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PARTICIPATION OF AFRICAN, CARIBBEAN AND PACIFIC STATES IN INTERNATIONAL TRADE

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Joint Report by the UNCTAD and ACP Secretariat

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ABBREVIATIONS

ACP	African, Caribbean and Pacific States
AACPS	African ACP States
ASEAN	Association of South East Asian Nations
CACPS	Caribbean ACP States
EU	European Union
EPAs	Economic Partnership Agreements
FDI	Foreign direct investment
GDP	Gross domestic product
LDCs	Least Developed Countries
LLDCs	Landlocked Developing Countries
RECs	Regional Economic Communities
PACPS	Pacific ACP States
SIDS	Small Island Developing States
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

CONTENT

EXECUTIVE SUMMARY

ACP States'economic growth and development is heavily dependent upon their enhanced, effective and more qualitative integration into the global trading system. This will be a formidable challenge against the backdrop of the current marginalization of ACP States in global trade, inherent structural constraints, infrastructure challenges, the fact that they are often dependent upon commodity exports to traditional trading partners, the relatively lower and unstable economic growth prospects in ACP States'major and traditional trading and development partners as a result of the impact of the great recession, and the uncertainties regarding new trading opportunities and stimulus that could be expected from the WTO Doha round of negotiations, the EPA negotiations and ACP States' regional economic integration processes. It is a challenge that ACP States will have to confront upfront as they have a rapidly growing population to cater for and need to accelerate progress in achieving the UN Millennium Development Goals. ACP States urgently need to innovate and to adapt strategies, policies and measures to capture a larger share of global trade, with the aim of fostering sustained and sustainable economic growth and development, employment creation and economic growth in emerging economies and South-South trade, potential benefits from some services sectors, development of competitive niche productive capabilities, and effective regional integration and intra-ACP cooperation. The ACP Secretariat and UNCTAD can support ACP States in the consideration of new trade and development strategies that can contribute towards more inclusive and sustainable growth and development and foster a process of globalization that is development enhancing.

INTRODUCTION

Many changes in the global economy are posing challenges to, and opportunities for the meaningful participation of Africa, Caribbean and Pacific (ACP) States in international trade and therefore affect their development prospects. While these changes are of a global nature, affecting all countries, several of these changes tend to have a relatively greater impact upon ACP States, at national, regional and/or intra-ACP levels. Such changes include: the severe financial and economic crisis which occurred at the end of summer 2008, provoking a steep slowdown in economic growth and world trade to be coined the 'great recession'; the fragility and unevenness of the recovery which started as from late 2009 - there are indeed currently grave concerns about a recurrence of crisis conditions; the impact of crisis mitigation and stimulus packages, inward-looking policies and emergence of protectionist pressures, in parallel with a stronger emphasis upon the State's major direct role in economic and structural transformation; the emergence of new actors from developing countries as major engines for the recovery and performance of the global economy, including the significant growth and dynamism of South-South trade and economic relations; increased demand for commodities and raw materials to support the dynamic economic performance of these new actors; the long delay in concluding the WTO Doha Round of multilateral trade negotiations; and the proliferation of regional and bilateral trade agreements, including the ACP-EU negotiations or conclusion of economic partnership agreements, which has occurred in parallel with trade preference erosion as a result of ever-increasing multilateral trade liberalization..

These trends are occurring against a backdrop of continuing concerns about persistent and worsening poverty in many countries, especially among those who are already poor, as well as women and youth, because of job insecurity and unemployment, food insecurity, energy insecurity and lack of access to basic services. Progress towards the attainment of the UN Millennium Development Goals has been halted and reversed in some countries, raising concerns whether these globally agreed goals can be effectively attained by 2015. Further climate change deterioration has necessitated climate change mitigation and adaptation approaches, including through green economy approaches to development raising the challenge of balancing economic growth with preserving the environment. Addressing the huge needs of a global population that has reached 7 billion within a finite world with limited natural resources is a major challenge for the international community in the years ahead.

This report: assesses the current situation relating to the participation of ACP States and ACP regions in international trade; identifies trade opportunities, in terms of expansion into export markets and importation of commodities, manufactures and services, available to ACP States, both within the global economy and within ACP regions; and recommends policy approaches, strategies and options that could be adopted to improve their participation in international trade and ensure development. The report is organized as follows: Chapter I discusses global trends in the world economy, especially the impact of the global financial and economic crises and the recovery process, and the ACP experience with the specific case of Pacific ACP States as an example. Chapter II reviews the participation of ACP States in the global economy and their openness to world trade, and discusses ACP States' trade performance, comparing the performance in 1975 (when the ACP Group of States was formed) with current trends. It also examines the trends in commodity concentration of ACP States' exports, and their major export markets. Chapter III discusses ACP States' intra-group trade and economic integration processes at the ACP-wide level and in terms of the different ACP regions – Africa, Caribbean and Pacific - given its importance to ACP States development prospects. In the conclusion, some key policy issues and suggestions for enhancing ACP States' participation in international trade.

It is recalled that a similar report was undertaken by UNCTAD,1 at the request of the ACP Secretariat, for the Third Summit of ACP Heads of State and Government in Nadi, Fiji, 18-19 June 2002. The ACP and UNCTAD secretariats have collaborated over the years in enhancing ACP States' trade and development prospects. Such collaboration can be strengthened in the period ahead to support ACP States in considering new developments in the aftermath of the great recession of 2008. The next ACP States Heads of State and Government Summit, different ACP regions summit level meetings and the thirteenth UNCTAD Ministerial Conference in 20122 provide the intergovernmental platforms through which the ACP and UNCTAD secretariats can collaborate to provide analyses and policy suggestions that ACP States could reflect on and take on board in expanding their participation in international trade in goods and

[1]Participation of the African, Caribbean and Pacific Group of States in International Trade (UNCTAD/DITC/TNCD/Misc.27).
[2] UNCTAD XIII will take place in Doha, Qatar from 21 to 26 April 2012. UNCTAD member States have agreed that the theme of the conference will be "Development-centred globalization: Towards inclusive and sustainable growth and development".

services on a sustainable basis and realize development gains that improve the quality of life of ACP populations.

I. TRENDS IN THE WORLD ECONOMY AND IMPACT UPON ACP STATES

(a) Global Economic Crisis and Recovery[3]

After a fragile and uneven recovery in 2010, growth of the world economy (global GDP) is seems headed towards a deceleration in 2011. The world economy grew 3.9 per cent in 2010 after a contraction of 2.1 per cent in 2009, and is estimated to slowdown in 2011 to 3.1 per cent. While the deceleration in economic growth would be experienced by all countries, developing countries continued to grow faster then developed countries and fuel global growth in 2011 as they did in 2010. In 2010, developing countries' collective growth reached 7.4 per cent, three times faster than that of developed countries (2.5 per cent). In 2011, developing countries combined growth rate is expected to average 6.3 per cent while that of developed countries would remain depressed at 1.8 per cent. Growth in all developing regions is expected in 2011 (as in 2010), buttressed mainly by domestic demand, to outpace world growth, and would range from 3.5 per cent in Africa to 8 per cent in East Asia (with China realizing a growth rate of 9.4 per cent and India of 8.1 per cent). Persistently high unemployment, rising and volatile commodity prices, ongoing fiscal consolidation and sovereign debt crises, particularly in Europe, decelerating growth and rising inflationary pressures, continue to challenge the sustainability of the recovery.

Dynamic resurgence in world trade in 2010 contributed to the global output recovery, after experiencing the steepest fall since the Great Depression. The value of world merchandise exports expanded by 22 per cent in 2010 which was the largest yearly expansion ever recorded. In volume terms, international trade expanded by 14 per cent. With the deceleration of output growth in 2011, global trade is expected to recede as well. In the first quarter of 2011, the volume of world merchandise exports grew 9 per cent from a year earlier – the growth rate for the year is expected to remain at single-digit level as compared to the double digit growth rate of 2010. The upturn in exports is notable particularly for developing economies, with all developing regions estimated to have already surpassed their pre-crisis levels. A surge in exports in Asia suggests a robust import demand spread to many countries in the region through production networks. Upturns in commodity prices since late 2010 have also helped commodity exporters, but continue to show high volatility.

Vibrant import demand of developing countries sustained the trade recovery, which supported the rapid expansion of South–South trade over the past decade – such trade now represents over half of total developing countries' exports (54 per cent). In 2010, 56 per cent of annual growth in world merchandise imports was attributable to developing and transition economies. The Organization for Economic Cooperation and Development import data confirms a contrasting sluggish recovery of import demand in developed countries. Agricultural imports (food, beverages and tobacco) showed the smallest volatility. Large volume exports in machinery and chemical products largely determined the overall trade trajectory.

By May 2011, many commodity prices, particularly wheat and maize, surpassed their pre-crisis peaks, raising food security concerns. Negative supply shocks contributed to a 2.7 per cent decline in global grain production for 2010–11. Modest improvement in supply conditions is expected and upside risks in food prices still persist in 2011. Recent high oil prices, accelerated by instabilities in some oil exporters, have raised costs of production, such as for energy, transportation and agriculture. Higher prices provide for net commodity exporters terms of trade gains, while increasing import bills for net importers. Since most poor are net-buyer of food and energy, higher prices will aggravate poverty and reduce access to food and energy. The current price levels are expected to push another 64 million people into poverty in Asia alone.

Services are a major source of growth and job creation. Modern exportable business services exhibit strong economy of scale and externalities, and require highly skilled labour, thus providing a realistic opportunity for structural transformation, including for countries without comparative advantage in agriculture or manufacturing. In 2010, world commercial services exports expanded 8.3 per cent, although their value was still 5 per cent below the 2008 level. Export performance varied significantly across sectors. Technology-related communications and computer and information sectors outperformed others

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[3] This section is adapted from UNCTAD's report on *Evolution of the international trading system and of international trade from a development perspective* (TD/B/58/3), and adjusted to reflect recent trends and policy issues provided in UNCTAD, **Trade and Development Report 2011**: Post-crisis policy challenges in the world economy (UNCTAD/TDR/2011). The latter provides updates on regional performances as well.

by growing 7.9 per cent and 6.7 per cent, respectively. Other sectors (construction, travel, transport, financial sectors) directly hit by the crisis registered a larger export contraction during the crisis.
In 2011, some developing countries' currencies (e.g. Brazil, South Africa and Indonesia) continue to appreciate in real terms. Recent currency misalignment, including an appreciation of national currencies in many developing countries, has adversely affected their trade competitiveness. There is concern that currency depreciation has the effect of export subsidies. Increased capital inflows have prompted several countries to resort to capital controls, which are increasingly seen as a legitimate policy instrument.

Persistent and pervasive unemployment – totalling 205 million in 2010 worldwide – will continue to limit domestic demand growth prospects. The unemployment rate reached 8.3 per cent for developed countries in 2010. Buoyant economic recovery has kept unemployment relatively low in developing countries, although several suffered from pervasive unemployment and increasing informal economy. In 2010, unemployment in developing countries fell to its pre-crisis level of 5.9 per cent, as countries in Asia and some in Latin America were particularly successful in creating jobs. Agricultural employment contributed significantly to job creation in sub-Saharan Africa (2.7 per cent) and South Asia (2.2 per cent). Active labour market policies helped containing job losses and policies facilitating labour market adjustment are becoming more important.

(b) ACP States: Position in World Economy and Impact of Crisis

The ACP Group of States comprises 79 States of Sub-Saharan Africa, the Caribbean and the Pacific (Box 1). The large majority (61 per cent) are African States, followed by Caribbean and Pacific States. ACP Group members comprise 40 least developed countries (LDCs) from among the 49 LDCs presently, thus holding the greater part of the world's poorest countries; 37 Small Island Developing States (SIDS); and 12 landlocked developing countries (LLDCs), all of which are in Africa.

Box 1. The 79 ACP Group of States

African ACP States (48): Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Cộte d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia and Zimbabwe.

Caribbean ACP States (16): Antigua & Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Pacific ACP States (15): Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

ACP LDCs (40): *Africa (33)* - Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania, and Zambia; *Caribbean (1)* - Haiti; *Pacific (5)* - Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu; and Timor-Leste.

SIDS (37): *Africa (6*) - Cape Verde, Comoros, Guinea-Bissau, Mauritius, São Tomé and Principe, Seychelles; *Caribbean (16*) - Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago; *Pacific (15)* - Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu; and Timor-Leste.

LLDCs (12): Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Uganda and Zambia.

ACP States accordingly consist of a large group of developing countries characterized by high economic vulnerability of development situations due to smallness of population and/or small income levels, sea-lockedness or land-lockedness together with large distances (isolation) from main markets engendering high transport and communication cost, high vulnerability to external economic and natural shocks, and weak institutional, regulatory and productive structures. Given such inherent constraints, promoting economic growth and development in ACP States is a formidable challenge.

African ACP States (AACPS), mainly Sub-Sahara Africa, comprise LDCs, small island States, landlocked countries and include important producers of oil, minerals and metals as well as agricultural commodities like cocoa, banana and cotton. The two largest economies are Nigeria (oil dependent) and South Africa which is the industrial dynamo of Africa and the ACP Group. A key and common development challenge, apart from South Africa with its diversified economic base, is the dependence of most AACPS on a few commodities for fostering economic growth and participation in global trade. A challenge for AACPS therefore is to foster dynamic economic and export growth by evolving the primary commodity focused production and export into the value added and manufacturing production and exports, and diversify into services. Production-cum-export diversification is important for upgrading export earnings and engaging in higher value production and trade which can foster industrialization and economic transformation of countries.

Caribbean and Pacific ACP States, all SIDS, show some common characteristics that have rendered promoting development an arduous task. These include their geography (smallness, long distance and thus isolation from main markets), narrow resource bases, frequent occurrence of natural disasters and fragile ecosystems, and vulnerability to rising sea levels. Those characteristics cannot be changed. Yet, signs are emerging that some of the givens are being reshaped to enable these regions to promote and sustain trade and economic growth. Caribbean and Pacific countries, for example have benefited increasingly from tourism and related transport services as well as remittances that provide resources for business investment and support to poor households. Few have benefited from windfall gains in high, albeit sharply fluctuating, commodity prices. The resource sector in particular fisheries, forestry and mining are important for other countries which are not dependent on tourism. But as they grow more dependent on those income sources, they become more vulnerable to global economic shocks. The challenge ahead is to find ways to continue diversifying their economies towards more resilient and sustainable production and trade while managing any resulting instabilities, and seeking new opportunities in non-traditional markets.

Effective trade integration for ACP States will also require substantial development of infrastructure services (e.g. transportation, finance, telecommunications, electricity, water) and related regulatory and institutional frameworks within ACP States as well as between them and major transshipment points (especially for landlocked countries) and their major markets – both traditional and non-traditional. Trade related infrastructure development is especially important in enhancing the competitiveness of production and facilitating the flow of goods and services (exports and imports). For example, transport services, both maritime and air, are critically important for SIDS in enabling their participation in global trade. Indeed, for ACP States the development and diversification of production and exports as a major development strategy must go hand-in-hand with the development of related physical, services and human capabilities.

Total ACP States population in 2011 amounted to over 932 million people, representing over 13 per cent of the total world population of almost 7 billion (Table 1). The preponderant share of ACP States' population – over 883 million -- is accounted for by AACPS. Between 1995 and 2011 i.e. over 17 years, total ACP States' population increased by over 47 per cent with high annual growth rates averaging 2.4 per cent in Africa and 2.7 per cent for the Pacific as compared to global population growth. The substantial rise in population places tremendous pressures on ACP Governments to increase the provisions of jobs, income earning opportunities, and social services to the population. ACP States' participation in international would need to contribute towards creating such opportunities and meeting the burgeoning needs of growing populations, especially in AACPS.

Table 1: Total Population of ACP States: 1995, 2011					
(Value in thousands and share in percentage)					
	1995	**Share**	**2011**	**Share**	**Compound annual growth rate, 1995-2011(%)**
World	5'713'072.9	100.0	6'988'021.2	100.0	1.2
Africa	592'519.2	10.4	883'308.9	12.6	2.4
Caribbean	32'678.9	0.6	38'282.4	0.5	0.9
Pacific	7'005.2	0.1	11'067.7	0.2	2.7
ACP Group	**632'076.2**	**11.1**	**932'450.6**	**13.3**	**2.3**

Source: *UNCTAD, UNCTADstat*

Though ACP States account for over 13 per cent of the global population, they had a share of about 1.9 per cent of global gross domestic product (GDP), in real terms, in 2010 (Table 2). In comparison, the share of Brazil and India was over 2 per cent, and that of China exceeded 7 per cent. In comparison to 1975, the share of ACP States' in global GDP has remained largely around 2 per cent. The share of the EU, ACP States' major trading and development partner, was 28 per cent in 2010, which was a major decline from the 1975 level of about 37 per cent.

