

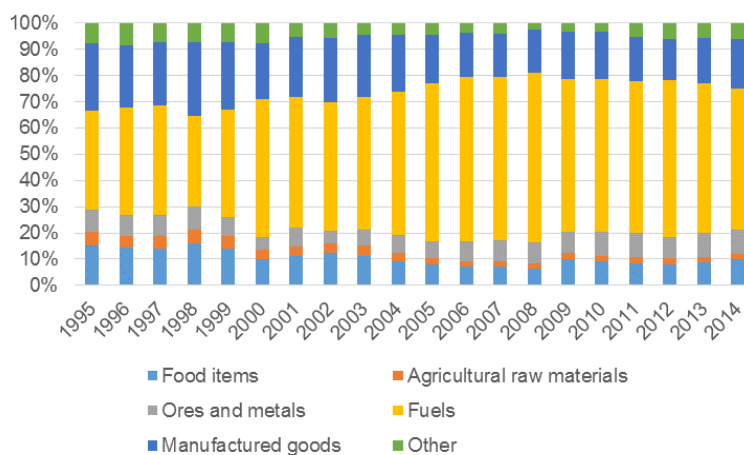
ROUND TABLE I - Promoting African trade and diversification: A business imperative

Facts and figures

Africa needs to expand and diversify its trade

- Africa's merchandise exports declined from \$640 billion in 2012 to \$349 billion in 2016, with the continent's share in global exports declining from 3.5 per cent to 2.2 per cent over the same period.
- This rapid decline in Africa's trade performance is largely a result of the dampening of global growth and the downward trend of commodity prices, highlighting the urgent need to diversify and expand trade within the continent.
- Primary commodities and raw materials (fuels, ores and metals and agricultural raw materials) still largely dominate Africa's exports, as indicated in the figure below. Fuels alone accounted for 53.9 per cent of the value of Africa's exports in 2014.
- The share of manufacturing exports in Africa's total exports has declined over time, from 25.6 per cent in 1995 to 21.8 per cent in 2004 and to 18.9 per cent in 2014.

Share of main products in Africa's total exports (percentage), 1995-2014



Source: ECA calculations using UNCTADstat data.

Africa's business environment is improving but more remains to be done

- According to the World Bank Group annual report series, *Doing Business*, African countries (not including North Africa) adopted an impressive 798 business reforms over the last 15 years.
- Malawi, Nigeria and Zambia are among the global top 10 improvers for 2017.
- Much of Africa (not including North Africa) reform activity in 2017 focused on trading across borders and starting a business, with 15 reforms in each.
- Trade costs in the region, however, remain high. The continent's cost of trading with the world was 283 per cent in ad valorem tariff equivalent in 2013 — higher than that of all other regions, except Central Asia, which has a higher share of landlocked countries.

The CFTA promises to reduce trade costs and boost intra-African trade

- The CFTA will create a single African market of 55 member States, comprising more than 1 billion people, and with a total gross domestic product (GDP) in excess of \$2.5 trillion.
- An ambitious target of 90 per cent tariff liberalization for goods has been agreed, and it is expected that the CFTA agreement will be signed at an extraordinary African Union Summit to be held in March 2018.
- The CFTA will also help to address some key challenges to improving Africa's business environment including non-tariff barriers, customs cooperation and trade facilitation.
- In addition, reforms are being undertaken through the Boosting Intra-African Trade (BIAT) initiative to address binding constraints to intra-African trade in seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration.

Continental liberalization offers significant potential for diversification

- The scope of the CFTA agreement is wide and covers trade in goods and services, investment, intellectual property rights and competition policy.
- Under the African Union Agenda 2063: "The Africa We Want", African Governments have designated industrialization as the central pillar of the CFTA initiative.
- ECA modelling exercises indicate that establishing the CFTA would boost intra-African trade by 52.3 per cent, with estimated increases highest for industrial products (53.3 per cent).

- Intra-African trade is more diversified: manufactured goods accounted for 41.9 per cent of intra-African exports in 2014 compared with only 14.8 per cent of Africa's exports outside the continent.

Intra-African investment is expected to expand even further under the CFTA

- Intra-African foreign direct investment (FDI) is growing faster than FDI from any other region.
- According to the Infrastructure Consortium for Africa, the private sector contributed \$7.442 billion (8.9 per cent) of new 2015 commitments to funding infrastructure in Africa.
- The CFTA investment agreement will provide common rules for State parties by introducing harmonized incentives for attracting investments. This is expected to provide a boost to both intra-African FDI and FDI from outside the continent.

Critical questions for discussion

1. How can the private sector be engaged through mechanisms for consultation and coordination that are transparent and cognizant of small and informal businesses and female entrepreneurs?
2. How can African Governments and development partners scale up efforts to build awareness among the African and international business community, on the major trade reforms that are being undertaken through the CFTA and the BIAT initiative and the opportunities for investment and business expansion?
3. What are the critical policy and regulatory reforms needed to spur Africa's trade and diversification and attract investment into key sectors to support Africa's industrialization?
4. What role can the private sector play in informing the design of these reforms to ensure that they align with private sector requirements such as training needs?
5. How should African Governments and other stakeholders respond to analyses claiming that it is not possible for Africa to industrialize according to the models successfully adopted in other regions of the world?