

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

Addis Ababa, ETHIOPIA P. O. Box 3243 Telephone 517 700 Cables: AU, ADDIS ABABA

Original: English

ACTION PLAN FOR BOOSTING INTRA-AFRICAN TRADE

ZERO DRAFT

ACTION PLAN FOR BOOSTING INTRA-AFRICAN TRADE

I. BACKGROUND

1. Trade is widely accepted as an important engine of economic growth and development. There are many regions and countries of the world that have been able to lift their peoples from poverty to prosperity through trade. Although the African economy is characterized by a relatively high degree of openness, with the ratio of exports and imports to GDP amounting to 55.7% in 2009, trade has not served as a potent instrument for the achievement of rapid and sustainable economic growth and development for many of the countries. As a consequence, Africa remains the most aid-dependent continent of the world, unable to eliminate poverty through trade.

2. The failure of African trade to serve as a catalyst for sustainable economic growth and poverty alleviation stems partly from its three interrelated basic features: size, structure, and direction. At around 3 per cent, the share of Africa in global trade is insignificant. Not only is the share of the continent relatively small, it has been marked by a decline over the decades, having fallen from 8 per cent in 1948. Africa's export trade is heavily concentrated on primary commodities that are characterized by relatively slow growth, price instability and long-term deterioration of terms of trade. The participation of African countries in the dynamic sectors of global trade, especially manufactures and services, has been limited due partly to supply-side constraints and lack of competitiveness.

3. A key feature of Africa's trade, which has had some adverse implications for its impact on economic growth and development, is its high external orientation and relatively low level of intra-regional trade. Intra-African trade stands at around 10 per cent compared to 60 per cent, 40 per cent, 30 per cent intra-regional trade that has been achieved by Europe, North America and ASEAN respectively. Even if allowance is made for Africa's unrecorded informal cross-border trade, the total level of intra-African trade is not likely to be more than 20 per cent, which is still lower than that of other major regions of the world.

4. That African countries do not trade much with each another has meant that they have been unable to fully harness the synergies and complementarities of their economies and take full advantage of the economies of scale and other benefits (such as income and employment generation) that greater market integration would have provided. There are cases where products and services could have been sourced competitively from other African countries but were procured from outside the continent.

Due to the fact that Africa does the bulk of its trade with the outside world and the exports are heavily concentrated on primary commodities, the continent has been particularly vulnerable to external macroeconomic shocks and protectionist trade policies. This is evident from the recent global economic and financial crisis which, although not of the making of African countries, has had adverse impact on the continent's economic performance. In today's increasingly interdependent global economy, Africa cannot delink itself from trading with the outside world. However, the continent can reduce its vulnerability to external shocks and improve its trade and economic performance if its market integration is deepened and the countries do more of their external trade with each other. Thus a major lesson to be drawn from the systemic shocks in the global economy is the need for Africa to promote intra-regional trade.

5. In an effort to better integrate into the global trading system and improve their trade performance, most African countries have over the last decade been involved in two major sets of negotiations: the WTO Doha Round and the EPA negotiations with the EU. Both sets of negotiations had initially generated much hope within Africa in the expectation that their outcomes would be development-oriented and address the interests and concerns of the continent in global trade. Unfortunately, these negotiations are now stalemated, thus increasing the need for Africa to explore other alternative means of enhancing its trade performance and using trade as a key instrument for the promotion of sustainable economic growth and development. Boosting intra-African trade and deepening regional market integration constitute a necessary response to the challenges facing Africa in the multilateral trading system and the global economy. The boosting of intra-African trade and the deepening of Africa's market integration, by fostering competition among African countries, will assist in enhancing their capacity and prepare them to compete more effectively on the global market.

6. It is against the foregoing background that the recommendation of the 6th Ordinary Session of the AU Ministers of Trade to fast-track the creation of a continental Free Trade Area (FTA) and the decision of the AU Assembly of State and Government to focus its January 2012 Ordinary Session on the theme of "Boosting Intra-African Trade", are very timely. For long, regional integration has been accorded high priority in the development agenda of African countries. The continent's landscape contains a relatively large number of integration schemes. In spite of this, market integration in Africa is weak and the level of intra-African trade remains relatively low as indicated earlier. Several factors have accounted for this situation.