Table 2: ACP States Real GDP, 1975-2010						
(Value in US$ in millions at constant 2005 prices and share in percentage)						
	1975	Share of world	2008	2009	2010	Share of world
Brazil	361 423,2	2,0	1 022 776,4	1 020 879,8	1 097 343,7	2,1
China	160 927,7	0,9	3 248 190,9	3 543 776,3	3 908 785,3	7,6
India	171 083,7	0,9	1 060 003,1	1 141 155,4	1 238 153,7	2,4
South Africa	126 338,3	0,7	285 332,2	280 227,9	288 029,4	0,6
ASEAN	299 012,3	1,6	780 930,9	794 668,1	831 962,1	1,6
EU	6 797 616,3	36,9	14 710 900,6	14 086 967,3	14 344 167,8	28,0
ACP Group	**360 820,5**	**2,0**	**942 488,3**	**957 565,1**	**999 573,8**	**1,9**
Africa	299 012,3	1,6	780 930,9	794 668,1	831 962,1	1,6
Caribbean	56 780,1	0,3	149 807,0	150 933,1	155 159,2	0,3
Pacific	4 829,9	0,0	11 794,3	12 009,4	12 498,4	0,0
World	18 435 243,8	100,0	50 351 961,5	49 355 966,1	51 299 576,1	100,0

Source*: UNCTAD, Calculated from UNCTADstat*
Notes*: ACP regions' totals do not add up to the total for the group owing to data missing for some States. 2010 data are estimates.*

In terms of annual per capita income (Table 3), ACP States' average rose from over US$985 in 1975 to over US$1,100 in 2010. This level of individual income is about 50 per cent less than the average for developing countries, confirming the weaker purchasing power of ACP States in general. There are some significant exceptions where per capita income is quite high, over US$10,000, and thus exceeding even the world average. This is the case of Antigua and Barbuda, Bahamas, Barbados, Cook Islands, Equatorial Guinea, Palau, Saint Kitts and Nevis, Seychelles and Trinidad and Tobago.

Table 3: ACP States' Real GDP Per Capita, 1975-2010				
(Value in US$ at constant 2005 prices)				
	1975	**2008**	**2009**	**2010**
Angola	1 365,2	1 779,5	1 722,8	1 702,2
Antigua and Barbuda	3 457,0	12 690,4	11 110,5	10 544,9
Bahamas	11 051,9	20 618,4	19 315,6	19 156,3
Barbados	7 672,4	11 419,0	10 791,2	10 714,4
Belize	1 965,5	4 094,5	4 010,6	4 009,0
Benin	404,3	594,6	593,2	590,7
Botswana	1 049,6	5 960,3	5 665,0	6 072,3
Burkina Faso	251,3	399,5	400,3	411,0
Burundi	163,1	153,3	154,3	156,2
Cameroon	956,8	969,7	967,2	974,6
Cape Verde	647,8	2 527,6	2 607,8	2 724,6
Central African Republic	410,9	393,8	393,1	398,4
Chad	459,0	554,9	532,0	544,4
Comoros	663,0	570,4	561,8	559,0
Congo	1 285,0	1 718,1	1 798,8	1 913,0
Cook Islands	871,9	10 023,4	9 984,6	9 948,9
Côte d'Ivoire	1 104,3	905,1	921,4	926,5
Cuba	2 333,9	4 736,9	4 802,7	4 896,0
DR Congo	455,7	138,0	138,0	144,0
Djibouti	2 257,3	963,9	994,0	1 019,4
Dominica	1 747,9	5 035,6	5 041,8	5 103,1
Dominican Republic	1 857,0	4 385,3	4 475,7	4 759,2
Equatorial Guinea	1 124,7	16 258,7	16 652,3	16 061,3
Eritrea	NA	201,2	202,3	200,6
Ethiopia	NA	212,0	228,0	241,0
Fiji	2 355,8	3 607,2	3 481,3	3 451,2
Gabon	11 410,1	7 134,9	6 904,3	7 161,8
Gambia	487,6	462,7	470,7	484,2
Ghana	427,3	556,0	568,5	587,1
Grenada	1 626,2	5 523,6	5 130,1	5 039,1
Guinea	254,7	330,6	339,6	338,6
Guinea-Bissau	571,8	418,2	421,9	427,6
Guyana	1 531,1	2 008,2	2 070,5	2 141,5
Haiti	672,8	436,1	442,9	415,1
Jamaica	4 078,0	4 248,4	4 103,1	4 041,6
Kenya	466,8	563,2	563,1	575,8
Kiribati	3 834,6	1 161,7	1 136,5	1 139,3
Lesotho	333,0	707,6	710,5	720,5
Liberia	871,9	176,4	176,0	177,7
Madagascar	443,7	308,2	284,3	270,7
Malawi	215,4	250,8	261,6	270,3
Mali	226,4	437,2	442,9	448,8
Marshall Islands	NA	2 732,2	2 705,8	2 673,6
Mauritania	647,4	716,8	691,9	707,0
Mauritius	1 582,4	5 641,8	5 701,8	5 897,3
Micronesia FS	NA	2 104,1	2 077,2	2 049,3
Mozambique	202,3	366,6	373,6	390,7
Namibia	3 125,1	3 851,6	3 752,8	3 846,4

Nauru	23 490,5	3 591,3	2 929,9	2 387,8
Niger	359,5	269,8	258,0	267,8
Nigeria	764,6	935,1	963,3	1 018,2
Niue	NA	NA	NA	NA
Palau	NA	7 445,8	7 617,2	7 789,9
Papua New Guinea	883,9	868,6	887,0	927,9
Rwanda	197,7	338,1	347,7	359,4
Saint Kitts and Nevis	2 324,7	9 669,6	8 781,1	8 542,1
Saint Lucia	2 124,3	5 485,3	5 218,7	5 208,0
Saint Vincent and the Grenadines	993,5	4 896,7	4 771,2	4 660,9
Samoa	1 442,1	2 498,1	2 445,2	2 435,5
Sao Tome and Principe	818,6	1 009,9	1 033,0	1 060,7
Senegal	749,0	820,2	815,9	828,2
Seychelles	4 982,5	12 847,1	12 857,4	13 589,9
Sierra Leone	430,0	316,8	323,4	332,0
Solomon Islands	810,9	1 039,7	992,9	1 023,6
Somalia	483,0	279,8	280,8	281,6
South Africa	4 916,2	5 785,4	5 632,6	5 745,3
Sudan	624,6	1 093,8	1 114,7	1 142,3
Suriname	2 929,3	4 045,5	4 108,4	4 251,0
Swaziland	1 397,9	2 425,6	2 417,0	2 428,2
Timor-Leste	NA	388,5	409,6	425,0
Togo	566,1	396,6	401,1	406,1
Tonga	1 091,0	2 550,6	2 525,3	2 520,7
Trinidad and Tobago	6 068,9	14 587,6	14 403,7	14 354,8
Tuvalu	1 019,7	2 463,2	2 507,4	2 507,0
Uganda	275,9	404,6	419,4	427,2
UR Tanzania	285,3	420,9	434,2	447,7
Vanuatu	1 411,5	2 168,2	2 233,4	2 227,6
Zambia	972,7	703,0	707,2	726,7
Zimbabwe	553,6	286,1	297,1	312,4
ACP Group	**982,8**	**1 093,8**	**1 085,2**	**1 106,3**
Developing economies	**953,5**	**2 445,6**	**2 474,7**	**2 624,4**
Developed economies	**18 063,6**	**35 316,5**	**33 901,6**	**34 585,1**
World	**4 540,2**	**7 497,9**	**7 265,2**	**7 465,5**

Source: *UNCTAD, UNCTADstat*
Note*: 2010 data are estimates.*

In terms of the economic outlook, ACP States' annual GDP growth had doubled from an average of 3.4 per cent between 1995 and 2000 to over 6 per cent by 2007 (Table 4). This positive growth trend decelerated in 2008 with the advent of the global financial and economic crisis and slumped to 1.6 per cent in 2009 when the full brunt of the global slowdown took effect. The crisis did not spare any ACP State although some suffered less than others, mainly owing to healthy foreign exchange reserves resulting from the commodity boom years prior to the crisis. The prognosis for the immediate future involves economic recovery in developing countries including among ACP States such as LDCs, commodity exporting countries and mineral exporters. In 2010, ACP States recovered with a 4.4 per cent growth rate. Nonetheless the recovery remains fragile as it is concentrated among a few countries, especially those benefiting from hikes in commodity prices. Moreover, ACP States' major export destinations such as the EU and the United States continue to experience slower recovery and face potential economic slowdown.

Table 4: ACP States' Real Average Annual GDP Growth Rates, 1995-2010

	1995 - 2000	2000 - 2005	2007	2008	2009	2010
Angola	5,1	9,9	20,3	13,2	-0,4	1,6
Antigua and Barbuda	4,4	4,5	10,0	2,5	-11,5	-4,1
Bahamas	5,3	0,2	2,8	-1,7	-5,0	0,5
Barbados	3,5	1,5	0,5	0,2	-5,3	-0,5
Belize	5,8	5,7	0,3	3,8	0,0	2,0
Benin	4,9	4,0	4,6	5,0	2,7	2,5
Botswana	8,6	5,7	4,8	3,1	-3,7	8,6
Burkina Faso	6,6	6,2	3,6	4,5	3,2	5,8
Burundi	-0,4	2,1	3,2	4,3	3,5	3,9
Cameroon	4,7	3,8	3,3	2,9	2,0	3,0
Cape Verde	8,6	5,2	8,6	5,9	4,1	5,4
Central African Republic	4,6	1,5	8,7	5,5	1,7	3,3
Chad	3,2	15,7	0,1	0,3	-1,6	5,1
Comoros	1,7	2,6	0,5	1,0	1,1	2,1
Congo	1,9	3,7	-1,6	5,6	7,6	9,1
Cook Islands	1,7	4,3	9,5	-1,2	0,3	0,3
Côte d'Ivoire	3,6	-0,2	1,5	2,3	3,8	2,6
Cuba	4,0	4,6	7,3	4,1	1,4	1,9
DR Congo	-3,8	4,6	6,3	6,2	2,8	7,2
Djibouti	0,8	2,8	4,8	5,8	5,1	4,5
Dominica	2,1	0,9	4,9	2,9	-0,2	1,0
Dominican Republic	7,0	3,1	8,5	5,3	3,5	7,8
Equatorial Guinea	35,3	25,6	23,2	15,2	5,3	-0,8
Eritrea	1,7	1,9	1,4	-9,8	3,6	2,2
Ethiopia	3,6	5,6	11,1	11,3	9,9	8,0
Fiji	2,3	2,6	-0,5	-0,1	-2,5	0,1
Gabon	-0,2	1,5	5,3	2,7	-1,4	5,7
Gambia	4,1	1,7	6,3	6,1	4,6	5,7
Ghana	4,4	5,1	6,2	6,7	4,7	5,7
Grenada	7,3	2,1	4,5	0,9	-6,8	-1,4
Guinea	4,5	3,4	1,8	4,7	4,9	1,9
Guinea-Bissau	-3,3	1,4	0,3	3,5	3,0	3,5
Guyana	2,5	0,8	7,0	2,0	3,3	3,6
Haiti	2,1	-0,7	3,3	0,8	2,9	-5,1
Jamaica	-0,1	1,8	1,4	-0,9	-3,0	-1,1
Kenya	2,1	3,5	7,0	1,5	2,6	5,0
Kiribati	5,4	1,7	-0,5	3,4	-0,7	1,8
Lesotho	2,8	2,7	2,3	4,4	1,4	2,4
Liberia	38,0	-6,9	9,4	7,1	4,6	5,1
Madagascar	3,9	2,0	6,3	7,1	-5,0	-2,0
Malawi	4,0	3,9	8,6	9,0	7,5	6,6
Mali	4,4	6,0	4,3	5,0	4,4	4,5
Marshall Islands	-3,6	4,1	1,3	1,4	0,0	0,0
Mauritania	2,3	4,5	1,0	3,7	-1,1	4,7
Mauritius	5,5	3,4	5,5	5,1	1,7	4,0
Micronesia FS	-0,4	0,3	-0,1	-2,9	-1,0	-1,0
Mozambique	9,7	8,5	7,3	6,7	4,3	7,0
Namibia	2,8	5,4	5,5	3,3	-0,7	4,4

Nauru	-8,0	-11,4	-10,8	95,6	-18,2	-18,2
Niger	4,2	4,1	3,3	5,9	-0,9	7,5
Nigeria	2,9	11,8	6,9	9,1	5,6	8,4
Niue	NA	NA	NA	NA	NA	NA
Palau	1,2	0,9	2,1	-1,0	2,9	2,9
Papua New Guinea	0,7	2,3	7,2	6,7	4,5	7,0
Rwanda	10,1	7,5	7,7	11,6	6,0	6,5
Saint Kitts and Nevis	4,2	3,2	2,0	4,6	-8,0	-1,5
Saint Lucia	3,0	2,9	1,9	0,8	-3,8	0,8
Saint Vincent and the Grenadines	3,6	3,5	10,3	0,9	-2,5	-2,3
Samoa	3,5	5,0	6,4	-3,0	-1,8	0,0
Sao Tome and Principe	1,7	6,1	5,2	5,8	4,0	4,5
Senegal	4,9	4,6	4,9	3,3	2,2	4,2
Seychelles	6,9	-1,2	9,6	-1,3	0,7	6,2
Sierra Leone	-9,6	12,7	6,4	4,3	4,4	4,9
Solomon Islands	-1,9	1,7	11,8	7,3	-2,2	5,6
Somalia	1,7	3,2	2,6	2,6	2,6	2,6
South Africa	2,5	3,8	5,5	3,7	-1,8	2,8
Sudan	7,3	6,6	10,2	6,8	4,5	5,1
Suriname	2,0	5,2	5,4	6,0	2,5	4,4
Swaziland	3,0	2,6	4,0	0,5	1,2	2,0
Timor-Leste	NA	NA	16,2	6,8	7,4	6,0
Togo	1,9	1,5	2,1	2,4	3,3	3,4
Tonga	2,0	2,1	-1,2	2,0	-0,4	0,3
Trinidad and Tobago	7,7	8,8	4,6	2,3	-0,9	0,0
Tuvalu	6,7	3,3	2,0	2,0	2,0	0,2
Uganda	6,7	6,3	8,1	9,2	7,1	5,2
UR Tanzania	4,3	7,1	7,1	7,4	6,2	6,2
Vanuatu	2,4	1,2	6,7	6,3	5,6	2,2
Zambia	2,2	4,7	6,3	6,0	3,4	5,7
Zimbabwe	-0,2	-4,5	-6,1	-14,5	4,0	6,0
ACP Group	**3,4**	**5,2**	**6,5**	**5,2**	**1,6**	**4,4**
Developing economies	**4,2**	**5,4**	**8,0**	**5,3**	**2,5**	**7,4**
Developed economies	**3,2**	**2,0**	**2,6**	**0,3**	**-3,5**	**2,6**
World	**3,4**	**2,9**	**4,0**	**1,7**	**-2,0**	**3,9**

Source: *UNCTAD, UNCTADstat*
Note*: 2010 data are estimates*

In terms of foreign direct investments (FDI) inflows, the value of such flows to ACP States increased strongly between 1975 and 2008, growing at an annual rate of 16 per cent, to reach US$62.5 billion by 2008 (Table 5). The flows then declined strongly by 10 per cent between 2008 and 2009, owing to the global financial crisis, to US$50.5 billion in 2009. In 2010, FDI continued to declined but by a lesser extent (5.5 per cent). In terms of its share of global FDI inflows, the level of 6.4 per cent attained in 1975 contracted considerably by almost one half to 3.6 per cent by 2010. Moreover, such inflows tend to be concentrated in a few counties in each region. For example, ACP States receiving substantial FDI inflows in 2010 (between US$1-9 billion) were Angola, Nigeria, Democratic Republic of Congo, Ghana, Dominican Republic, Sudan, South Africa and Zambia. Basically, apart from countries with oil and gas and mineral resources, ACP States are minor destinations for FDI inflows with share of global FDI inflows in 2010 of about 3 per cent for AACPS, 0.4 per cent for CACPS and 0.1 per cent for PACPS.

