible way out.[18]

Trade facilitation measures negotiated at WTO seem to require more support from developed countries than developing ones. Although technical assistance and capacity building are envisaged by WTO to help developing countries ease trade across borders, African countries—particularly least developed ones—have concerns over appropriate funding mechanisms (loans, grants and so on). They are also concerned that the strong focus on trade facilitation could divert WTO negotiations from other issues of importance to Africa, such as LDC packages, cotton, and special and differential treatment.

Trade negotiations on market access for LDCs received a boost when China recently indicated at the WTO that it would gradually expand its duty-free treatment for LDC exports, from the 60 per cent of tariff lines originally stipulated in 2010, to 95 per cent. A similar measure by India, gradually granting duty-free access to LDC exports for 85 per cent of its tariff lines, should become fully operational this year.

Coherence

To ensure a measure of coherence among the above initiatives and trade agreements, and their alignment with moves to foster structural transformation, African countries should ensure that the outcomes of the Doha Development Agenda and those of EPA and renewed AGOA negotiations are: mutually supportive; do not pre-empt them from engaging in regional trade agreements or from designing industrial policies that seek commodity-based industrialization and value addition on the continent; and help their economies to meet potential adjustment costs.

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Preference erosion is one key issue. In the US, for example, African countries may see their preference margin shrink against those of Asian LDCs, in that the latter are allowed duty-free and quota-free access as part of a—so far hypothetical—"early harvest package" of the WTO negotiations, which may affect African textiles and clothing disproportionately. Rules of origin are another key issue. In AGOA and the EPAs, current rules of origin constrain countries from sourcing inputs from the region and from benefiting from value-chain creation across African borders. Also at issue are standards, sanitary and phytosanitary measures, and other technical barriers to trade, which are so restrictive and demanding that African countries cannot comply with them and therefore cannot access existing preferences under them.

Policy imperatives

National industrial policy and regional integration are critical. The discussion above underscores African countries' need to broaden their production base and diversify exports in products and markets—if they are to make trade an engine of growth and development. Diversifying in this way will support, and benefit from, efforts made by African countries and regional economic communities to implement the CFTA, boosting intra-African trade.

Indeed, the endorsement by the African Heads of State and Government of the CFTA may provide a vehicle for long-term growth and structural transformation through trade facilitation, allowing—on an optimistic scenario—the share of intra-African trade to double in 10 years, and raising the proportion of manufactured products in such trade significantly, on the assumption of adequate reforms and investment in infrastructure and productive capacity. Part of this investment could come from more AfT bankable projects that African countries should develop, refocusing existing AfT on trade facilitation.

For small African countries where domestic markets are limited, access of firms to international markets and establishing long-term trading relationships are important, as they allow countries to enhance economies of scale (ILO, 2011a).

Finally, African countries should continue to work together and commit to a unified framework to ensure that trade negotiations and agreements with traditional and emerging partners are consistent with their own development objectives; and that they are afforded adequate policy space as they design policies supportive of their economic transformation through commodity-based industrialization.

2.2 FINANCING AFRICA'S INDUSTRIALIZATION AND ECONOMIC TRANSFORMATION

To industrialize and structurally transform its economies, Africa has to ensure access to stable private and public financing. Even with good economic performance since the turn of the century, Africa's financing gap remains huge, caused by imbalances between exports and imports, between resource inflows and debt payments, and more important between domestic savings and domestic investment needs (ECA and AUC, 2012). Filling this gap has long been a preoccupation for African policymakers and their development partners, and they have taken several steps since the United Nations Financing for Development Conference in Monterrey in 2002 to enhance external and domestic resources (box 2.2).

BOX 2.2: THE MONTERREY CONSENSUS

This consensus identifies six core areas through which developing countries can mobilize development finance: international trade; international resources; sustainable debt financing and external debt relief; resolution of systemic issues such as enhancing the coherence and consistency of the international monetary, financial and trading systems; domestic financial resources; and international financial and technical cooperation.

The financing of Africa's industrialization and economic transformation has to be increasingly based on domestic public and private resources. Industrialization can, in turn, stimulate sustained domestic financing through increased income. Yet starting and sustaining a virtuous financing–industrialization circle require greater mobilization of savings and a deeper domestic financial system to ensure adequate access to long-term financing for new investment.