7. The Action Plan outlined in this document aims at deepening Africa's market integration and significantly increasing the volume of trade that African countries undertake among themselves. It identifies the key obstacles to the growth of intra-African trade and outlines the programme of activities required to address each of the constraints. The Action Plan also includes proposals for Architecture to fast-track the attainment of a Pan-African Free

Trade Area and a Mechanism to monitor and evaluate the progress of Africa in market integration.

II. PROGRAMME CLUSTERS OF THE ACTION PLAN

8. The growth of intra-African trade has been constrained by a number of factors. These include differences in trade regimes; restrictive customs procedures, administrative and technical barriers; limitations of productive capacity; inadequacies of trade-related infrastructure, trade finance, and trade information; lack of factor market integration; and inadequate focus on internal market issues. Each of these constraints needs to be addressed. The programme of activities, with time frame and responsibility for action, which should be implemented for the elimination of each constraint, is outlined below.

9. In the development of this Action Plan, account has been taken of the existing initiatives already adopted by the Policy Organs of the AU such as the Action Plan for Accelerated Industrial Development of Africa (AIDA), Programme for Infrastructure Development in Africa (PIDA), Minimum Integration Programme (MIP), etc. The objective is not to replace these initiatives but to ensure that programs and actions are promptly implemented for the boosting of intra African trade.

1. Trade Policy

10. The boosting of intra-African trade requires the adoption and implementation of coherent and efficient trade policies at the national, regional and continental levels, which should be specifically geared to the promotion of intra-African trade. Although intra-regional trade liberalization constitutes a key element of the integration programmes of most of Africa's RECs, the implementation of the relevant trade protocols rarely accords the priority that is necessary for the attainment of market integration. Significant differences still exist in trade regimes within and between the RECs. The boosting of intra-African trade requires that the trade policy of African countries be designed or differentiated in such a way that no other African country would receive a less favourable treatment than is given to a non-African country, whether the latter is developed or developing.

11. Table 1 contains a list of trade policy programmes and activities that should be implemented in the short-term (under 3 years); medium-term (3-7 years) and long-term (over 7 years). For each programme or activity, the organization/actor with the main responsibility for implementation is indicated.

Table 1: Trade Policy Cluster

Main objective: Fast tracking intra-African trade development

PROGRAMME/ACTIVITY	[HOW] OUTPUT/TARGET	[WHEN]TIME FRAME	RESPONSIBILITY
Mainstreaming of intra-African trade in national trade and development strategies	<ul style="list-style-type: none"> • Adequate allocation in Member states (MS) budgets to enable implementation is done • African and regional trade policies are mainstreamed in the National trade and development strategies 	Short term	MS
Enhancement of the role of the organized private sector, informal private sector and women in trade policy formulation	<ul style="list-style-type: none"> • Regular formal platforms for organized private sector, informal private sector and woman business and civil society for trade policy dialogue with Government, are established 	Immediate/short term	MS, RECs, AU
Boost intra-African trade in food products	<ul style="list-style-type: none"> • Tariffs , non-tariff measures and quantitative restrictions on intra-African trade in food products are removed 	Short term	MS
Undertake commitments to liberalize trade-related service sectors: Transport, professional, financial and ICT	<ul style="list-style-type: none"> • Unilateral liberalization in services is undertaken by MS • Commitments made in RECs or between RECs • Regulatory framework are put in place 	Short to medium term	MS, RECs
Commit to harmonize rules of origin and simplify trade regimes	<ul style="list-style-type: none"> • Rules of origin and trade regimes are harmonized at the REC level and Tripartite level 	Short term	MS, REC's, Tripartite SC, AU (C-FTA)
Promoting “Buy in Africa” and “Made in Africa”	<ul style="list-style-type: none"> • Increased trade in good among member states 	Short term	MS

2. Trade Facilitation

12. A major factor in the low level of intra-African trade has been the numerous trade facilitation constraints. The removal of these constraints is critical to boosting trade among African countries. Without their elimination, the removal of tariffs on intra-African trade, which has been the main focus of regional and continental market integration efforts, will have limited effect in boosting intra-African trade.

13. Among the intra-African trade facilitation constraints that need to be urgently addressed are the complex customs and administrative procedures and regulations, inefficient and costly transit systems as evident by numerous informal roadblocks along trade corridors, differences in rules of origin, trade documentation, and standards(product and transport-related). Unlike some of the other major barriers to intra-African trade, the issue of trade facilitation can be addressed relatively quickly and without much cost, if there is the political will and greater commitment to the promotion of intra-African trade. Trade facilitation will not only assist in the deepening of Africa's market integration but also enhance the performance of African countries in global trade. Table 2 provides a list of trade facilitation programmes and activities whose implementation are necessary for the boosting of intra-African trade.