Table 5: FDI Flows into ACP States, 1975-2010						
(Value in current US$ millions and share in percentage)						
	1975	**Share of world**	**2008**	**2009**	**2010**	**Share of world**
ACP Group	**1 701,9**	**6,4**	**62 472,0**	**50 477,7**	**45 164,9**	**3,6**
Africa	1 286,1	4,8	51 967,9	44 380,8	39 714,0	3,2
Caribbean	373,4	1,4	9 959,7	5 317,0	4 690,4	0,4
Pacific	23,0	0,1	544,3	779,9	760,4	0,1
Developing economies	9 709,5	36,5	658 002,2	510 577,7	573 568,1	46,1
World	26 567,0	100,0	1 744 101,0	1 185 030,1	1 243 670,9	100,0

Source: UNCTAD, *calculated from UNCTADstat*
Note: *ACP regions' total do not add up to the group's total owing to missing data for some countries*

(c) Special Focus: Impact of Crisis on the Pacific Region4

During the global economic crisis, the major economic and trade partners outside the ACP region were the hardest hit, especially the US and the EU. From within the Pacific region, Australia and New Zealand, which are key economic and development partners of Pacific ACP States (PACPS), also experienced marked slowdowns. Not surprisingly, the crisis was transmitted to PACPS through declining demand for exports, falls in tourism and remittance earnings, and the changes in oil and food prices, since they have high transportation costs. For some PACPS, incomes from off-shore trust funds were reduced as well. The challenge ahead for PACPS, as for AACPS and CACPS is to find ways to continue diversifying their economies, their export baskets, and trading and development partners while managing any resulting instabilities and vulnerabilities as their traditional economic partners continue to experience financial and macroeconomic instabilities and slow growth.

Growth in the Pacific region in 2009 (excluding Australia and New Zealand) was actually 1.9 per cent and it was expected to increase to 2.5 per cent in 2010 (Table 6). Consistent with many other developing countries, inflation peaked in 2008, after a surge in commodity and food prices, but it fell again in 2009 as international prices and aggregate demand dropped – it was expected to rise in 2010.

[4] This section is drawn from a report prepared for UNCTAD by Biman Chand Prasad, Professor of Economics and Dean of the Faculty of Business and Economics in the University of the South Pacific, Fiji Islands.

Table 6: Rates of Economic Growth and Inflation in the Pacific Region

	Real GDP growth			Inflation[a]		
	2008	2009[b]	2010[c]	2008	2009[b]	2010[c]
Oceania[d,e]	**2.0**	**1.0**	**2.3**	**4.4**	**1.9**	**2.5**
Australia	2.3	1.2	2.4	4.4	1.8	2.5
Cook Islands	−1.2	−0.1	0.8	7.8	6.5	6.3
Fiji	−0.1	−2.5	1.9	7.7	3.7	3.4
Kiribati	3.4	1.5	0.8	18.6	6.6	5.9
Marshall Islands (the)	−2.0	0.5	0.5	17.5	9.6	5.9
Micronesia (Federated States of)	−1.0	0.5	0.5	6.8	2.9	7.4
Nauru	1.0	1.0	2.0	4.5	1.8	2.3
New Zealand	−0.5	−0.5	1.8	4.0	2.1	2.0
Palau	−1.0	−3.0	−1.0	12.0	5.2	6.7
Papua New Guinea	6.7	4.5	8.5	10.6	6.9	7.1
Samoa	−4.9	−0.8	0.5	11.5	6.1	6.9
Solomon Islands	6.9	0.4	2.4	17.2	8.0	7.0
Tonga	1.2	0.4	0.4	10.4	1.6	1.9
Tuvalu	1.5	1.0	1.6	5.3	3.8	3.5
Vanuatu	6.6	3.0	4.6	4.8	4.5	5.0

***Notes**: a – percentage changes in the Consumer Price Index; b – estimates; c – forecasts; d - Calculations are based on GDP figures at market prices in United States dollars in 2007 (at 2000 prices) used as weights to calculate the sub-regional growth rates; e - 2009 estimates and 2010 forecasts are available for selected economies.*
***Source**: ADB Online Statistical Database*

While the crisis did not spare any Pacific island country, Papua New Guinea suffered less than others, mainly owing to its healthy foreign exchange reserves and domestic bank liquidity resulting from the commodity boom years. Parallels can be drawn with other oil-exporting countries of Asia as well as Africa and the Caribbean. Even though growth decelerated to a more modest rate of 4.5 per cent in 2009, Papua New Guinea's economy was supported by Government spending on infrastructure as well as lending to the private sector, which rose by 41 per cent in 2008 and 21.3 per cent in 2009. The resulting increase in budget deficit was financed by trust funds the Government had accumulated during the commodity boom. Further support came from gold, which has remained at a record high in reaction to economic uncertainty. Another positive outcome of the commodity boom has been the gains in formal employment in recent years: an 8.4 per cent growth from March 2007 to March 2008 and a 3.8 per cent growth from June 2008 to June 2009.

The impact of the volatility in commodity prices was more pronounced on the various PACPS. This is because of their dependence on imported commodities, including fuel. The impact of fuel prices added to the already substantial cost of transport in the island economies. A similar impact was experienced by other island economies in Africa and the Caribbean as well as landlocked countries in Africa. It also contributed to inflation in some countries. Inflation rates in Kiribati and the Marshall Islands, for example, soared in 2008 by 18.6 per cent and 17.5 per cent, respectively, the highest levels in the Pacific islands. The increases reflected the vulnerabilities posed by remoteness and import dependency; nonetheless, by the following year inflation in those countries had moderated to 6.6 per cent and 9.6 per cent, respectively. In the Federated States of Micronesia, utilities-driven inflation pressures eased significantly as oil prices dropped, but food inflation remained persistently high.

Many PACPS are characterized by balance-of-payment deficits, particularly because of disproportionately large merchandise imports as compared with merchandise exports (Figure 1). Export revenue, tourism earnings, remittances and income from trust funds are not enough to fully offset structural trade imbalances. For instance, the value of Samoan merchandise exports comes to only 4-5 per cent of the value of merchandise imports; this huge deficit in merchandise trade is partly offset by tourism, and largely offset by remittances. Still, the current account remains in deficit.

Fuel and food account for a large share of the imports of many PACPS. The recent volatility in commodity prices has significantly affected their imports and thus their trade balances. For example, the value of Fijian merchandise imports increased by almost 25 per cent due to higher costs for petroleum products in 2008, followed by a fall by 30 per cent over the first 9 months of 2009, owing to lower prices of international commodities and fuels. Similar situations prevailed in many of the other island countries. The increase in Vanuatu's imports in 2008 also reflected the increase of commodity prices as well as increase in imports of capital equipment in connection with major infrastructure projects. On the other hand, some commodity exporters (Papua New Guinea, Solomon Islands and Vanuatu) benefited from high commodity prices during 2008. For instance, high prices for gold, Arabica coffee and cocoa benefited Papua New Guinea, offsetting declines in revenue from other primary exports such as petroleum and copper. Palm oil and copra exporters such as Solomon Islands and Vanuatu also benefited because of increases in prices for bio-fuels. However, declines in primary commodity prices towards the end of 2008 slashed export revenues, albeit with variations.

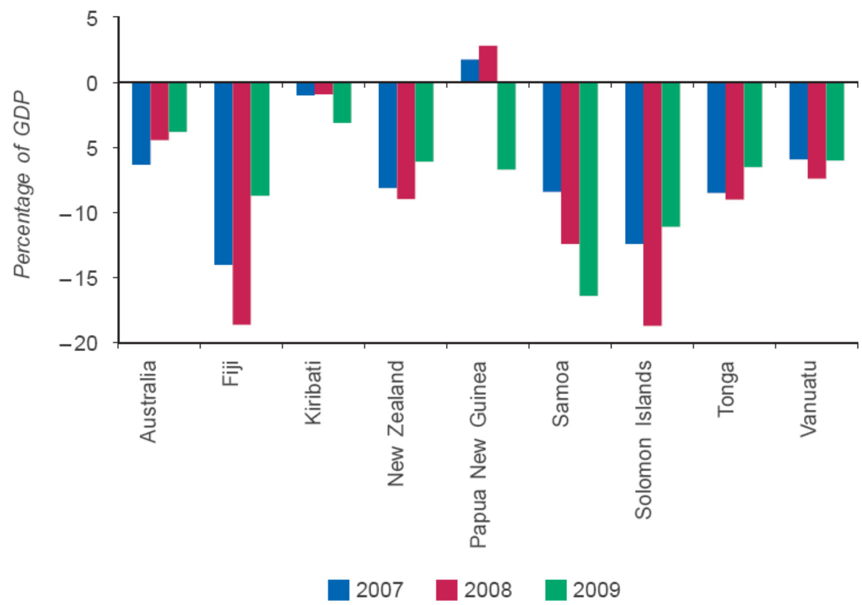
Fisheries resources are a common denominator for all the PACPS and makes important contribution to trade, economic growth and development. Exports of fish and fish products in 2010, for example, accounted for an overwhelming share of total export revenue in the case of Federated States of Micronesia (96 per cent), Palau (92 per cent), Vanuatu (82 per cent) and Kiribati (73 per cent).[5] Tuna is the most economically significant fishery in exclusive economic zones of PACPS. The exploitation of fisheries resources is dominated by foreign fishing fleets. Tuna processing (canned tuna) is limited with canaries in Fiji, Solomon Islands and Papua New Guinea that provide employment and export to the EU under duty-free access. The development of fisheries is critical enhancing development in many ACP States especially those with coastal fishing resources.

The global crisis and the consequent reduction in consumer spending led to falling tourist arrivals in the Pacific (Table 10). For instance, the reduction of tourism income in the Federated States of Micronesia and Palau is largely due to the downturn in United States and Japanese consumer spending. Yet visitor arrivals from Australia and New Zealand (who account for one-third of arrivals in major Pacific destinations), started to pick up in the latter half of 2009, benefiting countries such as Fiji, Samoa and Vanuatu. Australia is also the main source of visitors for Papua New Guinea, Kiribati and Solomon Islands, although the extent of the contribution of tourism to the economy is still limited.

Exchange rate movements have also had a differentiated impact on tourism in the Pacific sub-region. For instance, the 25 per cent decline in tourist arrivals in Fiji at the start of 2009 was mainly due to a sharp appreciation of the Fijian dollar against the Australian dollar (14 per cent) between June 2008 and the first quarter of 2009. The higher tourist arrivals in Samoa during the first seven months of 2009 likely reflect the depreciation of the Samoan Tala relative to the Australian and New Zealand dollars in the first half of 2009.

[5] Data from UNCTAD, Globstat.

Figure 1: Current Account Balance as a Percentage of GDP of the Countries in the Pacific Region



Source: *ADB Online Statistical Database*

Recent growth in visitor numbers and revenue earnings from tourism has supported economic growth in the Cook Islands, the Federated States of Micronesia, Fiji, Palau, Samoa, Solomon Islands, Tonga and Vanuatu, turning tourism into one of their most important income-generating sectors (Table 7). The extent of the tourism sectoral contribution hinged on a combination of factors, including: (a) the economic health and pattern of consumer spending of mostly developed economies which account for the lion's share of arrivals in the Pacific; (b) price competitiveness including exchange rates against the visitors' home currencies; (c) transportation links; (d) recent natural disasters; and (e) political stability of the host country. Restructuring of the Pacific airline industry and increased connections to major tourist source countries, accompanied by competitive airfares, have boosted tourism in Samoa and Vanuatu in recent years. Papua New Guinea also followed suit by partly opening up its international airline services. The closure of a charter-flight operator from Taiwan Province of China to Palau had led, however, to a significant reduction in visitors from the second largest source of visitors to Palau.

Table 7: Total Visitor Arrivals in Selected Pacific Island Economies (in thousands of people)

	2004	2005	2006	2007	2008	2009
Fiji	504.1	545.2	548.6	539.9	585.0	140.1[a]
Papua New Guinea	58.0	68.0	77.7	104.1	120.1	
Samoa	98.2	101.8	115.9	122.3	121.5	71.1[b]
Solomon Islands	5.6	9.4	11.5	15.2	22.0	4.4[c]
Tonga	51.9	53.3	52.8	67.1	61.5	30.6[d,e]
Vanuatu	98.5	125.6	154.1	167.1	196.7	65.6[c]

Notes: Includes day visitors.
[a] January-April
[b] January-July
[c] January-March
[d] Estimate
[e] January-June

Source*: ADB Online Statistical Database*

Like tourism, in recent years remittances have become a major source of income in PACPS with Australia, New Zealand and the United States absorbing the largest share of workers (Table 8). For Tuvalu and Kiribati, remittances depend heavily on seafarers' employment in merchant shipping. The sharp downturn in global trade flows 2009 adversely affected these two countries.

Table 8: Remittance Inflows as a Percentage of GDP in Selected Pacific Island Economies

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fiji	1.4	1.4	1.3	5.3	6.3	6.2	5.2	4.9	5.0
Kiribati	15.0	15.5	14.5	12.0	7.0	6.6	6.5	5.1	6.9
Papua New Guinea	0.2	0.2	0.4	0.4	0.4	0.3	0.2	0.2	0.2
Samoa	19.4	18.8	17.0	14.0	22.8	25.2	24.0	22.0	25.8
Solomon Islands	0.5	0.5	0.6	1.2	2.3	1.7	4.5	3.8	3.2
Tonga	30.1	39.0	44.3	32.6	34.0	30.6	30.5	39.4	37.7
Vanuatu	14.3	22.6	3.5	3.2	1.5	1.4	1.2	1.1	1.2

***Source**: ADB Online Statistical Database*

Samoa and Tonga, with 2008 GDP ratios of remittance inflows of 25.8 per cent and 37.7 per cent respectively, are particularly dependent on such financial flows. The National Reserve Bank of Tonga estimates that remittances fell by 14 per cent and tourist receipts by 5.9 per cent in the year to June 2009. Tuvalu, Kiribati and Fiji are relatively less reliant on remittances in comparison to others PACPS. Fiji is increasingly reliant on remittances comparing figures for early 2000s and 2005-2008. Remittances to Samoa continued to grow in the first half of 2009 and are expected to grow further, with a considerable increase in funds sent home to families in the aftermath of the tsunami.

In 2007 New Zealand launched its Recognized Seasonal Employer scheme for temporary employment of up to 5,000 migrant season workers in agricultural activities, particularly fruit picking. All Pacific countries (except Fiji) were eligible, with initial focus on five countries: Kiribati, Samoa, Tonga, Tuvalu and Vanuatu. Solomon Islands was included in 2009. While the scale of the scheme was limited, it benefited Pacific islands in terms of remittances translated into household and village-level savings, and the acquisition of skills and work experience/ethics.

Australia also announced a similar Pacific Seasonal Worker Pilot program in 2008, involving temporary migrant workers from Kiribati, Papua New Guinea, Samoa, Tonga and Vanuatu, with an annual visa quota of 2,500. Again numbers were small, particularly for a large country such as Papua New Guinea, but the positive impacts from the returning workers could be important with respect to business start-ups, work experience and ethics and higher expectations about public services. The pilot program would be evaluated to determine whether the scheme could be renewed and/or expanded beyond the current beneficiary countries.

The temporary migrant worker schemes of Australia and New Zealand have great potential in generating growth and development in PACPS. Australia and New Zealand should continue operating these schemes and expand them to include more Pacific Island Countries and more workers. The terms and conditions of workers (particularly their conditions of return) under these schemes needs also be continually reviewed and improved.

Small atoll countries (Kiribati, the Marshall Islands, the Federated States of Micronesia, Palau and Tuvalu) with trust funds that serve as a main source of Government revenue were affected by the crisis. For instance, the value of the Marshall Islands Compact Trust Fund and the Kiribati Revenue Equalization Reserve Fund declined by an estimated 20 per cent during 2008. The losses, combined with increased need for fiscal expenditure, contributed to a weakening of the fiscal position of the countries concerned.