External finance is too unreliable, and misdirected

External financial flows, particularly foreign direct investment (FDI) and ODA, have generally risen during the last decade, but they are vulnerable to volatility in the commodity markets and to economic difficulties in donor countries. Little has gone outside extractive industries or into infrastructure and the productive sectors (manufacturing, communication, transport and construction), which largely explains these sources' minimal impact in Africa. Remittances, though, may offer increasingly important potential.

International resources

FDI flows are concentrated in extractive industries (especially oil). Given the weak links between extractive industries and the rest of the economy, this has induced little economic transformation (ECA and AUC, 2011).

Still, many African countries have policy incentives to attract FDI, but after attracting a decade-high of about $58 billion in 2008, they saw FDI inflows decline to a three-year low of $42.7 billion in 2011. This fall was largely due to the global crisis, exacerbated by continuing weak growth in developed countries.

ODA flows have been mainly directed to social sectors. Although their quantity and effectiveness have improved over the past decade, risks remain high in the current global environment.

Total ODA inflows to Africa, excluding debt relief, increased in nominal terms from $17.4 billion in 2002 to $50.0 billion in 2011, but they remain below international commitments under both the Monterrey Consensus and the Paris Declaration on Aid Effectiveness of 2005. Under the Monterrey Consensus, developed countries committed to increase ODA to 0.7 per cent of their GDP, with an additional 0.15–0.20 per cent to support the LDCs, yet by 2011 ODA from most of the developed countries had yet to reach this level.

Similarly, the Paris Declaration estimated ODA flows to Africa to increase to $64 billion by 2010, but Africa received only around half the increase implied by the 2005 commitments, partly owing to lower global ODA compared with commitments and partly to Africa's lower than expected share of the global increase. As with FDI, global uncertainties have raised legitimate concerns over the ability of donor countries to maintain their commitments.

Indeed, progress in delivering the Paris and Monterrey commitments has been slow, signalling the need to change the delivery of aid. Aware of this, the Fourth High Level Forum on Aid Effectiveness (Busan, Republic of Korea, 29 November–1 December 2011) adopted the Busan Partnership for Effective Development Cooperation, making a key shift from aid effectiveness to wider development effectiveness. The main argument is that, although ODA is one of the sources for financing Africa's development, it should be placed in the broader context to support capacity development and domestic resource mobilization.

Remittances present a different picture. They have surged over the past decade, and annual inflows to Africa are estimated to reach $60 billion by 2014, from $11.4 billion in 2000. Therefore, despite malaise in the developed countries—their major source—and the impact on migrants' jobs, remittances present an opportunity for many African countries to raise external capital. More serious policy efforts are needed, however, to maximize the potential gains (box 2.3).

BOX 2.3: AFRICAN UNION COMMISSION INITIATIVE ON REMITTANCES

Workers' remittances far exceed ODA for Africa, and for many individual African countries they exceed FDI as well. But with ODA and FDI flows under pressure from the crisis, remittances are a lifeline for tens of millions of African families. They have yet to reach their full development potential though, partly because they are not fully quantified. Remittances to and within the continent are still vastly undercounted, and transaction costs are the most expensive in the world by a wide margin.

The African Institute for Remittances (AIR) was conceived by the African Union Commission to help fill this knowledge gap. The Executive Council of the AU has acknowledged that the AIR will help to leverage remittances for Africa's social and economic development.

The 19th Ordinary Session of the AU Assembly of Heads of State and Government in July 2012endorsed the establishment of the AIR. Preparations have been finalized to set up the AIR with the aim of improving statistical measurement of remittance flows, lowering their transaction costs and leveraging their potential.

Debt relief

Africa's external debt has fallen since 2002, especially after the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative and the Paris Club's Evian Approach for non-HIPC countries' debt relief. As a share of gross national income (GNI), it fell from 53.5 per cent in 2000 to 20.6 per cent in 2011, or well below the 50 per cent sustainability threshold, an aggregate trend reflected in all five subregions (table 2.4). Improved macroeconomic management in many African countries also played a role.