Table 2: Trade Facilitation Cluster

Main objective: Reducing the time it takes to move goods from point A to point B by 50%

Expediting movement of goods across existing trade corridors (infrastructure treated separately)

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Reduction of road blocks	<ul style="list-style-type: none"> Existing road blocks are reduced by 50% or more, from REC targets (e.g. ECOWAS) 	Short term	MS
Harmonizing and simplifying customs and transit procedures, documentation and regulations	<ul style="list-style-type: none"> Number of customs documents are reduced Key customs documents are harmonized within RECs Border operation hours are harmonised 	Short term	RECs
Establishment and operationalisation of One-Stop Border Posts	<ul style="list-style-type: none"> OSBPs at all key border posts established Border time crossings of goods are reduced by 50% 	Short term	MS, REC
Integrated Border Management (IBM)	<ul style="list-style-type: none"> Customs procedures, standards, regulations and documentation are harmonized and simplified 	Short term	MS, RECs, AU

3. Productive Capacity

14. The insignificant share of Africa in global trade and the relatively low level of intra-African trade can be attributed, to a large extent, to the inadequacy of productive capacity, especially in the dynamic sectors of global trade. The economy of most African countries is heavily dependent on the production and export of primary commodities. The participation of many African countries in the global economy is limited to producing and exporting a limited range of primary products. Africa remains the least-developed manufacturing region of the world. The continent accounts for less than one per cent of global manufacturing value added. Only a few African countries have succeeded in developing a sizeable and dynamic manufacturing sector whose contribution to Gross Domestic Product is more than 20 per cent. Lacking in productive capacity and competitiveness, African countries rely heavily on the outside world to meet their demand for manufactured goods.

15. Africa's trade with the rest of the world shows that the continent exports as well as imports all product categories. However, while it exports more than it imports of ores, metals, precious stones and fuels; the reverse is the case with products such as manufactured goods, chemicals, machinery and transport, the categories of products in which the continent's productive capacity is lacking. Upgrading productive capacity in the manufacturing sector will enable Africa to be more self-reliant, to have a better structure and balance of trade with the rest of the world, and to make trade a more potent engine for income and employment generation, and sustainable development.

16. The boosting of intra-African trade and the enhancement of the share of Africa in global trade require the diversification of the economy and the enhancement of productive capacity. The experience of other regions of the world that have succeeded in achieving high levels of intra-regional trade and significant shares of global trade indicates the importance of competitiveness and productive capacity in the dynamic sectors of global trade. Although the level of intra-African trade remains small, the growth of this trade has been much stronger for manufactured goods and semi-manufactures, whose intra-trade shares rose from 16 per cent and 12 per cent in 2000 to 25 per cent and 26 per cent in 2010. African countries will trade more with each other if they upgrade their productive capacities in dynamic sectors of the economy and support the development of regional enterprises and value chains.

17. In recognition of the importance of the need to diversify Africa's economy and enhance its productive capacity and competitiveness for meeting the challenges of sustainable economic growth and development, the Assembly of Heads of State and Government of the AU has adopted a number of important initiatives. These include the adoption of the Action Plan for Accelerated Industrial Development of Africa (AIDA) that is aimed at the enhancement of the continent's industrial capacities and capabilities; the African Productive Capacity Initiative (APCI); Action Plan for the Development of Science and Technology, and the Africa Technology

and Innovation Initiative (ATI); the Africa Mining Vision; and the African Agribusiness and Agro-industry Development Initiative (3ADI). The effective implementation of these initiatives is essential for the enhancement of the productive capacities of African countries and for the boosting of intra-African trade. Table 3 contains a list of productive capacity building programmes and activities that are necessary for boosting intra-African trade.