II. ACP STATES' TRADE POSITION AND PERFORMANCE

(a) ACP States' Openness to World Trade and Trade Performance

ACP States' participation in international trade contributes significantly to wealth creation, employment generation and poverty reduction. It thus constitutes an important development path. The share of ACP States' merchandise and services exports in the group's aggregate GDP exports was 33 per cent in 2000; this ratio rose to 41 per cent by 2008, declined in 2009 and recovered to about 37 per cent in 2010 (Table 9). The important point is that ACP States' economic development is highly dependent upon their international trade performance (accounting for around one third of their total GDP), and hence upon the international global economy. Some ACP States are even more dependent upon international trade than ACP States in the aggregate, indicating greater openness of the country to international trade. For example, in the Caribbean, very high trade to GDP ratios (more than 100 per cent) are observed in Guyana, Antigua and Barbuda, Bahamas, Belize, Barbados, Dominica, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines and Trinidad and Tobago since 1996.[6]

Table 9: Ratio of International Trade (exports of goods and services) to GDP in ACP States, 1975-2010

(Value in current US$ millions and share in percentage)

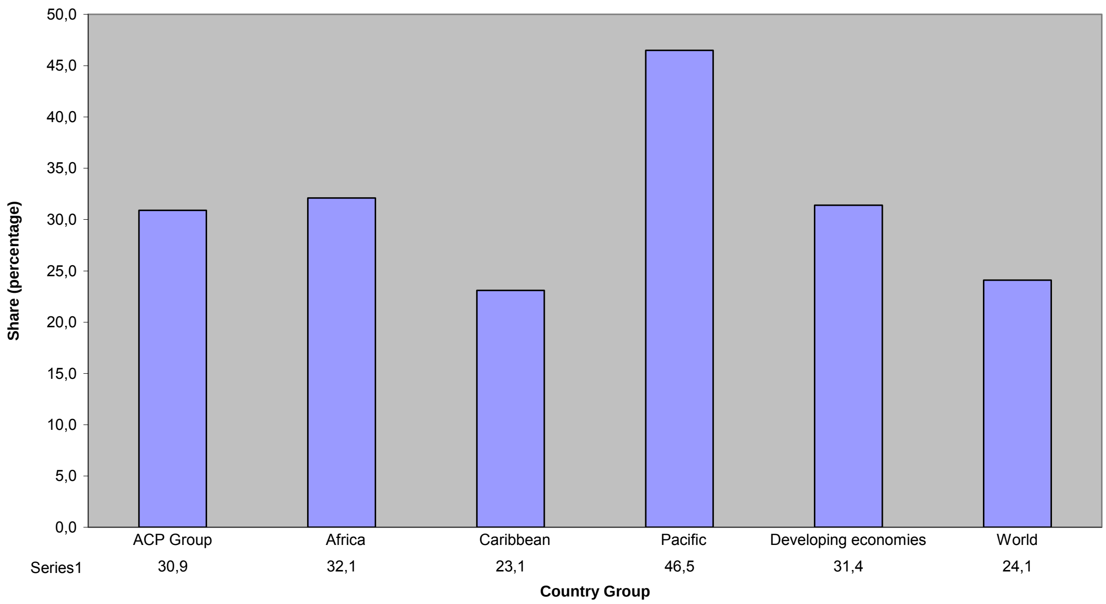
	1975	**2000**	**2007**	**2008**	**2009**	**2010**
ACP Exports	40 207,8	146 394,9	385 740,9	473 228,7	351 453,3	445 232,3
ACP GDP	176 414,5	442 510,5	1 022 248,9	1 149 029,1	1 090 807,1	1 210 604,8
Share of Trade	22,8	33,1	37,7	41,2	32,2	36,8

Source: *UNCTAD, calculated from UNCTADstat*
Note*: 2010 data are estimates.*

In terms of merchandize trade, ACP States are, on average, relatively more dependent on international trade than all countries in general. For example, in 2010, the share of total ACP States' merchandise exports to total ACP GDP was about 31 per cent– similar to that of developing countries – as compared to the world ratio of 24 per cent (Figure 2). As regards regional performance, the Pacific is the most dependent upon international trade in terms of goods with a share of 47 per cent, followed by AACPS and CACPS, and all exceeding the world average. This high dependence upon international trade has its opportunities and risks, directly linked with the health of the global economy and the international trading system.

[6] World Bank, **World Development Indicators**.

Figure 2: Share of Goods Exports in GDP of ACP and Other Groups, 2010



Source: *UNCTAD, UNCTADstat*

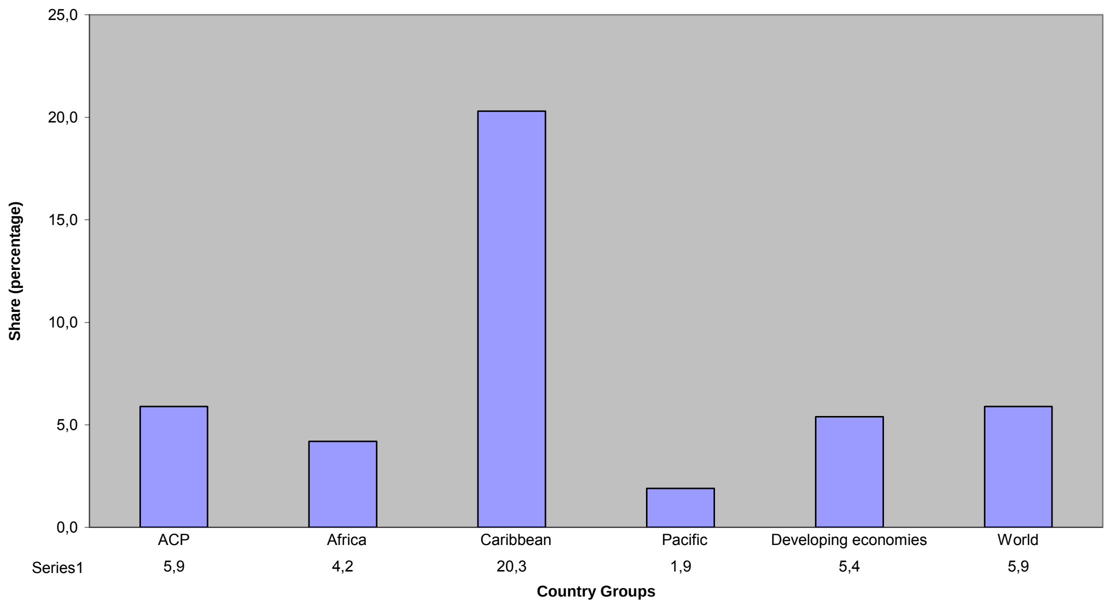
The dependence upon international trade is even more important for several ACP States. For instance, the ratio of merchandise trade (exports plus imports) to GDP in 2010 exceeded 100 per cent in Angola, Senegal, Lesotho, Equatorial Guinea, Mauritian, Ghana, Swaziland and Guyana as well as Papua New Guinea (Table 10). The ratio ranged between 71 to 83 per cent in several CACPS and PACPS.

Table 10. Merchandize Trade to GDP Ratios for selected ACP States, 2010 (in percentage)	
Africa	
Angola	159.3
Senegal	148.5
Lesotho	152.5
Equatorial Guinea	114.7
Mauritania	112.3
Ghana	103.3
Swaziland	100.6
Caribbean	
Guyana	101.9
Suriname	82.5
Saint Lucia	76.7
Trinidad & Tobago	75.2
St Vincent & the Grenadines	75.1
Belize	71.6
Pacific	
Papua New Guinea	99.5
Solomon Islands	80.8
Kiribati	74.4
Fiji	73.1
Samoa	65.9

Source: *UNCTAD, Calculated from UNCTADstat*

In terms of services exports' contribution to GDP, ACP States' dependence is generally similar to that of other developing countries and of the world. It was about 6 per cent in 2010 (Figure 3). Among the ACP regions, CACP are significantly more dependent on services exports with a share of over 20 per cent, while for PACPS the share is below 2 per cent.

Figure 3: Share of Services Exports in GDP of ACP and Other Groups, 2010



Source: *UNCTAD, UNCTADstat.*

In some ACP States, dependence upon services trade (exports plus imports) in national economic activity is visibly much higher than in the case of trade in goods (Table 11). This ratio in 2010, for example, exceeded 100 per cent in Liberia and Seychelles; 80 per cent in Antigua and Barbuda; and ranged above 50 per cent in several CACPS, and between 28-36 per cent in two PACPS.

Table 11: Services Trade (imports plus exports) to GDP Ratios in Percentages in 2010 for Selected ACP States

Africa	
Liberia	166.1
Seychelles	105.1
Cape Verde	57.3
Mauritius	49.1
Congo	33.8
Caribbean	
Antigua and Barbuda	80.8
Barbados	61.8
St. Kitts and Nevis	58.2
St. Lucia	57.3
Bahamas	53.1
Pacific	
Papua New Guinea	28.3
Solomon Islands	35.9

Source. *UNCTAD, Calculated from UNCTADstat*

Despite the strong dependence on international trade for stimulating economic growth and wealth creation, ACP States together account for a tiny proportion of global trade in goods and services. This proportion which averaged 4.5 per cent in 1975, contracted gradually to range between 2.2 and 2.4 per cent since 2005 (Table 12). ACP States' value of exports of goods and services has expanded considerably since 1975 and, moreover, has recovered strongly in 2010 following the economic slump of 2008-2009. Such expansion of trade flows, however, has not contributed to increased integration of ACP States into the international trading system. Other countries and economic groupings have expanded their participation in international trade more rapidly and in a more robust manner, with the result that the relative share of ACP States' share of global trade flows has contracted and remained at a substantially low level. To substantially increase ACP States' participation in global trade and to capture a larger share would require an enhancement of their productive capacities and structural transformation. Enhancing the integration of ACP States into the international trading system will remain a formidable challenge in the foreseeable future.

Table 12: ACP Exports of Merchandise and Services, 1975-2010
(Value in current US$ in millions and share in percentage)

	1975	2005	2008	2009	2010
World	887 746,8	13 058 598,0	20 048 572,8	15 951 336,7	18 975 046,2
Developing economies	225 874,4	4 423 984,1	7 323 275,7	5 886 865,0	7 505 288,9
Share of world	25,4	33,9	36,5	36,9	39,6
ACP Group	40 207,8	286 574,7	473 228,7	351 453,3	445 232,3
Share of world	4,5	2,2	2,4	2,2	2,3

Source: *UNCTAD, UNCTADstat*

(b) Trade in Goods

The challenge of beneficial integration into international trade is made even more difficult when taking a longer historical perspective. In terms of merchandise trade, the share of ACP States in global exports which averaged about 4.5 per cent in 1975, contracted by about one half to 2.5 per cent in 2010 (see Table 13). This decline came about notwithstanding an expansion in the value of ACP States merchandise exports from US$40.2 billion to US$374 billion. This would imply that exports of the rest of the world grew more dynamically than those of ACP States. ACP States' not only remain at the margins of the international trading system but also that their integration over the years has declined, rather then increased, in comparison to the rest of the world.

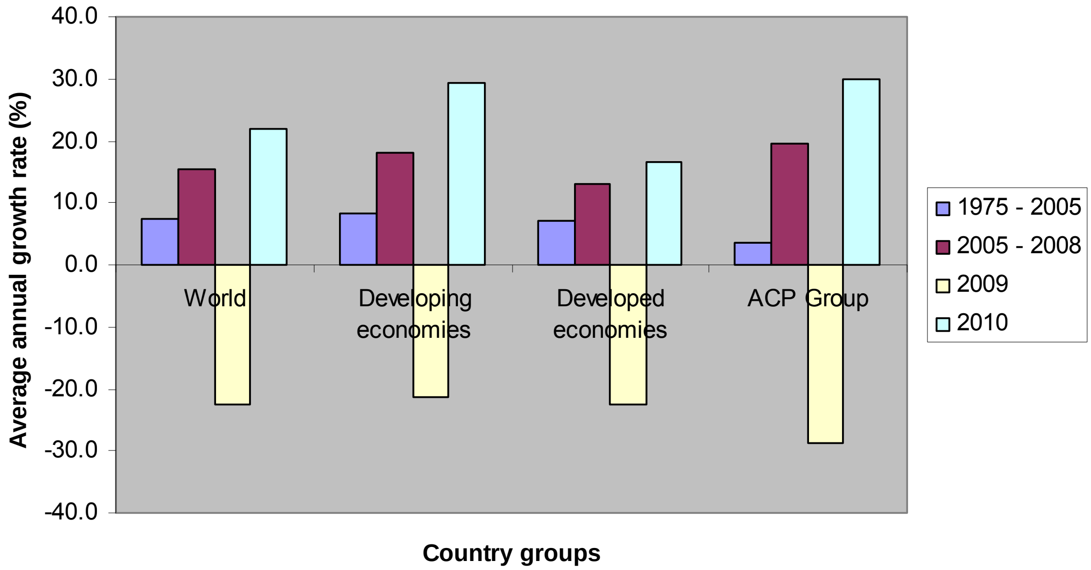
Table 13: ACP States Merchandise Exports, 1975-2010
(Value in current US$ in millions and share in percentage)

	1975	2005	2008	2009	2010
World	887 746,8	10 494 301,7	16 120 138,2	12 483 703,5	15 229 608,9
Developing economies	225 874,4	3 796 023,0	6 288 079,3	4 949 998,7	6 395 625,4
Share of world	25,4	36,2	39,0	39,7	42,0
ACP Group	40 207,8	235 300,2	405 049,4	288 047,0	374 014,4
Share of world	4,5	2,2	2,5	2,3	2,5

Source: *UNCTAD, UNCTADstat*

Despite low their low share in global trade, ACP States' exports have expanded. The years before the global crisis were characterized by quite high international trade growth. ACP States' exports of goods, consistent with that of developing countries and the world as a whole, expanded at an average annual rate of about 3.6 per cent during the period 1975-2005; this annual growth rate peaked at almost 20 per cent in the period 2005-2008 (Figure 4). This explains the rise in their share of global exports of goods and services in that year. Such high growth rates were experienced by all ACP regions. The global crisis ended the sustained export growth of the previous years. ACP States' total exports of goods plunged by almost 29 per cent, as demand from their main import markets including emerging economies collapsed. The contraction in export performance was experienced by all ACP regions. International trade rebounded quickly in 2010 with developing countries, especially emerging economies taking the lead. ACP States' trade performance also rebounded sharply, with merchandise exports growing by almost 30 per cent. The challenge for ACP States is to maintain this dynamic export growth and ensure that the benefits from increased trade are sustainable and inclusively distributed among the growing population.

Figure 4: Average annual growth rates of goods exports of ACP and other groups, 1975-2010



***Source**: UNCTAD, UNCTADstat.*

ACP States' trade performance is dominated by a few countries, mainly the exporters of oil and minerals. Hence, the aggregate ACP trade performance is reflective of the performance of these few countries rather than of the entire group. For example in 2010, the three major AACPS producers and exporters of oil and minerals namely Angola, Nigeria and South Africa accounted for over 58 per cent of ACP States' total merchandise exports (Table 14). When the share of Papua New Guinea and Trinidad and Tobago, the major oil and mineral exporters in their respective regions are included, the share of the five countries in total ACP merchandise exports rises to over 62 per cent in 2010, accounting for the predominant share of ACP States' exports. The dominant position of the five countries is accounted for primarily by oil and mineral exports.

Table 14. Top Five ACP Merchandise Exporters, 2010		
Exports in nominal US$ in millions and share in percentages		
	Exports	**Share of ACP (%)**
Angola	46'437.1	12.4
Nigeria	86'567.9	23.1
Papua New Guinea	6'179.0	1.7
South Africa	85'830.2	22.9
Trinidad and Tobago	10'200.0	2.7
Total of the Five	235'214.2	62.9
ACP Total	374'014.4	100.0

***Source**: UNCTAD, UNCTADstat*

(c) Trade in Services

In terms of trade in services, global exports increased from US$389 billion in 1980 to about US$3.7 trillion in 2010, with a minor decline in 2009 (Table 15). Between these year, ACP States' exports of services increased strongly in value terms from US$11.7 billion to US$71.2 billion, with a contraction, in 2009. In fact between 1980 and 2008, ACP States services grew steadily at an annual compound rate of 6.3 per cent. In 2009 with the global economic crisis, ACP States services exports contracted by about 3.6 per cent (a much smaller slump compared to goods exports), and then recovered with a growth of about 6 per cent in 2010. So ACP States services trade is relatively more resilient to global economic slowdowns than merchandise trade, and can also recover more rapidly.

Table 15: Exports of Services of ACP and Other Groups, 1980-2010
(Value in current US$ in millions and share in percentage)

	1980	**2000**	**2005**	**2008**	**2009**	**2010**
World	389'030.4	1'529'336.7	2'564'296.3	3'928'434.6	3'467'633.2	3'745'437.3
Developing economies	71'215.3	348'401.1	627'961.1	1'035'196.4	936'866.3	1'109'663.5
Share of world	18.3	22.8	24.5	26.4	27.0	29.6
ACP Group	11'647.7	31'048.6	51'274.5	68'179.3	63'406.3	71'217.9
Share of world	3.0	2.0	2.0	1.7	1.8	1.9

Source: *UNCTAD, UNCTADstat*

In proportional terms however, ACP States accounted for only 3 per cent share of global services exports in 1975. Of greater concern, the share has steadily declined to 1.9 per cent in 2010, the main reason being other services providers' exports have grown more rapidly than ACP States. This can be seen for example from the fact that developing countries in general increased their share of global services exports from about 18 per cent in 1980 to almost 30 per cent in 2010. As with merchandise trade, ACP States continued to record trade deficits in services trade. Tourism earnings, remittances and other services income are not enough to offset the structural trade imbalance fully.