TABLE 2.4: TRENDS IN EXTERNAL DEBT (% OF GNI)

Year	2000	2005	2008	2009	2010	2011
Africa	53.6	33.9	20.4	23.7	23.1	20.6
Central Africa	112.8	54.3	21.3	24.5	17.0	14.3
Eastern Africa	88.0	62.6	33.2	35.7	31.4	32.3
Northern Africa	41.8	29.0	16.9	20.0	20.8	15.6
Southern Africa	34.5	25.9	24.4	27.4	27.9	26.7
West Africa	94.3	41.3	16.7	19.9	16.9	16.2

Source: Calculations based on World Bank World Development Indicators (2012), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 29 January 2013.

Systemic issues

The global crisis revealed weaknesses in the international financial architecture and prompted strident calls for reform. A key weakness in the system has been that, although developing countries in general—and African countries in particular—are increasingly affected by global shocks, they remain heavily underrepresented in global economic and financial institutions, including the International Monetary Fund, World Bank, WTO, Bank for International Settlements and G-20.

Mobilizing domestic resources is essential for Africa's industrialization

The above trends have put the spotlight on African countries' need to mobilize their domestic resources for industrialization, long-term economic growth and structural transformation. A domestic-oriented approach has long been recognized by African governments as effective to finance sustained growth and development, as it is less volatile and more stable than external financing. It also allows for country ownership of development policies and outcomes.

Massive increases in domestic savings needed to boost domestic investment and industrialization

Industrialization is costly and requires strong support from the financial system. Ever since the United Kingdom became the first industrialized country, characterized by the highest capital intensity and productivity in the world, heavy capital investments have been the common catch-up strategy for latecomers like the US, Germany and Japan (Wolff, 1991).

In the same vein, the experience of the newly industrialized economies in South-east Asia demonstrates an even stronger role of investment. Economies like the Republic of Korea, China, Indonesia, Malaysia and Thailand all experienced dramatic increases in their investment rates during their economic take-off: annual gross capital formation rose from around 20 per cent of GDP in the 1960s and 1970s—comparable to Africa's current saving rate—to nearly 40 per cent before the 1998 Asian financial crisis. China has sustained annual investment of close to 50 per cent of GDP.[19]

At present, gross capital formation in Africa is lower than in other regions and income groups (table 2.5). When one excludes the higher rate in Northern Africa, investment in the rest of the continent is around 21.0 per cent a year in 2006–2010. Clearly, African countries need to ramp up their domestic investment rates in order to diversify their economies and catch up—as many of them envisage—with emerging middle-income countries.

TABLE 2.5: GROSS CAPITAL FORMATION AND DOMESTIC SAVING RATES BY REGION AND INCOME GROUP (% OF GDP)

	Gross capital formation					Gross domestic saving				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Africa	21.4	23.5	24.8	24.5	23.7	23.8	24.0	24.4	19.3	20.7
East Asia and the Pacific (developing countries)	37.7	36.8	38.8	41.1	42.1	44.8	44.7	45.3	46.0	46.1
Middle-income countries (average)	28.1	28.7	29.7	28.4	29.4	31.2	31.1	30.9	29.1	30.0

Source: World Bank World Development Indicators (2012), http://data.worldbank.org/data-catalog/world-development-indicators, accessed 29 January 2013.

Africa's average domestic investment rate appears comparable with its domestic saving rate, but this average masks huge differences among countries and groups—the average saving rate is much lower when oil-rich African countries, especially Libya and Algeria, are excluded. This further illustrates the domestic resource gap that has led to dependence on external financing. Africa's domestic saving is very low compared with developing countries in East Asia and the Pacific and with middle-income countries. The financing gap is also huge when one compares actual with desired domestic saving, that is, the investment needed by African countries to achieve their socio-economic development goals (ECA and AUC, 2012).

Gross domestic savings in Africa reached a decade-high 24.4 per cent of GDP in 2008, but declined to 20.7 per cent by 2010, and remained much lower than, say, developing Asia's 46.1 per cent (see table 2.5). This rather poor performance was heavily affected by global economic developments after 2007. Private saving remains low in the majority of African countries mainly because of low per capita incomes and inadequate incentives from the relatively few formal saving institutions, which offer very low or negative real rates of return on savings.

