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EXPORT PERFORMANCE FOLLOWING TRADE LIBERALIZATION: Some Patterns and Policy Perspectives



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EXPLANATORY NOTES

The \$ sign refers to the United States dollar.

Sub-Saharan Africa: Except where otherwise stated, this includes South Africa.

North Africa: In this publication, Sudan is classified as part of sub-Saharan Africa, not North Africa.

Tables: Two dots (..) indicate that data are not available or are not reported separately.

ABBREVIATIONS

ACP	African, Caribbean and Pacific (group of States)
AMS	Aggregate measure of support
CFA	Communauté financière africaine
DAC	Development Assistance Committee (OECD)
ECA	Economic Commission for Africa
ERP	Economic Recovery Programme
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GDP	gross domestic product
ICT	information and communication technology
IMF	International Monetary Fund
ITC	International Trade Centre
IDA	International Development Association (World Bank)
IEG	Independent Evaluation Group (World Bank)
LDC	least developed country
LIFDC	low-income food-deficit country
MFN	most favoured nation
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
n.e.s.	not elsewhere specified
NTM	non-tariff measure
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
RTA	regional trade agreement
SADC	South African Development Community
SITC	Standard International Trade Classification
WDI	World Development Indicators
WTO	World Trade Organization

INTRODUCTION

The objective of this year's report is to examine Africa's export performance after trade liberalization in order to draw lessons for use in the design of future development strategies. The main message is that the efforts made by African countries in terms of trade liberalization over the last 25 years have removed most of the policy barriers considered to be the main impediments to these countries' export performance. Though there has been some improvement in Africa's export performance after trade liberalization, the level and composition of the continent's exports have not substantially changed. The performance of the export sector after trade liberalization fell short of expectations and the improvement has been small relative to the experience of other developing regions. African countries have not diversified their exports towards more dynamic primary commodities and manufacturing goods, which are less prone to the vagaries of international markets. Africa as a whole has even lost export market share, which was down from 6 per cent of world exports in 1980 to about 3 per cent in 2007. Hence, it is clear that the recent substantial rises in African countries' export earnings have not allowed Africa to recover its lost market share. The report identifies Africa's weak supply response as the most important impediment to the continent's export performance, suggesting that future export policies should focus more on ways to increase production for export. The report proposes some policies that could help Africa to refocus its development priorities on structural transformation in order to increase the continent's supply capacity and export response.

The discussion in this report is timely for several reasons. First, it takes place at a juncture when many African countries are deriving substantial benefits from the current commodity boom. For the first time in 30 years, several countries have a good opportunity to accumulate financial resources which, if prudently used, could allow these countries to build a strong and diversified productive sector that is more responsive to export opportunities. Nevertheless, the current boom should not lure African countries into a false sense of prosperity. Commodity booms have tended to be cyclical and it is doubtful if the current one can last forever. Second, Africa, like other regions, is affected by the current severe food crisis. Over the last five years, Africa's cereal import bill has trebled, putting household and State budgets under immense stress. Given that the region was consistently a net food producer until 25 years ago, this is an opportune time to reflect on what has happened to Africa's agricultural production and on how

to reconstruct its agricultural export sector. Third, African countries have been implementing trade liberalization measures for a long period now, so it is perhaps time to take stock of trade performance after liberalization in order to propose remedial actions where needed. The report argues that improvements in trade policies have not in themselves been sufficient to increase exports from Africa. Based on the lessons learned, some policy proposals are suggested.

Trade in services is becoming important in Africa, particularly in the context of intra-African trade. However, in the context of the Uruguay Round of multilateral trade negotiations, trade liberalization in services started much later than merchandise trade liberalization, and the process is ongoing. For this reason, trade in services is not covered here and the focus of the report is on merchandise trade liberalization, which has reached a more advanced stage in Africa.

The theme of the report also presents an opportunity to continue the analysis of some of the issues raised in the 2007 *Economic Development in Africa* report, particularly the nexus between firm investment and export performance. Specifically, the report seeks to answer a number of questions, including the following: Have export volumes increased after trade liberalization? How does export performance in Africa compare to export performance in other developing regions? Why has Africa not diversified its export products, particularly in terms of increasing the share of manufactures vis-à-vis primary exports? Should Africa specialize according to its comparative advantage in the production and export of primary commodities?

Chapter 1 briefly discusses the history of trade policy in Africa and the rationale for trade liberalization and its timing. It also provides an overview of Africa's export performance to date in value, volume and composition. Chapter 2 examines Africa's export performance in agriculture while chapter 3 investigates why Africa has failed to diversify into the manufacturing sector in order to increase manufacturing exports. Both chapters attempt to identify the factors that underlie the trends in exports of agricultural and manufacturing products. The final chapter discusses some policy options for improving Africa's export performance. They revolve around the issues of productivity, competitiveness, market access and access to factors of production, both in the agricultural and manufacturing sectors.