At country level, most ACP countries are small players, with the exception of South Africa, which alone accounted for almost 20 per cent of the group's total services exports in 2010 (Table 16). The second top services exporter is Cuba, followed by the Dominican Republic. The three exporters together account for 38 per cent of total ACP States services exports. These exporters are followed by a group of ACP States whose exports ranged between US$1-3 billion namely Kenya, Jamaica, Bahamas, Mauritius, Nigeria, Ghana, Ethiopia, United Republic of Tanzania, Barbados, Cameroon, Senegal, Côte d'Ivoire and Uganda. The 16 exporters together provide almost 77 per cent of total ACP States services exports. The rest of the ACP States' services export ranges below US$1 billion.

Table 16: Top ACP States Services Exporters
(Values in current US$ millions in 2010 and share in percentage)

	Value	Share
South Africa	14'003.5	19.7
Cuba	8'231.0	11.6
Dominican Republic	5'091.0	7.1
Kenya	3'401.0	4.8
Jamaica	2'764.0	3.9
Mauritius	2'689.0	3.8
Bahamas	2'467.0	3.5
Nigeria	2'416.0	3.4
UR Tanzania	2'354.0	3.3
Ethiopia	2'353.0	3.3
Ghana	2'074.0	2.9

Cameroon	1'615.0	2.3
Barbados	1'506.0	2.1
Uganda	1'310.1	1.8
Côte d'Ivoire	1'150.0	1.6
Senegal	1'111.0	1.6
ACP Group	71'217.9	100.0

***Source**: UNCTAD, UNCTADStat*

Tourism is a major contributor to economic growth, employment and development in ACP States, as noted previously in the case of PACPS. ACP States witnessed declining numbers of visitors from crisis-struck countries, such as Japan and the Republic of Korea for Pacific ACP States. But tourism has picked up again in 2010, showing its resilience to economic shocks. The tourism sector has become a key export and employment-creating sector for many developing countries including ACP States. In the United Republic of Tanzania, for example, gross tourism receipts has risen to become the country's top export earner (well above coffee and cotton), accounting for over 35 percent of total goods and services exports. Similar developments have been observed in Benin, Madagascar and Rwanda, where tourism now surpasses traditional commodities such as palm oil, vanilla, and tin ore, respectively. With strong backward and forward economic linkages, tourism can catalyse a multiplier effect that generates broad-based economic benefits at the national level, as well as employment opportunities and poverty reduction at the local level, including increased income, foreign exchange earnings, economic diversification and employment. Ecotourism, or tourism in natural surroundings, is an attractive approach for many ACP States to foster sectoral development based on small-scale community-led tourism operations.

Enhancing the gains from tourism would require: forging national tourism strategies and policies, with dedicated institutions and tourism linkages programmes; examining how trade and immigration policy could be tuned to reduce barriers to tourism trade; designing trade policies to strengthen linkages and reduce leakage; reducing trade barriers through multilateral trade negotiations; strengthening regional trade and cooperation; building human capacities in the sector; and enhancing social responsibility and fostering transformation into a green economy to ensure long-term sustainability. Building forward and backward linkages between tourism and other sectors requires ensuring effective national strategies comprising policy, regulatory and institutional frameworks that are in place, with sufficient incentives to stimulate the development of supply capacity in national markets. It is also important to address anti-competitive business practices that constrain the development of the tourism sector by increasing the costs of doing business in the country and compromising the quality of local goods and services. Intra-regional South-South tourism represents an important channel for further growth that ACP States can examine and develop.

A particularly importance source of export revenue for ACP States are remittances from migrants abroad (as discussed previously in the case of PACPS). The value of remittances received by ACP States between 1990 and 2010 expanded from US$ 2.7 billion to US$31.1 billion (Table 17). Remittance receipts of the group grew at an annual average rate of over 12 per cent between 1990 and 2008 to reach US$ 31.1 billion. Such receipts experienced a contraction in 2009, but to an extent substantially less than that experienced by international trade in goods, owing to the global economic crisis. Remittances recovered by 2010 with a positive growth of 2.2 per cent.

In 2010, the major beneficiaries of remittances among ACP States, by far, were Nigeria (with a share of 32 per cent), followed by the Dominican Republic, Sudan, Jamaica and Kenya – together these countries accounted for 65 per cent of total remittances received by ACP States in the year. It is important to note nonetheless that the share of remittances in GDP has grown steadily from less then 1 per cent in 1990 to 2.9 and 2.6 per cent respectively in 2009 and 2010. Remittances thus represent a more resilient source of revenue for ACP States generally. Remittances also comprise a more important source of external finance for ACP States as compared to developing countries generally (whose share in GDP has remained below 2 per cent) and the world as a whole (whose share averages below 1 per cent). The share of remittances in several individual ACP States is quite high, exceeding 25 per cent in the case Haiti, Lesotho, Samoa and Tonga. An UNCTAD study on remittances and poverty indicated that in general countries with remittances accounting for a share of GDP that is greater than 5 per cent contributes significantly to poverty reduction.[7]

[7] UNCTAD, 2011, *Impact of remittance on poverty in developing countries* (UNCTAD/DITC/TNCD/2010/8).

Table 17 : ACP States Migrants' Remittances, 1990-2010						
	1990	***2000***	***2007***	***2008***	***2009***	***2010***
Value of Receipts in Current US$ Millions						
World	79'552.6	134'552.8	387'641.5	447'856.4	421'743.9	443'626.5
Developing economies	33'392.0	80'169.5	245'237.7	288'375.7	280'881.6	297'305.3
ACP Group	2'682.5	9'171.3	27'645.2	30'891.8	29'753.9	31'045.6
Selected ACP States' Share of Total ACP Remittances Receipts in 2010						
Nigeria						32.1
Dominican Republic						10.9
Sudan						10.2
Jamaica						6.5
Kenya						5.7
Haiti						4.8
Cuba						4.1
Senegal						3.7
South Africa						3.2
Uganda						2.5
Lesotho						1.7
Ethiopia						1.2
Mali						1.2
Mauritius						1.0
Remittances as a Share of GDP						
World	0.4	0.4	0.7	0.8	0.8	0.7
Developing economies	1.0	1.2	1.7	1.8	1.7	1.5
ACP Group	0.8	2.2	2.8	2.8	2.9	2.6
Selected ACP States with Remittances Exceeding 5% of GDP in 2010						
Tonga						26.5
Lesotho						26.3
Samoa						25.4
Haiti						24.1
Jamaica						14.7
Guyana						12.5
Togo						9.4
Senegal						9.1
Grenada						8.8
Cape Verde						8.8
Saint Kitts and Nevis						8.0
Dominican Republic						6.5
Belize						6.4
Dominica						6.3
Gambia						6.3
Liberia						6.1
Saint Vincent & the Grenadines						5.9
Kiribati						5.7
Kenya						5.5

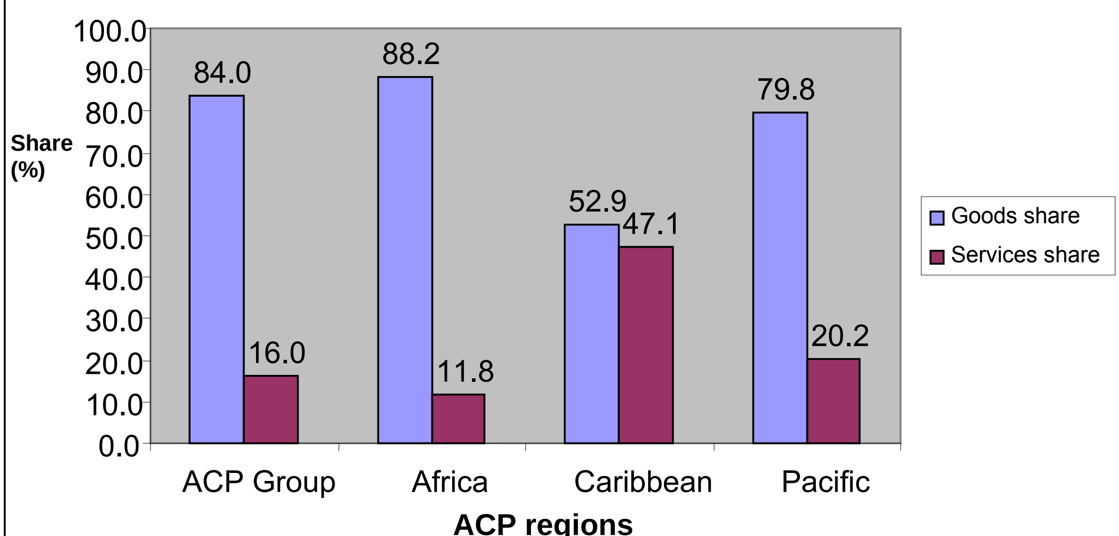
Source: *UNCTAD, UNCTADstat*

(d) Commodity Dependency

ACP States' international trade is dominated by merchandise exports, primarily commodities, except for the Caribbean region where services exports are important. In 2010 84 per cent of total ACP States' exports of goods and services (valued in nominal terms at about US$445.2 billion) was accounted for by merchandise exports (Figure 5) – such high proportion has been maintained since 2005. This clearly confirms that ACP States continue to be heavily dependent on merchandise products, especially commodities, as their main export strength. This is the case of AACPS where merchandise exports represented over 88 per cent of the region's total exports, as well as that of PACPS where this share was about 80 per cent

As regards CACPS, merchandise exports account for about 53 per cent each of the region's aggregate exports while services exports account for 47 per cent – much higher than the other two ACP regions. This denotes the importance of the services exports sector in the Caribbean region, although merchandise exports' share has been expanding since 2000. With the global crisis, the region's merchandise exports contracted strongly while services exports were more resilient and showed a small drop. CACPS' diversification into services sectors shows that this sector can offer a viable avenue for future development for ACP States.

Figure 5: Share of exports of goods and services in total ACP Group exports, 2010



Source: *UNCTAD, calculated from GlobStat.*

The commodity composition of ACP States trade has changed over the years. In 1995, exports of manufactured goods dominated ACP States' trade, accounting for about 29 per cent of total merchandise exports and followed closely by fuels (Table 18). Over 50 per cent of ACP States' total merchandise exports was accounted for by these two sectors in 1995. Fifteen years later, in 2010, exports of fuels became the single most dominant export sector of ACP States with a share of 49 per cent of total ACP merchandise exports. The share of manufactured goods fell to about 17 per cent. For the ACP States as a group, the dependence on commodity exports seems to have increased over the last decade, while industrial development has been slow or negligible. It should be noted, as stated earlier, that fuel exports among ACP States are dominated by a few countries mainly in AACPS. The two sectors together account for over 70 per cent of total merchandise exports of ACP States by 2010.

Table 18 : Composition of ACP States' Merchandise Exports, 1995-2010				
(Value in US$ thousand and share in percentage)				
	1995	**Share of total**	**2010**	**Share of total**
Total all products	93'755'716.7	100.0	379'214'103.1	100.0
All food items (1)	19'809'597.0	21.1	41'368'946.2	10.9
Agricultural raw materials (2)	6'058'756.1	6.5	11'724'556.0	3.1
Ores and metals (3)	9'842'571.2	10.5	53'796'829.6	14.2
Fuels (4)	24'313'462.6	25.9	186'671'155.8	49.2
Manufactured goods (5)	26'964'041.5	28.8	63'624'357.6	16.8
Unallocated (6)	298'815.6	0.3	3'385'924.8	0.9

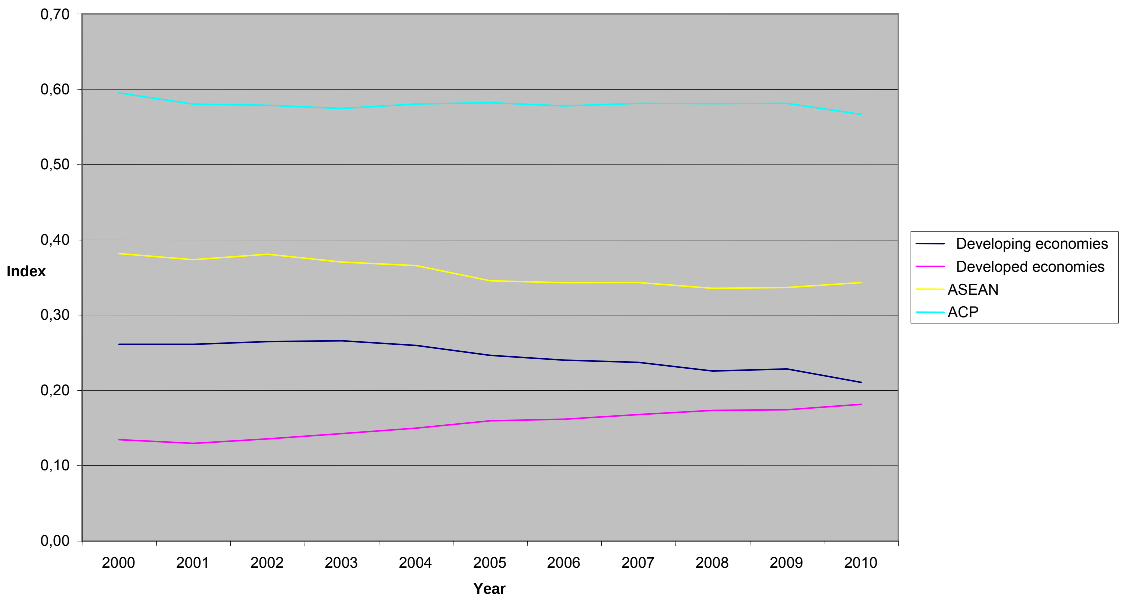
***Source**: UNCTAD, calculated from GlobStat.*
Notes:
(1) SITC 0 + 1 + 22 + 4
(2) SITC 2 less 22, 27 and 28
(3) SITC 27 + 28 + 68
(4) SITC 3
(5) SITC 5 to 8 less 667 and 68
(6) SITC 911 + 931

In comparison, in terms of merchandise imports by ACP States, the single largest category in 2010 was manufactured goods (64 per cent), flowed by fuels, food and other sectors (Table 19). The three main import sectors together represented 94 per cent of ACP States total merchandise imports. The dependency on imports of manufactured products was generally at the same level in 1995 as in 2010, while that of fuels has increased and that of food imports has decreased slightly. The continued high dependency on manufactured products over 15 years is again indicative of the low level of industrial transformation in ACP States that could have provided alternative domestic manufactures.

Table 19: Composition of ACP States Merchandise Imports, 1995-2010				
(Value in US$ thousand and share in percentage)				
	1995	**Share of total**	**2010**	**Share of total**
Total all products	100'056'683.3	100.0	350'788'849.2	100.0
All food items (1)	16'312'303.5	16.3	48'524'129.2	13.8
Agricultural raw materials (2)	2'023'483.2	2.0	3'869'159.7	1.1
Ores and metals (3)	1'726'970.8	1.7	8'389'066.4	2.4
Fuels (4)	8'135'031.3	8.1	55'061'993.9	15.7
Manufactured goods (5)	69'433'082.3	69.4	226'196'956.8	64.5
Unallocated (6)	1'815'842.1	1.8	7'047'694.8	2.0

***Source**: UNCTAD, Calculated from GlobStat.*
(1) SITC 0 + 1 + 22 + 4
(2) SITC 2 less 22, 27 and 28
(3) SITC 27 + 28 + 68
(4) SITC 3
(5) SITC 5 to 8 less 667 and 68
(6) SITC 911 + 931

Figure 6: ACP and Other Group Diversification Index



Source: *UNCTAD, UNCTADstat*

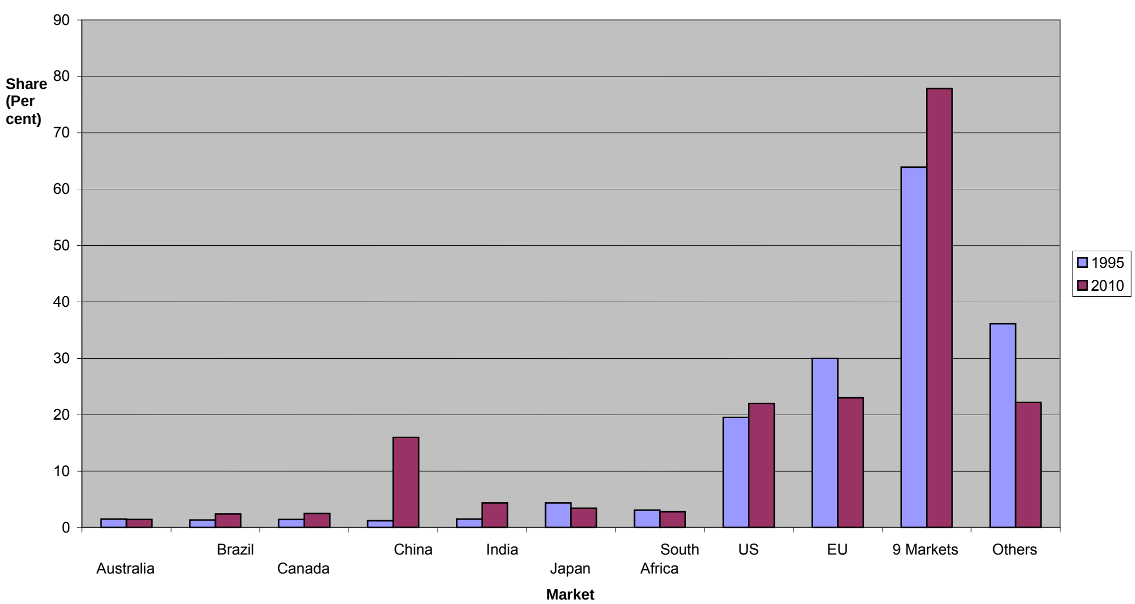
The growing concentration of ACP States' trade portfolio on commodities and hence limited structural transformation towards manufactures and services can also be garnered from an examination of the diversification index. The diversification index is used to assess the extent of countries' or region's diversification of exports or lack of it. The degree of diversification of exports, calculated as a Hirschmann index takes values between 0 and 1. Increases in the index - moving towards 1 - indicate low diversification in exports (and greater concentration in few products). Decreases in the index - movement towards 0 - indicate high diversification (and lesser concentration) in exports. Figure 6 shows the diversification index of merchandize exports of ACP States and other regions for comparison purposes. ACP States have the highest index in 2010 of around 0.57 compared to ASEAN' (0.34), developing countries (0.21) and developed countries (0.18). It confirms the obvious: the low extent of export diversification of ACP States. Another important point is that while the indices of developing countries and those of ASEAN show a declining trend i.e., towards greater diversification, that of ACP States remained flat denoting limit or no structural change. This underlines the urgent need for much greater effort at enhancing export diversification. The main trade challenge facing most ACP States therefore is to diversify and add value to their exports so that they can expand (add quantity) and enhance the quality of their trade and increase income and reduce poverty. Trade diversification contributes to stabilizing export earnings, expanding export revenue and upgrading value added as well as creating employment and building resilience to global economic shocks.