Efforts to boost Africa's low investment rates should go hand in hand with strategies to enhance total factor productivity and investment efficiency through, for example, innovation, R&D and the knowledge economy. Experiences in Africa and elsewhere show that the quality of investment is important and that the size of investment

To maximize domestic resource mobilization for industrialization and economic transformation, most African countries need to reform the domestic financial sector, address constraints to mobilizing private savings and tax revenue, explore innovative financing approaches, stem capital flight and make better use of natural resource revenue.

alone may not sustain industrialization. Indeed, although effective resource mobilization and massive investment in the former Soviet Union, for example, generated fast industrialization, lack of accompanying productivity and efficiency-enhancement measures resulted in subsequent deindustrialization (Krugman, 1994).

On the tax front, despite tax revenue standing at 27 per cent of GDP (well above the global average) for the continent in 2011, collection abilities vary greatly, so that for a quarter of African economies the figure still stands at less than 15 per cent of GDP, the threshold considered necessary for low-income countries(ECA and OECD, 2012).

Some of the factors affecting tax collection in African countries include low incomes that affect governments' direct taxation; cross-cutting structural bottlenecks, including high levels of informality; a lack of fiscal discipline and legitimacy; very tight administrative capacity constraints; excessive tax preferences; inefficient taxation of extractive activities; inability to fight abuse of transfer pricing by multinational enterprises; and excessive reliance on a narrow range of taxes for revenue (AfDB et al., 2010). The lack of urban cadastres and population censuses makes collecting urban property taxes particularly challenging for local administrations, on top of the difficulties they face in collecting taxes from higher income groups.

Need to deepen financial intermediation

Financial intermediation in Africa is far shallower and less developed than in the average middle-income economy (ECA, 2012b). Recent estimates suggest that the African average for domestic credit to the private sector is 52.7 percent of GDP, while money supply (M2) constitutes 48.4 percent of GDP. However, these figures are heavily influenced by South Africa and North Africa (ECA, 2012b). For example, excluding them, domestic credit to the private sector drops to 22 per cent of GDP, slightly below the average of low-income economies (ECA, 2012b).North Africa and a few individual countries, however—Cape Verde, Mauritius and South Africa—are at a stage of financial intermediation comparable with that of Latin America's developing countries.

Markets for stocks and bonds can also play an important role in mobilizing resources and allocating them to productive investment. Part of a global trend over the last few decades, several stock markets have been set up in Africa since 1989. Today, the continent has 29 exchanges, but only three of them (in Egypt, Nigeria and South Africa) have listings of more than 100 companies; at least six have fewer than 10 listed companies.

The total value of stocks traded averaged 51 per cent of GDP in 2005–2010, compared with 20 per cent in the developing economies of Latin American and the Caribbean, 60 per cent in middle-income economies, and 124 per cent in developing economies of East Asia and the Pacific. In the same period, market capitalization of listed companies in Africa was double that of the average middle-income economy (140 per cent against 71 per cent), having expanded rapidly since the early 1990s.This figure is, though, largely driven by South Africa, with other countries exhibiting much smaller market capitalization (ECA, 2012b,c).

Policy options

To maximize domestic resource mobilization for industrialization and economic transformation, most African countries need to reform the domestic financial sector, address constraints to mobilizing private savings and tax revenue, explore innovative financing approaches, stem capital flight and make better use of natural resource revenue. Increased mobilization of resources should be accompanied by measures to ensure not only increased investment but also improve the quality of that investment. Steps to attract regional and international capital, especially market-seeking FDI, should also be considered.

Financial market development would facilitate the effective use of domestic resources (savings in particular) and their channelling towards productive sectors. On the supply side, most financial markets are still shallow—dominated by banks and thus short-term financial instruments—making it hard for the private and public sectors to tap their resources. On the demand side, many small enterprises and households still lack access to formal finance for a range of reasons, including cost and lack of collateral.