Table 3: Productive Capacity Cluster

Main objective: Creating regional and continental value chains/complementarity, to increase local production/ trade in goods produced in Africa

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Prioritization of the implementation of continentally-agreed programmes, such as AIDA, ATII, APCI, and 3ADI	<ul style="list-style-type: none"> AIDA, ATII, APCI, MIP and 3ADI projects are promptly implemented 	Depending on the (implementation) strategy of the respective programme	MS
Establishment of integrated and inter-connected trade information systems	<ul style="list-style-type: none"> Integrated and inter-connected trade information systems are put in place 	Short term	AU, RECs, MS
Encouraging investments/FDI through established frameworks for the strengthening of regional and continental complementarities, and the development of regional enterprises and value chains	<ul style="list-style-type: none"> Improved and harmonized investment regulation is put in place 	Short to medium term	MS, RECs
Establishment of Regional Centers of Excellence for technology development, adaptation and diffusion	<ul style="list-style-type: none"> Each REC has a Regional Center 	Short to medium term	MS, RECs

4. Trade-Related Infrastructure

18. The inadequacy of basic infrastructure has been a major factor in the lack of diversification and competitiveness of Africa's economy, continent's marginalization in the dynamic sectors of global trade, and its relatively low level of intra- regional trade. Compared to the other regions of the world, both developed and developing, the impediment to production and trade arising from the underdevelopment of infrastructure is more severe.

19. Inadequate networks of road, rail, air and waterways make transport costs in Africa to be among the highest in the world. For the landlocked countries, these costs account for as much as 70 per cent of the value of the exports.

20. Transport is critical for moving goods, services and people across borders. The low quality of transport networks in Africa limits interconnectivity and the amount of trade that African countries can do with each other.

21. The productivity, competitiveness, and trade of African countries are also being severely constrained by deficiencies of soft infrastructure, especially energy and ICT. In spite of Africa's rich endowment of energy resources, Africa accounts for only 3 per cent of global energy generation, whereas the share of the continent in world population is about 20 per cent. Per capita power consumption in Africa has remained extremely low, even by the standards of other developing regions. It is estimated to be about 10 per cent of the per capita consumption of the latter. While recent years have witnessed a phenomenal growth of mobile telephones and internet services in Africa, the coverage is still much lower than in other regions of the world.

22. Infrastructure development is critical for the production of low-cost and globally competitive goods and services, for the improvement in the performance of African countries in global trade, and for the expansion of intra-African trade.

23. A number of initiatives have over the last decade been adopted by African countries at national, regional, and continental levels to develop and upgrade infrastructure. They include the AU Programme for Infrastructural Development in Africa (PIDA); Transport Corridors such as the Northern Corridor linking the landlocked Great Lakes countries of Burundi, Rwanda, Uganda and Eastern DRC to the Kenya Seaport of Mombasa, and the Trans-West Africa Highway; Regional Power Pools (South African, West African and East African Power pools); and the Yamoussoukro Decision. The effective implementation of these initiatives will contribute significantly towards redressing Africa's infrastructural deficiencies. Table 4 highlights some of the programmes and activities that need to be implemented in the short, medium and long-terms to develop Africa's infrastructure for enhancement product competitiveness, regional interconnectivity, and boosting of intra-African trade.

Table 4: Trade-Related Infrastructure Cluster

Main objective: Development of innovative, legal, financial and other mechanisms for multi-country infrastructural development projects.

Taking into account Declaration on Development of Transport and Energy Infrastructure in Africa

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Prioritizing the implementation of PIDA	<ul style="list-style-type: none"> PIDA Studies and Infrastructure Architecture for Infrastructure Development in Africa are approved and Implementation of PIDA key projects started on time 	Medium term	AU, AfDB, RECs, MS, Development Partners
Mobilize resources for the preparation of multi-country infrastructural projects	<ul style="list-style-type: none"> Pan-African investment funds by MS are recapitalized 	Short term	AU, AfDB, RECs, MS
Prepare high-quality multi-country infrastructural projects	<ul style="list-style-type: none"> Increased number of projects are prepared 	Short term	MS
Enabling environment for private sector participation in the development of infrastructure	<ul style="list-style-type: none"> Conducive policies and regulatory frameworks for the building of infrastructure, e.g. arbitration clauses in PPP arrangements are developed 	Medium term	AfDB, AU, REC, MS

5. Trade Finance

24. A major constraint on the growth of Africa's trade, especially intra-regional trade, is the inadequacy of financing mechanisms. The continent's financial landscape is characterized by multiplicity of inconvertible currencies, and the underdevelopment of regional institutions that can provide finance, credit and guarantee for cross-border trade. In general, it seems easier to secure finance for Africa's trade with the outside world than for intra-African trade. Well developed and functioning financial systems are essential for the effective participation of African countries in global trade and for the boosting of intra-African trade.