However, measures to encourage export diversification need to be viewed in a broader context. Given the crucial role of the subsistence economy in sustaining livelihoods in the majority of ACP States, Government measures to promote the cash economy have to be pursued in tandem with efforts to strengthen the subsistence sector especially agriculture and food production. A greater role for the private sector, including the provision of support services such as marketing to facilitate this, would be helpful in this regard. The development of niche markets in particular could be aggressively promoted, such as in tourism, ICT-related services, labor services, manufactured goods, or even agriculture, fisheries and forestry. Tourism is the ultimate niche market for many ACP States as they have some unique and attractive characteristics.

(e) Major Trading Partners

In terms of markets, between 1995 and 2010, the pattern of export destinations of ACP States has changed to some extent. In 1995 (Figure 7), the EU, then with fewer members than in 2010, accounted for 30 per cent of total ACP States' merchandise exports, followed by the United States (about 20 per cent). By 2010, the EU remained the dominant export destination for ACP States although it has declined in importance, accounting for 23 per cent of total ACP States' merchandise exports, followed by the United States with 22 per cent. China as an export destination for ACP States increased strongly with its share, rising from a negligible 1 per cent in 1995 to about 16 per cent by 2010. China has become the dominant market for exports of ores and fuels by ACP States. There has been some limited diversification of export destinations.

Figure 7: ACP States' Major Merchandise Export Markets 1995-2010



***Source**: UNCTAD, UNCTADstat.*

In each ACP region, some regional trading partners are important export markets. The EU remains the most important market for exports of African countries, although its importance has declined to about 24 per cent in 2009, followed by the US with 20 per cent. China is becoming a major export destination for some African countries such as South Africa, accounting for 16 per cent of AACPS' exports, followed by India with 5 per cent. The EU and US together account for over 44 per cent of AACPS' total exports.

For the Caribbean key export destinations include the United States and Canada, in addition to the EU. The US accounted for over 42 per cent of CACPS' exports in 2009, followed by the EU with 18 per cent and Canada with 8 per cent. The US and EU absorb about 60 per cent of CACPS' exports. The majority of CACPS export the bulk of their goods to USA. Among them are the Bahamas, Belize, Dominican Republic, Haiti, Jamaica, Saint Kitts and Nevis and Trinidad and Tobago. This is followed by EU as the main export market for Bahamas, Cuba, Dominican Republic, Guyana, Jamaica and Surinam. In the following countries, exports to developing countries make up the highest share followed by the US and EU: Antigua and Barbuda, Barbados, Saint Lucia, and Saint Vincent and the Grenadines.

For the Pacific, major export markets are Australia, Japan and the EU. Australia accounted for over 37 per cent of PACPS' exports in 2009, followed by the EU with 16 per cent, Japan with 10 per cent and China with 9 per cent. ASEAN and India are also becoming an important destination for Pacific ACP States' exports. PACPS exported over 53 per cent of their total exports to Australia and the EU. A sharp fall in imports in Australia and New Zealand in 2009 had a significant, albeit differentiated, impact upon many Pacific island countries.

High value exports (over US$200 million) to the EU market in 1995 were dominated by petroleum oils largely led by Angola, Cameroon, Congo and Nigeria; cocoa beans by Cộte d'Ivoire; coffee by Cộte d'Ivoire, Kenya, Uganda; fish by Cộte d'Ivoire, diamonds by Congo, Liberia, Democratic Republic of Congo; aluminum by Ghana, Guinea and Jamaica; iron ores by Mauritania; sugar cane or beat sugar by Mauritius; and coal, ferro alloys and gold by South Africa. Caribbean States dominated exports of bananas on an individual basis in comparison to other ACP States but the values did not exceed the US$200 million mark. Caribbean States that exported between US$50 - US$100 million were St Lucia, Dominican Republic and Jamaica. Cộte d'Ivoire and Cameroon exports of bananas exceeded US$100 million for bananas, dominating ACP States exports of this product.

In 2009, the pattern of export products of ACP States to the EU has not changed. Angola's petroleum exports increased by ten times while those of Nigeria tripled hence they still remain the two key petroleum exporters among ACP States to the EU. There has been some export product diversification in among ACP States, including in regard to manufacture goods. In terms of export values of US$200 million, these included cut flowers and tea by Kenya; tourism via cruise ships visits by Liberia and Marshall Islands; palm oil by Papua New Guinea; petroleum gas and acyclic alcohol by Trinidad and Tobago; clothing by Mauritius; and tobacco by Malawi. There are also new exporters but in the traditional exports.

III. ACP STATES' INTRA-TRADE AND ECONOMIC INTEGRATION

ACP States confront different challenges in enhancing the contribution their participation in international trade can make to economic growth and development. A number of current and future developments in international trade and the trading system could affect the extent to which future markets for exports (and imports) and ACP States evolve. These include the ongoing efforts to conclude the WTO Doha Development Round of multilateral trade negotiations; conclusion of interim economic partnership agreements and their implementation; strengthening of intra-ACP regional economic cooperation and integration processes; and strengthening of trade and investment links with emerging economies. Such potentially market-opening factors could be supported by national and regional economic enhancement strategies, which would create the economic (productive and trading) bases from which ACP States could reinforce their participation in trade and realize development benefits such as job creation, increased incomes and access to basic services.

As lessons from the global crisis have demonstrated, the priority focus of ACP States, countries needs to be the creation of more resilient national and regional productive and economic bases from which to engage in international trade on a sustainable basis. For most ACP States, market access (such as duty-free quota-free treatment for LDCs' exports by the EU under its EBA scheme) is already available. Such market access would only be improved by various market access negotiations. A caveat here is that further trade liberalization would entail further erosion of trade preferences available to ACP States. This is an inevitable trend, especially with multiple trade liberalization initiatives, and hence the need to focus upon building up competitive productive capabilities in the medium to long term, as part of the overall goal of building economic resilience. Hence the following sections offer some suggestions on strategies to build economic resilience in ACP States through strengthening of intra-ACP trade and economic integration.

The potential and importance of intra-ACP trade has yet to be fully exploited. To some extent, this is not surprising as there is no ACP-wide trade agreement or economic integration scheme that would have provided an enabling framework for liberalizing and promoting trade and economic integration among ACP States. Nonetheless, the different ACP regions have inaugurated regional and sub-regional trade agreements and integration groupings that at least establish the framework for intra-regional ACP trade, economic cooperation and integration. Still, however, trade among the ACP regions and their regional integration groupings constitutes a relatively minor share of their overall trade and it would require a substantial effort to build up such trade to enable it to constitute a major force for economic growth, structural transformation and development.

(a) Intra-ACP Trade and Economic Integration

Intra-ACP merchandise trade in value terms increased strongly to about US$40.5 billion in 2009 from about US$17.8 billion in 1995 (Table 20). The share intra-ACP merchandise exports occupies in total ACP merchandise exports to the world, however, has significantly declined over this 15-year period from 20 to 15 per cent. This denotes that intra-ACP trade is becoming relatively less important to ACP States. In 1995, the bulk of intra-ACP merchandise exports was accounted for by manufactured goods with a share of 65 per cent and the rest by primary commodities. By 2009, the share of primary commodities had increased to 63 per cent and that of manufactures declined strongly to 37 per cent. Intra-ACP trade is thus increasingly dominated by trade in primary commodities. The largest traded sector in 2009 is fuels, followed by manufactured goods and food and live animals.

Table 20. Intra-ACP Merchandise Exports: 1995, 2009				
Value in US$ millions				
	1995	**Share (%)**	**2009**	**Share (%)**
Total all products	17'806'398.3	100.0	40'588'154.4	100.0
Primary commodities*	6'192'688.6	34.8	25'438'917.6	62.7
Manufactured goods**	11'529'428.1	64.7	15'001'134.8	37.0
Food and live animals	2'016'010.4	11.3	5'114'564.4	12.6
Beverages and tobacco	408'553.1	2.3	1'222'041.9	3.0
Crude materials, inedible, except fuels	1'323'762.7	7.4	2'336'792.7	5.8
Mineral fuels, lubricants and related materials	1'968'693.1	11.1	13'836'589.9	34.1
Animal and vegetable oils, fats and waxes	145'070.7	0.8	367'396.4	0.9
Chemicals and related products, n.e.s.	1'492'667.0	8.4	3'262'968.1	8.0
Manufactured goods	1'979'024.2	11.1	5'834'623.9	14.4
Machinery and transport equipment	1'622'165.3	9.1	4'406'699.8	10.9
Miscellaneous manufactured articles	6'684'659.7	37.5	2'067'874.9	5.1
Commodities and transactions, n.e.s.	102'281.0	0.6	2'018'004.9	5.0
Total to world	88'359'048.1		272'839'401.5	
Share of ACP intra-trade (%)	20.2		14.9	

***Source**: UNCTAD, UNCTADstat*
**SITC 0 + 1 + 2 + 3 + 4 + 68 + 667+ 971*
***SITC 5 to 8 less 667 and 68*

The challenges faced by ACP States in enhancing their mutual trade will include, in particular, strengthening production and trade in manufactured products, including niche products. The potential is there, as most ACP regional groupings tend to trade more in small manufactures, while the bulk of commodities export flow to external markets.

(b) Intra-African Trade and Economic Integration

(1) Intra-African Trade

Intra-African trade accounted for about 10 per cent of Africa's total trade in 2009 as compared to 22 per cent for Latin America and 50 per cent for Asia (Table 21). Intra-AACPS trade is around 14 per cent of total AACPS trade. So far intra-African trade liberalization since the1980s (when the Lagos Plan of Action was adopted), has not provided a significant boost to intra-African trade. The modest levels of intra-African trade and trade with regional economic communities are attributable to several factors. Apart from the inherent economic constraints arising from the limited size of markets and low income, the most important of these factors include Africa's unfinished business in trade policy (such as reduction and elimination of tariffs, addressing non-tariff barriers) and weak trade-related complimentary measures to address lacunae in infrastructure, trade financing, investment, human and institutional capacities, and agriculture, manufacturing and services sectors.

There is, however, a caveat to be noted: namely that in Africa, there is extensive informal (unrecorded) trade, undertaken mainly by individuals. There is also intermediate trade taking place in global supply chains, which is increasing. Intra-African trade could thus be considerably more important than the aggregate official figures suggest.

Even according to the official figures, Africa is the second most important export market for most African countries behind Europe.[8] Africa is the main export market for 7 African countries, and for 25 African countries it is the second main export market. Also 5 African countries exports to African countries are larger than half of their total exports and 14 countries export more than a quarter of their exports to Africa.
In terms of intra-trade of regional economic communities (Table 21), with the notable exception of Southern African Development Community (SADC) and East African Community (EAC), intra-group trade is minimal, notwithstanding several decades of efforts at liberalizing trade and strengthening economic integration. The smallest intensity of trade among African groupings is recorded by Economic Community of Central African states (ECCAS) with a share of intra-group trade of below 1 per cent, followed by the Arab Maghreb Union. SADC showed the highest level of intra-group trade (exports plus imports) with a share of over one tenth, followed by EAC, the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD) and the Community of Sahel-Saharan States (CEN-SAD). Intra-group exports in EAC is relatively higher (18 per cent), however the value of such export is lower than in other RECs. The largest regional market is the CEN-SAD with a value of trade of about $26 billion (owing to the large number of member States), followed by the Common Market for Eastern and Southern Africa (COMESA). The relatively low levels of intra-subregional trade underline the fundamental weaknesses of Africa's regional integration and the need for the continent to take serious steps to expedite and deepen trade and economic integration.

Table 21: Africa and Regional Economic Communities' Intra- and Total Merchandize Trade (current US Dollars in millions) and as Share of Total Trade (percentage), 2009

		Intra-group	**Total trade of group**	**Intra-trade as a share of total group trade (%)**
Developing: Africa	Imports	39'964	429'196	9.3
	Exports	37'318	349'438	10.7
	Total	**77'282**	**778'634**	**9.9**
Developing: America	Imports	168'578	766'184	22.0
	Exports	152'323	715'034	21.3
	Total	**320'901**	**1'481'217**	**21.7**
Developing: Asia	Imports	1'870'179	3'634'236	51.5
	Exports	1'811'997	3'804'439	47.6
	Total	**3'682'176**	**7'438'675**	**49.5**
AACPS	Imports	36'506	268'699	13.6
	Exports	35'890	259'201	13.8
	Total	72'396	527'890	13.7
CEN-SAD	Imports	13'503	254'376	5.3
	Exports	12'307	174'370	7.1
	Total	**25'810**	**428'745**	**6.0**
COMESA	Imports	5'479	131'864	4.2
	Exports	4'793	84'568	5.7
	Total	**10'273**	**216'431**	**4.7**
ECCAS	Imports	418	35'307	1.2
	Exports	378	64'266	0.6
	Total	**797**	**99'573**	**0.8**
ECOWAS	Imports	7'635	98'745	7.7
	Exports	6'950	72'084	9.6
	Total	**14'585**	**170'829**	**8.5**
IGAD	Imports	1'576	33'197	4.7
	Exports	1'435	15'105	9.5
	Total	**3'011**	**48'302**	**6.2**
SADC	Imports	11'871	112'016	10.6

[8] UNCTAD/ALDC/AFRICA/2009).

	Exports	11'196	101'827	11.0
	Total	**23'066**	**213'843**	**10.8**
UMA	Imports	3'949	112'373	3.5
	Exports	3'590	106'948	3.4
	Total	**7'540**	**219'321**	**3.4**
EAC	Imports	1'723	22'490	7.6
	Exports	1'572	8'378	18.8
	Total	**3'295**	**30'868**	**10.7**

Source*: UNCTAD Globstat database.*

(2) Intra-African Economic Integration[9]

Enhancing the resilience of Africa countries, including AACPS, will require the building up and diversification of productive capacities and stimulating a process of sustained structural transformation. In the African context, a key strategy remains the consolidation and strengthening of African regional integration towards the formation of dynamic regional economies that create important and investment opportunities, supported by modern and improved infrastructure and enhanced and diversified productive capabilities.

African market integration processes have seen important advances with the formation of regional economic communities (RECs), and the launching of the African Economic Community process leading to the formation of the African Union. The Abuja Treaty for the formation of the African Economic Community provides for six stages. Stage 1 (to be completed by 1999) is the formation of regional economic communities. This has been achieved: eight RECs have been created, which have been accepted by African countries as constituting the pillars for the formation of the African Economic Community. With respect to stage 2 (to be completed by 2007), namely intra-REC enhancement and inter-REC harmonization, the process is ongoing: the eight RECs have created, launched and continue to implement various economic integration and cooperation programmes, including in market integration. With respect to stage 3 (to be achieved by 2017), i.e. the formation of free trade areas and customs unions in each REC, ECOWAS, COMESA, EAC and SADC have succeeded in establishing such unions and have started implementation of customs union programmes. However, progress in this regard has been slow or partial in UMA and ECCAS. . In two RECs (CEN-SAD and IGAD), market integration programmes have yet to be adopted and implemented. Progress towards stage 4 for the formation of a continental customs union and stage 5 for the formation of a continental common (to be achieved by 2019 and 2023 respectively) has yet to start.