As government revenues are the main domestic financial resource for most African countries, governments should broaden the tax base and raise the efficiency of tax administration. Outsourced tax collection has gained popularity in Africa over the past two decades to overcome the inefficiencies and ineffectiveness of traditional models. It has involved semi-autonomous revenue authorities or privatized tax collection. Innovative financing schemes could include public–private partnerships, sovereign wealth funds, private equity funds and bonds targeted at the diaspora.

Stemming illicit capital flight is one of the top priorities. Illicit cross-border movement of financial resources in 1970–2008 totalled $854 billion, with another $945 billion due to other cross-border illegalities such as mis-invoicing and smuggling (ECA, 2012b,c). A particularly pernicious aspect is that in poor institutional environments, larger capital inflows actually facilitate external outflows of domestic resources, meaning that efforts to strengthen capital inflows might end up having little impact on structural transformation and development prospects as they may boost capital flight. Enhanced regulation and internationally mandated transparency for offshore bank accounts will be beneficial.

Better use of natural resource wealth in oil-rich countries can also help to close the financing gap. To do so, countries should put in place institutions and enforce the rules to allocate and manage resources better. The institutions should ensure transparency of the budget as to how the government produces and publishes information on revenue collection, of how the projections for the budget are formulated, and of budget accountability: "This requires making substantial changes in the political economy of public resource management, to address at core the structural weaknesses in domestic public resource mobilization" (ECA and AUC, 2012: 164).

African governments also need to look at regional solutions. Tremendous potential exists for creating and expanding access to finance through cross-border banking and regional financial markets, with protection for customers and the financial system. Facilitating cross-border movement of goods, capital and people is key in this regard. Remittances should also be tapped, and their role in financial intermediation enhanced through better use of post offices, mobile banking and microfinance.

Governments should also continue exploring external sources to complement domestic finance. FDI, when oriented towards manufacturing and beyond resource enclaves, has the potential to promote skill development, technology diffusion and much employment. It also provides substantial opportunities for backward linkages to the domestic economy, a prerequisite for economic transformation.

2.3 TRANSLATING GROWTH INTO DECENT JOBS FOR AFRICANS

Growth and employment trends

The strong growth witnessed in Africa since 2000 is catch-up for the lost decades of contraction or stagnation after the 1960s (ILO, 2011b). But it has not translated into meaningful job creation in most countries (see chapter 1), and may not mark the start of real structural transformation owing to severe shortfalls in the labour market and in the distribution of growth.

There is thus a strong case for placing greater emphasis on pro-employment economic and social policies and on private sector development to create productive employment and decent work, as well as to reduce poverty. Indeed, a consensus is emerging globally that attaining inclusive and pro-poor growth that translates into full and productive employment and decent work for all is one of the key means to achieve sustainable development, as recently emphasized by the Rio+20 summit held in Rio de Janeiro, 13–22 June 2012.

Africa's population of over 1 billion had a projected labour force of 419 million in 2012, with a participation rate of 65.5 per cent of the continent's working-age population, 1.4 percentage points higher than the global average (table 2.6). The participation rate for North Africa was low at 49.1 per cent, largely due to a raft of economic, social and cultural imperatives that resulted in a particularly low female participation rate (24.4 per cent). But the overall participation rate for the rest of the continent was very high at 70.4 per cent, with female participation at 64.6 per cent. Yet this high supply of labour even during the global crisis reflects workers' vulnerability: they cannot afford to exit the labour market as they have no other means of survival, given the lack of social security and safety net programmes.

TABLE 2.6: LABOUR MARKET INDICATORS, 2000–2012 (%)

Africa		2000	2005	2008	2009	2010	2011[a]	2012[b]
Labour force participation rate	*Total*	64.6	64.9	65.2	65.2	65.2	65.3	65.5
	M	76.5	75.7	75.7	75.6	75.6	75.7	75.9
	F	53.0	54.2	54.8	54.8	54.9	55.1	55.3
Employment-to-population ratio	*Total*	58.3	59.4	59.9	59.8	59.9	59.9	60.0
	M	69.6	69.9	70.1	70.1	70.1	70.1	70.2
	F	47.3	49.0	49.8	49.8	49.9	49.9	50.0
Unemployment	*Total*	9.7	8.5	8.1	8.1	8.1	8.3	8.3
	M	9.0	7.7	7.4	7.4	7.3	7.5	7.5
	F	10.7	9.6	9.2	9.2	9.1	9.4	9.5
Youth unemployment	*Total*	16.0	14.5	13.6	13.7	13.5	14.0	14.0
	M	15.2	13.4	12.7	12.7	12.5	12.9	12.9
	F	16.9	15.8	14.8	14.8	14.7	15.2	15.2

Source: International Labour Organization, Trends Econometric Models database, accessed July 2012.

a = preliminary estimates; b = projection.