25. One of the fallouts of the global financial crisis has been the curtailment of trade credit and finance. Given the greater perceived risks of intra- African trade, the credit squeeze has tended to be more for such trade. This calls for more efforts in the development and strengthening of African financial institutions and mechanisms that accord high priority to the promotion of intra-African trade and investment. There are currently some examples of African institutions whose activities need to be strengthened and replicated for the boosting of intra-African trade. They include the COMESA PTA Bank, ECOBANK, the East African Development Bank, the African Export and Import Bank (AFREXIM), and the African Trade Insurance Agency (ATI). Table 5 contains a list of programmes and activities required for adequate and effective financing of intra-African trade.

Table 5: Trade Finance Cluster

Trade Finance

Main objective: Develop and strengthen African financial institutions and mechanisms to promote intra-African Trade and investment.

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Strengthening/enhance capacity of existing regional and continental financial institutions	<ul style="list-style-type: none"> MS that have not yet subscribed to Afreximbank, PTA Bank and ATI subscribe 	Short term	MS, Afreximbank, PTA Bank, ATI, development partners
Improving payment systems	<ul style="list-style-type: none"> Cross-border payments are facilitated and currency constraints are avoided 	Short term	MS
Enabling environment for financial service companies to supply export credit and guarantees	<ul style="list-style-type: none"> Supply of export credit is increased and Cost of capital is reduced 	Short term	MS, RECs

6. Trade Information

26. Adequate, easily accessible and timely information is necessary for taking full advantage of the opportunities for intra-African trade. There are occasions when, due to lack of relevant information, goods and services are imported by African countries from outside the continent when goods of similar quality and prices could be sourced from other African countries. Bridging of information gap thus constitutes an important component of any strategy for boosting intra-African trade. There is no doubt that with adequate information, African countries can source within the continent some of the products and services for which they depend on external supply, thus enhancing regional integration and the promotion and employment on the continent. Table 6 provides a list of indicative programmes and activities in the area of trade information.

Table 6: Trade Information Cluster

Trade information

Main objective: Bridging information gap to enhance opportunities for intra African trade

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Creation of inter-connected centers of trade information exchange	<ul style="list-style-type: none">Information on business opportunities and trade regimes available on the continent is provided	Short term	RECs, MS
Development of innovative legal, financial and other mechanisms for multi-country infrastructure and industrial projects	<ul style="list-style-type: none">Implementation of vital continental projects is accelerated and facilitated	Short term	RECS, AUC, AfDB

7. Factor Market Integration

27. Intra and inter regional mobility of factors of production (labour, enterprise and capital) can contribute significantly to the deepening of African integration and the boosting of intra-African trade. Although the movement of labour across countries within some African regions is a sensitive issue that has been a source of tension, if well managed, it can serve as an important instrument for enhancing productive capacity, boosting intra-African trade, and achieving a more equitable distribution of the costs and benefits of regional integration. Indeed, if the objectives of an African Union of People and a Pan-African Economic Community, as encapsulated in the Constitutive Act of the African Union, are to be achieved; regional and continental factor market integration must be accorded some priority. An indicative list of programmes and activities for the deepening of factor market integration in Africa is presented in Table 7 below.

Table 7. Factor Market Integration Cluster

Main objective: Increase intra-regional mobility of labour through harmonisation of labour, business and investment laws

PROGRAMME/ACTIVITY	OUTPUT/TARGET	TIME FRAME	RESPONSIBILITY
Operationalise the existing policies and protocols on free movement of people and of labour migration	<ul style="list-style-type: none"> • Protocols are ratified and fully implemented by MS that have not done so; • An African Regional Labour Exchange is established; • Labor and social protection framework is harmonized 	Short to medium term	REC, MS
Increase freedom of movement for business people	<ul style="list-style-type: none"> • Simplified entry procedures are put in place for business visitors in MS including visas 	Short term	MS, RECs
Harmonize rules on cross border establishment	<ul style="list-style-type: none"> • Cross-country investment and job creation are facilitated 	Short to medium term	MS, RECs
Establish agreements on mutual recognition of qualifications	<ul style="list-style-type: none"> • MRAs for certain job categories is put in place 	Short term	REC, MS