In general, progress towards the strengthening of African economic integration has been slow and partial. In some cases, implementation of some decisions have been slow; in others the non-ratification or non-application of some legal instruments has inhibited progress; economic disparities among members have also affected progress as countries endeavour to ensure that they all benefit in a balance manner from integration, especially *vis-à-vis* LDCs and other small, vulnerable and landlocked countries; and the matter of multiple membership has complicated integration. It is true that this sluggish pace of African integration could have been expected. Market integration implies ceding of national commercial sovereignty, especially the right to impose tariffs for purposes of fiscal revenue and industrial development, in favour of the regional community. This has been a sensitive issue in most economic integration processes around the world and especially in the African continent.

However, African countries and their leaders have underlined their commitment to consolidating fragmented African markets into consolidated regional and continental economic, trading and investment spaces so as to buttress economic growth and development in Africa based on internal economic dynamism. Intra-African integration is also critical to building up the resilience of the continent to external economic shocks. The slow, partial or non-implementation of market integration and of the consolidation, coordination, harmonization or merging of RECs is a concern that African countries have recognized and sought to address. At the highest level of Heads of State and Government, the Sirte Declaration adopted by OAU Assembly on 9 September 1999 on the formation of the African Union also decided to “Accelerate the process of implementing the Treaty Establishing the African Economic Community, in particular: (a) Shorten the implementation periods of the Abuja Treaty, (b) Ensure the speedy establishment of all the

[9] This section is adapted from an UNCTAD/African Union forthcoming report on **Trade liberalization, investment and economic integration in African regional economic communities towards the African common market.**

institutions provided for in the Abuja Treaty, such as the African Central Bank, the African Monetary Union, the African Court of Justice and, in particular, the Pan-African Parliament." Article 7 of the Abuja Treaty provides for the creation of these pan-African institutions.

This decision to fast-track African integration was timely and relevant in terms of dealing with the slow pace of integration that contributed to holding back economic progress in Africa, and in building up the economic resilience of the continental to external economic shocks, as recently experienced during the global food, fuel and financial and economic crises. African countries integration into the global trading system has to seek a balance between reliance on external trading partners (for exports and imports) and reliance on the domestic (regional) market to create the resilience needed to withstand future external shocks. A stronger and integrated African economy will also be in a better position to negotiate and create economic opportunities that can then be exploited such as in the WTO, or EPAs or other trade agreements. Importantly, African Union Ministers of Trade Meeting in November 2010 discussed progress in African regional integration and agreed to seek, as a priority, the fast track establishment of African free trade agreement agreements, in consultation with African regional economic communities, and supported by a developmental integration agenda that would look beyond market integration and focus on other issues such as developing regional markets, infrastructural development and policy coordination aimed at building and strengthening productive capacities.

An important consideration in many economic integration processes and globally, in terms of ensuring balanced development, is the lead role of regional growth poles, such as South Africa, Nigeria, Egypt, Kenya, etc., which have a dominant role in intra-regional trade and investment. These countries could play a more active role in accelerating the operationalization of African economic integration, including by providing support to the weaker economies and fast tracking the liberalization of their commitments.

Measures to enhance regional and continental integration have been examined, discussed and recommended to African countries, especially through the meetings of the Conference of African Ministers In Charge of Integration (COMAI). For example, COMAI requested the African Union Commission to draw up, in consultation with RECs, a timetable for the implementation of the Minimum Integration Programme (MIP) developed by the African Union Commission. With respect to trade, in terms of unfinished business, the Minimum Integration Programme recommends that RECs give priority to implementation on an accelerated basis of the following: (a) removal and elimination of tariff barriers, within the prescribed timeframes, and adoption of revenue loss compensation measures; (b) elimination of NTBs; (c) simplifying the different rules of origins existing for RECs, and harmonizing them towards a single continental set of rules; (d) establishment of partnership agreements among RECs designed to enhance coordination and harmonization of activities and programmes such as between SADC, COMESAS and EAC; IGAD with COMESA and with EAC; and CEN-SAD with UMA and ECOWAS; and (e) those RECs which have not yet done so to adopt a common external tariff leading to the formation of customs unions, and to ensure harmonization of tariff systems with other RECs.

(c) Intra-Caribbean Trade and Economic Integration

(1) Intra-Caribbean Trade

Intra-trade of CACPS accounts for about 9 per cent of the group's total trade (which is value terms is about US$6 million) (Table 22). Thus trade among CACPS remains marginal to their total trade (export plus imports), which is dominated by trade with countries outside the region, as noted previously. Among CACPS, intra-Caribbean Community (CARICOM) trade accounts for about 11 per cent of the groupings' total trade, while intra-Organization of Eastern Caribbean States (OECS) trade accounts for about 7 per cent of the group's total trade. A significant effort thus needs to be made to enhance trade among CACPS, including in intra-CARICOM and intra-OECS trade.

Table 22: Caribbean and Regional Economic Communities' Intra- and Total Merchandize Trade (current US Dollars) and as Share of Total Trade (percentage), 2009

		Intra-group	Total trade of group	Intra-trade as a share of total group trade (%)
Caribbean ACP	Imports	2'809'055	45 053 679	6.2
	Exports	3'233'128	23'515'310	13.7
	Total	**6'042'183**	**68'568'989**	**8.9**
CARICOM	Imports	2'081'673	23'376'710	8.9
	Exports	2'032'430	14'809'891	13.7
	Total	**4'114'103**	**38'186'601**	**10.8**
OECS	Imports	50'550	1'508'075	2
	Exports	73'808	396'104	18.7
	Total	**124,358**	**1'904'179**	**6.5**

***Source**: UNCTAD Globstat database.*

(2) Intra-Caribbean Economic Integration[10]

The formation of an integrated Caribbean economic and political space has long been a historical objective of former colonies of England, France and the Netherlands to unify their economies and peoples in creating opportunities for political and economic emancipation. Efforts at integration have been created, dismantled and re-created over the years such as the West Indies Federation (1958-1962) and the Caribbean Free Trade Association (CARIFTA) in 1965, which was subsequently transformed into Caribbean Community (CARICOM)[11] and its dual goals of forming a single common market and a common community. Thus Caribbean integration efforts constitute a long standing and central strategy of countries of the region in creating a consolidated regional community and dynamic regional economic space to foster common economic growth and development, and integration into the global economy.

Caribbean regional integration is now being promoted through what has been described[12] as a process of 'concentric circles' among countries in the region, as well as a range of trade and economic cooperation agreements with other countries in Latin America and the Caribbean that are contiguous to the Caribbean Sea. At the center of the integration movement is CARICOM and its pursuit since 2006 of the CARICOM Single Market and Economy (CSME) i.e., the establishment of a single economic space by 2015. The single market and economy is expected to overcome the structural limitations faced by Caribbean States such as smallness of economies, enable them to achieve greater competitiveness and lessen dependence on eroding trade preferences, attain capacities to produce a range of goods and services, and promote social development. Coordinated and consolidated regional development would then buttress the integration of Caribbean States into the global economy. Most analysis have concluded that the single market objective has been difficult to realize for various reasons, including the fact that intra-CARICOM trade relations are limited and CARICOM intra-regional trade liberalization efforts have not provided a significant stimulus to enhancing such trade.

The other integration grouping in the region is the Organization of Eastern Caribbean States (OECS), which is a smaller sub-grouping within CARICOM, formed in 1981. OECS member States13 are classified as least developed States in the CARICOM context to denote the special and heightened economic vulnerabilities they face as compared to other CARICOM member States. They thus can benefit from special regional measures to enhance their development. The OECS have realized a more advanced form

[10] For an examination of Caribbean trade integration see, for example, Caribbean Secretariat (2010), *Caribbean Trade and Investment Report: Strategies for Recovery, Renewal and Reform*, or World Bank (2009), *Caribbean: Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation, and Poverty Reduction*.

[11] Its member States are Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago

[12] Junior Lodge (2011), "A Trade Partnership for Sustainable Development" in *The CARIFORUM-EU Economic Partnership Agreement: A Practitioners' Analysis* (Wolters Kluwer Law and Business, The Netherlands).

[13] Its member States are Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

of economic integration, having achieved a free trade area in goods and services, a common currency and Central Bank, and a common judiciary. They are accelerating momentum towards realizing the ambition of forming an economic and political union. The deeper integration aspect of OECS also stems from success in forming common institutions such as the Eastern Caribbean Currency Authority of 1965, that was superseded by the Eastern Caribbean Central Bank in 1983; the Directorate of Civil Aviation of 1957, later replaced by the Eastern Caribbean Civil Aviation Authority; and the Eastern Caribbean Supreme Court of 1967.

A third circle of integration movements in the Caribbean involves CARICOM member States that are not participating fully in the CARICOM CSME for various reasons, namely the Bahamas and Haiti. The Bahamas has not explicitly consented to joining the CSME and Haiti's participation is delayed owing to its special economic and political difficulties. Furthermore, five of the more developed Caribbean States have created a FTA with the Dominican Republic.[14] This FTA sets the basis for the formation of CARIFORUM in 1992, between CARICOM member States and the Dominican Republic, for the purposes of negotiating the Caribbean-EU EPA. A fully fledged EPA was signed in 2008 (the only region among the ACP States to have done so thus far). CARICOM States have also entered into FTAs with Colombia and with Costa Rica, and into a trade agreement with Venezuela in which the latter provides trade preferences to CARICOM States.

A fourth concentric circle of Caribbean cooperation efforts is the Association of Caribbean States (ACS) with the aim, mainly of fostering functional cooperation among member States[15] in such areas as trade and external economic relations, sustainable tourism, transport and natural disasters.

Trade relations between Caribbean States and their traditional trading partners, mainly the EU, United States and Canada have been anchored to the basis of non-reciprocal trade preferences. These included, with the EU, the previous Lomé Conventions and related commodity protocols, especially for sugar, banana and rum. The Lomé based preferences are being replaced with the EU-CARIFORUM EPA, a reciprocal trade agreement.[16] With the United States, the Caribbean Basin Initiative provides duty free access of Caribbean exports to the United States. The CBI became operational on 1st October 2000 for 20 years, with its expiry scheduled for 30 September 2020. For any beneficiary country, the CBI would be superseded if the country concludes a FTA with the United States. Trade relations between Caribbean States and Canada are facilitated by the Caribbean-Canada Trade Agreement known as (CARIBCAN), established in 1986 and operational until 30 December 2011. Under CARIBCAN, Caribbean exports products, with some exceptions, can enter free of duty into the Canadian market. In view of the impending expiry of CARIBCAN, negotiations are underway to create a new and reciprocal trade agreement consistent the WTO rules.

It is notable that the non-reciprocal trade preference-based trade relations between the Caribbean States and their major trading partners are being replaced by reciprocal economic partnership agreements (including reciprocal free trade agreements). Thus, the future trade of Caribbean countries with their major trading partners would need to be based upon more competitive production of goods and services, and exploitation of the region's unique features

(d) Intra-Pacific Trade and Economic Integration

(1) Intra-Pacific Trade

PACPS show the lowest level of intra-trade as compared to African and Caribbean ACP States. Total intra-trade of PACPS represented about 3 per cent of their total trade in 2009 (Table 23), which is roughly similar to the level of intra-trade of Pacific Island Countries members of the Pacific Forum. Trade among MSG members comprises a minimal 1.3 per cent of the group's total trade. As with the other two ACP regions, therefore, trade among PACPS and their regional integration groupings needs to be significantly expanded.

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[14] Junior Lodge (2011).

[15] Antigua and Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela.

[16] For a succinct and insightful diagnosis of the provisions of Caribbean-EU EPA and implications for CARICOM States, see Junior Lodge (2011).

Table 23: Pacific and Regional Economic Communities' Intra- and Total Merchandize Trade (current US Dollars) and as Share of Total Trade (percentage), 2009

		Intra-group	**Total trade of group**	**Intra-trade as a share of total group trade (%)**
Pacific ACP	Imports	164'116	6,736'258	2.4
	Exports	147'947	5'278'667	2.8
	Total	**312'063**	**12'014'925**	**2.6**
MSG	Imports	64'135	5'175'364	1.2
	Exports	63'988	5'074'678	1.3
	Total	**128'123**	**10'250'042**	**1.3**

***Source**: UNCTAD GlobStat database.*

(2) Intra-Pacific Economic Integration

A number of Pacific trade agreements are being developed that can affect the product basket and competitiveness of Pacific States. In 2001 the Pacific Agreement on Closer Economic Relations (PACER) was signed by Pacific Island Countries and Australia and New Zealand, all members of the Pacific Forum. PACER is a framework agreement to deepen trade and investment liberalization in the broader Pacific. It came into force in 2002. In August 2008, a "PACER-plus" agreement was advocated, primarily by Australia, to accelerate the process of trade and investment liberalization.

A PACER-Plus agreement would have potential benefits and costs. It can contribute to closer regional integration and assist in building the sustainable growth objectives of Pacific Islands Forum countries, in conformity with the Pacific Plan. A comprehensive trade pact between the two main engines of growth in the region would assist Pacific Island Countries in the region to share in the benefits of increased trade and economic growth. A PACER-PLUS agreement also offers considerable scope for the development of Pacific Island countries' services industries in areas such as education, transport and tourism. This agreement could allow local companies and exporters access to cheaper inputs for local production or for re-export. The region's aviation industry could benefit from the enhanced trade links and economic activity that would undoubtedly flow from PACER Plus, leading to increased tourism and business travel. Moreover, measures to ease the movement of money and capital between Australia and Pacific Island countries may encourage more investment in the region. In addition, improved access to markets through more uniform commitments and strengthened institutional capabilities in the Pacific Island countries would create local opportunities for local business to engage more in regional trade. The inclusion of a labour mobility program in the PACER-Plus agreement would create opportunities for Australian industry to make substantial resource investments by up-skilling of Pacific island workers, and would lead to a likely increase in remittances to workers' home countries.

A PACER-PLUS agreement would have potential costs that would have to be addressed. A PACER-PLUS agreement could lead to a substantial loss in government revenue in the Pacific Island countries, which are struggling to provide public services, paid for through taxes (including trade taxes and aid). One of the ways Pacific countries collect these taxes is through a tax on imported goods (especially luxury goods). Reduction of trade taxes via PACER-Plus will reduce the export revenue from the collection of taxes. This would lead Governments to consider alternative revenue sources such as introducing a new tax in the form of a value-added tax (VAT) or goods and services tax (GST). Governments that already have these taxes will need to raise them. Taxes on goods and services unfairly penalize the poor. This is because everybody pays the same tax on what they buy, regardless of how much they earn. A poor person buys bread, cooking oil or other basic goods (and pays tax on it), just as much as a rich person. It would also lead to an erosion of the scope to use trade taxes to protect and promote local industries in the face of strong competition from abroad.

In addition, a PACER-PLUS agreement is anticipated to lead to business closures and job losses in Pacific Island Countries. Businesses and industries in the Pacific Island countries face considerable constraints to doing business (distance from markets, cost of inputs, small economies of scale, lack of human resources etc) leading to higher costs. Opening Pacific markets to large well-established corporations in Australia and New Zealand which do not operate within these constraints may not necessarily make Pacific businesses more efficient – it may instead crowd them out, creating unemployment. Pacific countries have little or no social 'safety nets' to retrain these unemployed workers or support them with welfare benefits while they look for other job opportunities, and have even less revenue to fund them. Such de-industrialization possibilities need to be taken into account and adjustment supported provided to enable small industries in Pacific Island Countries to compete. Moreover, this agreement could deprive Pacific governments of policy options they could use to stimulate industry and employment, including by reducing and binding their tariff rates at a low level and thereby removing the ability to promote local producers in the face of foreign competition.

Prior to the PACER, the SPARTECA agreement, which is non-reciprocal and offers duty free and quota free access for goods from Pacific Island Countries, subject to meeting rules of origin requirements, governed preferential trade relations between them and Australia and New Zealand. Once effected, the PACER-plus new reciprocal agreement would replace the non-reciprocal SPATECA agreement. The textiles, clothing and footwear) industry has been a major beneficiary of SPARTECA through the preferential access to Australian and New Zealand markets.