In 2000–2012, the aggregate employment-to-population ratio in Africa grew slightly from 58.3 per cent to 60 per cent.[20] A significant share of the working-age population is not recorded as part of the labour force—it is made up of those engaged in the care economy, students or discouraged workers. The challenge is to get more people into the labour market so that they can create—and receive—wealth.

Men and adults are more likely to join the labour market than women and youths. The catch-up process for women is too slow to bridge the gap to reasonable levels in the foreseeable future, unless states take drastic measures to increase their participation in economic activities.

Women's unemployment rates are more than double that for men in North Africa, but only slightly higher than men's in the rest of Africa. In many African countries, youth unemployment rates are about twice adult rates, and employment quality (underemployment, informality, vulnerability and working poverty) is a greater problem than quantity.

Young women are hit very hard, as female youth unemployment in North Africa, for example, was a staggering 41.7 per cent in 2012. Indeed, such lack of economic prospects for youths was one of the driving forces of the uprisings across North Africa and the Middle East in 2011. These events have catalysed policy reactions, with many governments taking steps to bring youths into the labour market through active labour market policies, including supply-side policies that focus on training and entrepreneurship development (AfDB et al., 2012). Temporary job creation initiatives through public works programmes are also common.

Employment plays an intermediary role between growth and poverty if it is productive and increases returns to labour. Sustained poverty reduction therefore requires a rise in the labour productivity of men and women in wage and self-employment (Kanyenze et al., 2011). In many parts of Africa, however, labour productivity is very low, particularly in the informal economy where the majority of workers only eke out a living. In 2000–2012, continent-wide labour productivity is estimated to have grown by only 1.5 per cent a year (table 2.7). This slow growth in labour productivity needs to be reinforced by inclusive, pro-poor and employment-rich growth policies if it is to emulate earlier countries' success (box 2.4).

TABLE 2.7: OUTPUT PER WORKER AND SHARE OF VULNERABLE EMPLOYMENT AND WORKING POOR IN TOTAL EMPLOYMENT IN AFRICA, 2000–2012

		2000	2005	2008	2009	2010	2011[a]	2012[b]
Output per worker (constant 2000 US$) – African average		2,169.5	2,312.5	2,507.3	2,508.1	2,549.2	2,480.1	2,557.7
Share of vulnerable employment (% of total)	***Total***	73.9	71.9	70.2	70.5	70.1	69.9	69.7
	M	66.3	63.1	61.3	61.7	61.4	61.2	61.1
	F	84.9	84.2	82.5	82.7	82.0	82.0	81.8
Share of working poor (% of total)	***$1.25***	48.7	42.1	39.0	38.6	38.0	37.5	
	$2.00	68.3	63.2	59.7	59.3	58.6	58.3	

Source: International Labour Organization, Trends Econometric Models database, accessed July 2012; World Bank, World Development Indicators, http://databank.worldbank.org/ddp/home.do, accessed 10 December 2012.

a = preliminary estimates; b = projection.

BOX 2.4: SUCCESSFUL CATCH-UP

Empirical evidence from successful catch-up countries, such as the Republic of Korea, which sustained high growth during 1963–1995, and Costa Rica in the 1960 and 1970s, shows that educational transformation preceded accelerated productive transformation.

In particular, increasing shares of secondary and post-secondary education enhanced the "option space"—the feasible range of products and technologies into which countries may diversify but have not yet done so—for sustained diversification into low- and medium-technology manufacturing.

Industries are also important places of learning, where the deliberate and proactive promotion of technologically advanced and more complex sectors provides opportunities for workers and enterprises to enhance their capabilities to diversify.

Finally, labour market institutions, training systems and social protection embody the capabilities to translate employment into decent work, and they accelerate productive transformation because they provide incentives and pressures to invest in higher-productivity and learning-intensive economic activities.

Source: ILO (2012b)

Without sectoral labour-productivity data, it is hard to spot whether the growth in labour productivity is a result of the observed gradual structural shift of labour from low-productivity agriculture to services. In 1991–2012, the share of employment in agriculture fell from 67.1 per cent to 62.2 per cent and increased in services from 24.4 per cent to 29.3 per cent, while staying almost stagnant in industry at 8.6 per cent (ILO, 2012). Most economic activities in services in Africa are characterized by low-productivity informal enterprises, but their productivity could be higher than in subsistence agriculture. The entry of large foreign-owned consumer industries in Africa may also have pushed up overall labour productivity.

Consistent with low but improving labour productivity and the slow but steady structural shift of labour from agriculture to services (rather than to industry) are the high rates of vulnerable employment (defined as own-account and contributing family workers) observed over the past two decades (see table 2.7). The share of workers in such jobs in Africa stayed high at 69.7 per cent in 2012,and was only down slightly from 73.9 per cent in 2000 (the rate was globally comparable only with South Asia's). Thus the decline in vulnerability is too slow to lift the majority of workers into productive employment in the foreseeable future. Gender-wise, women have a much higher incidence of vulnerable employment than men, throughout Africa.

A further indicator of the low quality of employment and incomes is an estimate of the working poor—particularly useful given the paucity of wage data in the region. In 2000–2011, the working poor (those under the $1.25 a day poverty line) in Africa fell from 48.7 per cent to 37.5 per cent (see table 2.7). (But the fall was quite modest in low-income African countries, implying that if there was an increase in real wages in these countries, it was restricted to a very small proportion of employees.)

So, with slow growth in wages and employment, it seems that the benefits of the pick-up in growth in low-income countries since 2000 have largely gone to the profit share in income rather than the wage share. (In middle-income economies, however, the proportion of working poor under both poverty lines was much lower from the outset, and during a decade of high economic growth working poverty declined more rapidly than in low-income countries.).

Key policy options

Key policies for translating growth into decent jobs must include measures to raise productivity and reduce informality. Productivity can be increased by policies and institutions that stimulate technological upgrading and adoption of new work procedures through investment in R&D, transfer of advanced technologies, close collaboration between research institutes and the enterprise sector (to support adaptation of technologies to local needs and conditions), and skills development through investment in education and training(closely coordinated with technological change).

Diversifying—especially through manufacturing—production and exports into non-traditional, increasingly sophisticated goods can lift employment growth, as with investment in employment-intensive activities with strong backward and forward linkages to the rest of the economy. High value added and tradable services such as business services, finance and upmarket tourism can also create productive employment in some countries.

Education and training policies need to meet the specific human capital needs of labour markets, as well as support the economy more widely by developing social capabilities through increasing the breadth, diversity and complexity of the social knowledge base. But as countries differ in their social capabilities, they have different skills bases and options for transforming their economies (box 2.5).

BOX 2.5: SOCIAL CAPABILITIES

Social capabilities to diversify, reform and transform are embodied in the country-specific mix (nature and diversity) of the social knowledge base acquired in social networks, education and work experience, and in the "collective" procedures or "knowing how to do" that enterprises and societies have developed in past productive experience, and stored in their routines and institutions.

These capabilities are limited in many African countries and therefore restrict countries from entering a dynamic, sustained and employment-generating growth trajectory (Nübler, forthcoming).

In the short term, African countries need to design and set down transformative paths that are feasible for their own conditions. In the medium and long term, however, they need to accumulate social capabilities as part of their economic development process.

Further important supply-side measures relate to industrial policies enhancing competitiveness through promoting value addition, industrial policy and development of linkages (chapters 3–6).

These supply-side policies need to be accompanied by measures supporting demand for domestically produced goods. Macroeconomic policies have the potential to increase domestic demand, including for local production that, through improved productivity, is competitive against imports, underlining the need to boost productivity in the informal sector and agriculture.

Given the overwhelming predominance of the informal economy, therefore, governments should help to accelerate the transition from informality—characterized by huge decent work deficits—to formality across Africa. Policies should simultaneously promote formal employment; reduce informal employment by cutting the cost of the transition to formality, which would increase the benefits of being formal and increase the costs of being informal; and raise the volume of decent work in the informal economy, largely through providing better social protection.

The long-standing neglect of agriculture should also be reversed. Both Malawi and Rwanda have achieved record growth in recent years, driven primarily by agriculture. At the same time, intensification of agriculture needs to be complemented by an increase in productive non-farm wage employment and entrepreneurship development.

Extractive industries, which are capital intensive and so provide little direct employment, can only help to create jobs when revenues are invested in labour-intensive higher value added production. This challenges public and private investment. Yet resource-based industries can provide opportunities to diversify into higher value added activities, as illustrated by the diamond industry in Botswana where the government supported diversification into diamond cutting and polishing (see chapter 3). In essence, African countries need to formulate and implement productive transformation strategies that enhance, in a co-evolutionary way, productive capacity, employment and social capabilities.

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NOTES

[1] See UNCTADStat, http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx, accessed 19 September 2012.

[2] About two thirds of Africa's exports were made up of primary commodities in 2011.

[3] In 2011, more than half Africa's total exports were still directed towards Europe and the United States (UNCTADStat).

[4] The share of intra-European trade is more than 70 per cent, while shares of intra-Asian and intra-North American trade are around 50 per cent, and the share of intra-South American trade is above 25 per cent (WTO, 2010).

[5] A full removal of tariff barriers on goods is assumed within the African continent.

[6] These activities are detailed in the Action Plan for Boosting Intra-African Trade of the African Union, 2012.

[7] As services are not subject to any tariff cuts in the analysis and would face severe competition from the other sectors in which tariff reductions are considered, intra-African trade for strictly services would increase comparatively less than intra-African trade for other sectors.

[8] Of Africa's exports to developed countries, 43.3 per cent are petroleum and other primary products; the corresponding ratio is still 53.8 per cent for Africa's exports to non-African developing countries (Mevel and Karingi, 2012).

[9] See "Programme for Infrastructure Development in Africa", www.afdb.org/en/topics-and-sectors/initiatives-partnerships/programme-for-infrastructure-development-in-africa-pida/, accessed 2012.

[10] Calculations based on OECD-DAC CRS, 2012, www.oecd.org/dac/aidstatistics/internationaldevelopmentstatisticsidsonlinedatabasesonaidandotherresourceflows.htm.

[11] Twelve African countries (Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Egypt, Eritrea, Ethiopia, Gambia, Mali, Rwanda, Sierra Leone and Uganda) are slightly more export diversified today than in 1998 (Ofa et al., 2012).

[12] As agreed in the 2nd African Trade Forum, organized by the United Nations Economic Commission for Africa, African Union Commission and African Development Bank in Addis Ababa, 24–26 September 2012.

[13] The Common Market for Eastern and Southern Africa, East African Community, Southern African Development Community, Intergovernmental Authority on Development, Economic Community of West African States, Community of Sahel-Saharan States, Economic Community of Central African States and Arab Maghreb Union.

[14] These lines specifically relate to textiles and apparel, footwear, wine, certain motor vehicle components, chemicals, steels and a range of agricultural products.

[15] Twenty-seven African countries have established a visa system to prevent unlawful transshipment of clothing produced in non-AGOA countries, which complies with the standards of the US Customs Service.

[16] The extension of the third-country fabric provision may also act as an incentive for the growing engagement of China and other Southern partners in Africa, where foreign firms in special economic zones process inputs sourced in their own countries, while benefiting from the more favourable access of African countries to the US market.

[17] Computation based on US International Trade Commission, DataWeb, dataweb.usitc.gov, accessed 20 September 2012.

[18] The special safeguard mechanism aims to provide developing countries with special and differentiated treatment by allowing them to impose their own tariffs on a number of agricultural goods in case prices fall or if their imports rise enormously.

[19] See *World Bank World Development Indicators* (2012), http://data.worldbank.org/data-catalog/world-development-indicators,accessed 28 January 2013.

[20] The employment-to-population ratio is a measure of the proportion of the working-age population (15–64 years) that is employed.