PACPS are also engaged in the negotiations of EPAs with the EU. An EPA has the potential of having both positive and negative effects on the PACPS and the net effects can only be positive if the agreement can strengthen intra-PIC integration which is currently underway through PICTA and the MSG and assists in building productive capacity within PACPS, especially by ensuring that investment flows into the these countries. The challenges EPAs would create for PACPS is, as in the case of PACER-plus, if the reciprocal trade liberalization could lead to undermining domestic industrial capacity and preventing new industries from being developed. The need to grow industries that are in their infancy or to protect industries that are important sources of government revenues could be grounds for exclusion from trade liberalization deals. Only Papua New Guinea and Fiji have signed interim EPAs with the EU. The experience of CACPS in concluding a full EPA with the EU could provide useful lessons for PACPS. In regard to the latter countries and especially LDCs, the Everything But Arms Initiative of the EU remains a fallback option for them (as the case of SPARTECA which allows duty free quota free access for PIC products into Aust and NZ

Two trade agreements among Pacific Island Countries are the Pacific Island Countries Trade Agreement (PICTA), launched in August 2001, and the Melanesian Spearhead Group (MSG), launched in March 2007. PITCA is aimed at promoting trade, industrial, agricultural and technical cooperation among the member Pacific Island Countries. The establishment of a free trade agreement in goods is a key objective. It could be noted that tariff revenue loss from intra-PICTA trade would be minimal given the small volume of trade between the PICTA countries. The liberalization of government procurement markets among member States is also another key goal. PICTA's objectives have been expanded to include trade in services and the cross-border movement of people to facility regional labour mobility including via a scheme for temporary movement of natural persons. 14 members Pacific Islands Countries members of the Forum Pacific Islands signed PICTA and 11 of these countries — Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu — have so far ratified PICTA.

The MSG comprises the Fiji Islands, Papua New Guinea, Solomon Islands, Vanuatu and Front de Liberation Nationale Kanak et Socialiste of New Caledonia. It *inter alia* aims to promote preferential trade among member States including through an MSG Trade Agreement in 1993. This trade agreement began with three commodities being granted free entry (one for each founding member country) namely beef for Vanuatu, canned fish for Solomon Islands and canned beef for Papua New Guinea. Through the years, the number of commodities included in the agreement has grown to over 160. Trade liberalization has created some difficulties for local industries, often leading to appeals for protection against the imports. In recent years such appeals have seen the "tinned-beef war" between the Fiji Islands and Papua New Guinea as well as the "biscuit war" and the "kava war" between the Fiji Islands and Vanuatu. But these have been resolved and can be considered as normal reactions that occur as trade liberalization occurs and industries are affected and need to adjust to the new competitive environment, including with Government support.

PICTA may be perceived to convey limited benefits to member States, with possible trade deflection effects outweighing the trade creation effects; however, when viewed in terms of broader efforts by Pacific Island Countries to foster liberalization on a gradual basis and enhance integration into the regional and global economy, then PICTA is a useful instrument.17 PICTA could serve as a gradual stepping stone approach to allow the Pacific Island Countries to adjust to lower costs, and initiate adjustments (new fiscal systems etc) in preparing for liberalization and competition within wider regional frameworks such as PACER-Plus. Further, by enhancing the size of the domestic market available to very small economies,

[17] Robert Scollay, 2001, Regional trade agreements and developing countries: The case of the Pacific Islands' proposed free trade agreement (UNCTAD/ITCD/TAB/11).

PICTA can build up these economies resilience to externally induced economic shocks. The same assessment applies to the MSG trade agreement. Moreover, in the case of the MSG, preferential trade liberalization covers manufactures and thus can promote industrial development in the member States. In that sense of advancing structural transformation, PICTA and MSG are vehicles that can serve to promote regional industrialization, create jobs and income-earning opportunities for peoples and for businesses especially small and medium scale enterprises. In sum, PACPS internal regional integration initiatives, as in the other ACP regions, serve as key instruments for fostering structural transformation, trade and economic growth and resilience for the small island countries and development of their region as a whole.

IV. SOME POLICY ISSUES AND SUGGESTIONS

A number of interrelated policy issues have emerged from the assessment of the participation of ACP States in international trade which deserves the attention of ACP States. These provide some ideas on the strategic approaches and policy options at national, regional, inter-ACP and international levels that ACP States can consider, individually and collectively, to enhance their participation in international trade and promote more inclusive development by stimulating economic growth, strengthening productive sectors, enhancing employment creation, alleviating poverty and fostering structural transformation. The need to increase the provision of jobs, income earning opportunities and greater social services is necessitated by the high levels and substantial rise in population of ACP States, amount to over 932 million people presently. It is also necessitated by the need to develop more resilient and sustainable bases of production and trade. The challenge of enhancing the participation of ACP States in international trade is formidable in view of the fact that their aggregate share of global trade in goods had declined from about 4.5 per cent in 1975 to about 2.5 per cent in 2010. This indicates that ACP States have been increasingly marginalized in international trade flows.

The policy issues and suggestions highlighted in this section are generally applicable to ACP States as they share a number of common development characteristics that have affected their development prospects such as commodity dependence and concentration on a few markets. At the same time, some ACP States such as LDCs, SIDS and LLDCs face particular challenges. They would need specific policies and targeted international support measures to increase their participation in international trade and realize development gains. In terms of LDCs, for example, effective implementation of national and international measures delineated in the Istanbul Programme of Action for LDCs for the Decade 2011-2020[18] will be imperative, especially towards the stated goal of doubling their share of exports of global exports by 2020.[19]

The impact of the global economic crisis and the subsequent slow, uneven and uncertain recovery that is taking place, especially in major economies that are traditionally important trading and development partners of ACP States, like the EU and United States, underline that ACP States can no longer expect that these markets will continue to constitute major export destinations nor major sources of development financing. These countries continue to experience low growth and macroeconomic and financial difficulties, compounded by high unemployment levels. Further, expectations of new stimulus from market concessions from the WTO Doha round of trade negotiations have waned with the deepening stalemate in the negotiations and possible failure. This will further weaken trade gains all countries, including ACP States, could have expected to attain from the round. Thus the need for export market diversification by ACP States. This has long been recognized by ACP States, so as to reduce dependency upon a few markets, but such market diversification has become imperative in the light of the low demand stimulus from ACP States' traditional markets in developed countries and the likelihood of these countries experiencing continued slow economic growth subsequent to the great recession.

Enhancing export growth of ACP States will require relatively greater emphasis on diversifying into and exploiting new, more resilient and more dynamically growing markets. These include in particular the emerging economies such as China, India and Brazil, and other developing countries within neighbouring regions that can provide new and more sustainable opportunities. The emerging economies are realizing higher economic growth rates then the traditional trading partners of ACP States. While the trading relations are presently focused on imports of commodities by the emerging economies from ACP States, the opportunity can be utilized to diversify the trade flows in terms of their traditional export baskets and also possible new and higher value added exports.20 Further, enhancing trade (exports and imports) with emerging economies is relevant in the light of the growing economic (and development) relations developing between ACP States and such countries as China and India. For example, emerging economies are offering duty-free quota-free preferences to LDCs, many of which are ACP States. These preferences could be combined with investment by the emerging economies in the ACP States to develop their productive capacities to enhance and add value to their exports. Indeed South-South trade in general

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[18] A/CONF.219/3/Rev.1.

[19] For assessment of trade performance and potential of LDCs see for example UNCTAD, *The Least Developed Countries Report, 2010: Towards a New International Development Architecture for LDCs* (UNCTAD/LDC/2010), and UNCTAD (2011), *Making Trade More Development-transmitting, Multiplying and Inclusive for LDCs* (UNCTAD/DITC/TNCD/2011/1).

[20] A forthcoming paper by Faizel Ismail, "China's Rise – Opportunities and Challenges for Africa.." provides a concise and forward-looking assessment of areas in which a new type of trade and economic partnership between China and Africa could be constructed for the mutual benefit of both parties and with sensitivity towards Africa's development challenges.

has expanded tremendously in the last decade, and recovered faster from the impact of the global economic slowdown. There is important scope for further exploitation of the potential of South-South trade.

Trade agreements, including preferential schemes, can be elaborated to enter into new markets but to be effective these agreements must be combined with investment and production measures to build up and diversify supply capacities in the ACP States. The utilization of trade preferences, such as the EU GSP scheme or duty-free quota free schemes, continues to be important for beneficiary ACP States in maintaining market shares in their traditional markets and entering into new markets. Better utilization of preferences including by moving into the production and exports of value added tradeables are important in support the process of structural transformation.

For ACP States, the negotiations of economic partnership agreements with the EU remains a key consideration not so much in terms of seeking further market concessions or consolidating the acquired access, which is a short term approach. It is much more important for ACP States in terms of building up and diversifying their productive capacities, enhancing competitiveness, strengthening ACP regional integration processes and maintaining sufficient policy space to develop trade agreements with other countries. In this regard there are important issues on which consensus remains to be achieved between ACP States and the EU with the aim of enhancing ACP States' development. These include the appropriate width, depth and period of trade liberalization to be undertaken under EPAs, EPA rules of origins that facilitate industrial development and trade between ACP States, adequate and timely financing facility for effective EPA implementation, export taxes as development instruments, and whether the proposed inclusion of an MFN clause is justifiable and desirability.[21] Only the CARIFORUM has signed a full EPA with the EU, while the other regions are at various stages of negotiations. In the latter regions, the crux of the development dimension of EPAs remains the need to reaching understanding and agreement with the EU on complementary investment-cum-production measures to develop the supply capacities of ACP States and that such measures constitute integral (and binding) elements of (and not extraneous to) EPAs. Lessons from the CARIFORUM experience to concluding the fully-fledged EPA could be useful to other ACP regions.

A major policy conundrum is the increasing commodity dependence of ACP States over the years, while efforts at diversifying productive capacities including by strengthening industrial transformation have on the whole achieved limited progress. The concentration on the production of a narrow range of commodities has limited the extent of economic stimulus that can be realized to ensure sustained and higher economic development. The continued dependence on exports of raw agricultural commodities, for instance, perpetuates low processing and limited value-addition. This is the case, for example, of banana producers, cotton producers, sugar producers, coffee producers, and oil and gas producers. High commodity concentration also enhances vulnerability of the trade sector to the global economic climate and to volatile commodity prices, rendering highly volatile export revenue receipts which contribute to financing development,

The concentration of exports on a limited range of commodities also tends to translate into dependence upon a limited number of trading partners, especially the traditional trading and development partners which have constituted the main markets for ACP exports. While established colonial ties, business and development relations have led to ACP States' trade being concentrated with a few trading partners, this has also been perpetuated by the commodity-based trade matrix and dominance in such trade networks. As a result, there is limited intra-ACP trade, including limited intra-regional trade among the different ACP regions. A diversification of the tradable sectors of ACP States will facilitate a concomitant diversification of the markets in which new opportunities for exports of new tradable items can be developed.

Mineral and oil and gas producers have benefited from exceptionally high commodity prices, improving their trade balances and providing additional fiscal revenue. Thus their concentration on these commodities during times of commodity price booms offers significant export revenue potential. These countries however face potential issues of "Dutch Disease" concerning exchange rate appreciation that makes other exports uncompetitive. The large influx of investment can also increase inflation leading to increases in prices of food, accommodation etc and in turn reduce the purchasing power of incomes of especially the poor. This would make it essential to ensure that the essentially enclave-type mineral operations develop economic linkages with other sectors, contributing to the country's overall economic development; and windfall revenue realized from these resources is not totally squandered on immediate consumption, but that a proportion is invested into the development of other more sustainable economic

[21] See, for example, Chair's Conclusions of the 14th ACP Ministerial Trade Committee meeting, 20-23 October 2010.

sectors such as agriculture and industry, and also held in trust (e.g. via sovereign wealth funds) for future generations.

Breaking out of the vicious cycle of commodity dependence and concentrated markets requires ACP States to more aggressively pursue efforts at adding value (and higher technological content) to their commodity exports and diversifying into industrial and services sectors with potential for dynamic growth, high impact on development and more resilient to price fluctuations. Given the small economic size of many ACP States, the development of niche products and markets could be emphasized. These could include value-added agricultural products such as organic agricultural products, sustainable (e.g. biotrade) or high-value forestry products (including timber), or sustainable or high-value fishery products, high-value tourism (eco-tourism) and related transport services, labour services, ICT-related services, or a whole range of creative industries (music, films, arts etc.). Services sector development in particular offers many opportunities for diversifying production and trade, and also has multifaceted linkages with other sectors of the economy, including agriculture and industry.

UNCTAD is working with a number of ACP States to discuss and elaborate new generation national policies and strategies that would enhance trade and production in parallel. These include the elaboration of trade policies, services policies, competition policies, creative industry policies and organic agriculture policies and standards. Indeed, the establishment of a development-oriented policy framework – linked with overall national development strategies - is important in the efforts to enhance production, trade and development prospects of ACP States.

Measures to increase the value and price obtained for unique products could also be considered. These include packaging, labeling and others. The use of Geographical Indications (GIs) constitutes another important avenue through which the income of enterprises and livelihoods of artisans could be improved. Securing GI registration marks official recognition and acceptance of the unique work, art, heritage, culture, history, craft and skills of artisans and their sustainability over centuries. With greater recognition and acceptance of the product arising from GI registration, trade in GI products and the attendant logo or branding can command premium prices in markets and hence deliver improved incomes for artisans and producers, especially so in the case of resource poor ones. ACP States could therefore examine opportunities for enhancing GI registration of unique products.

The supply diversification challenge for ACP States is made more complex by the fact that the subsistence economy plays a particularly crucial role in sustaining the livelihoods of the population in the rural areas, especially in the Pacific. Hence measures to promote diversification and value addition by encouraging transition towards a cash economy must be pursued in tandem with measures to integrate the rural economy into international trade as well as strengthen the subsistence sector so as to continue to support the needs of the rural population, such as in food production.

Beyond specific products, recent research on and policy innovations on trade, production and development have pointed to a number of approaches that could be considered by ACP States in their efforts to bolster their productive capacities. One approach relates to focusing on developing competitive capabilities (human, institutional, regulatory, quality and degree of technological content) and ensuring complementarity among them, thus providing an enabling environment for development of productive capacities. Production sectors could be identified for development on the basis of the possible competitive strengths of the economies concerned, rather than on standard comparative advantage theory. For example, new sectors or products with dynamic growth potential could be identified and developed to complement existing competitive capabilities, or new products could be developed by acquiring new capacities and combining them with existing ones.[22] This also underlines the point that trade-led growth strategies should be complemented by proactive public policies – industrial, agricultural, services, investment, competition, human capital formation – for enhancing production capabilities, structural transformation, economic diversification and value-addition.

Seeking integration into global supply chains and/or developing regional supply chains, which have become a standard operating model for many transnational corporations, is another approach.23 Over the last three decades, global supply or production chains, where cost-reduction strategies result in goods being produced with intermediate inputs originating from several countries, have become a common

[22] See, for example, Cesar A. Hidalgo1 and Ricardo Hausmann, (2009). *The building blocks of economic complexity.* Proceedings of the National Academy of Sciences: 106.

[23] See UNCTAD (2010), *Integration of developing countries in global supply chains, including through adding value to their exports* (TD/B/C.I/16); and UNCTAD-Commonwealth Secretariat, *Potential Supply Chains in the Textiles and Clothing Sector in South Asia: An Exploratory Study* (forthcoming).

business model in an increasing number of industries and especially in South-East Asia, buttressing the high level of intra-regional trade flows. Many other developing countries, especially ACP States with smaller economies, have been marginalized from this trend. Supportive policies could be developed to facilitate the integration of ACP States and their enterprises into global chains in a way that maximizes benefits to their economies, especially in terms of adding value to exports. Carefully calibrated trade policies at national and regional levels would help. But more important are policies for improving the business environment, including transport and infrastructure, trade logistics including customs, enforcing the rule of law, fiscal and other incentives. Also, efficient supply chains demand constantly updated knowledge and skills in production processes. Such knowledge must be absorbed from technology transfer and the required skills sets developed by investing in the human capital necessary to move upwards along the value chain.

Another policy matter for ACP States is that the trade balance of a large majority of ACP States is characterized by deficits, with disproportionately large imports compared to exports. Sustained balance-of-payment deficits are almost a structural feature, implying that on balance, international trade in many ACP States constitutes an outflow of resources. Fuel and food account for a large share of imports of many ACP States and is necessary for accessing adequate supply for ensuring food and energy security for personal and industrial consumption. Extensive importation by ACP States is due to many factors, including lack of domestic food and manufacturing capacities, or lack of necessary economic inputs, especially fuel. Heavy import dependence affects the competitiveness of production. For example, in many ACP States, the substantial rise in fuel prices added to the already substantial costs of transportation or electricity. Import dependence can also contribute to increasing inflation, for example from rising food and fuel prices.

There is a limit to the capacity of ACP States to ensure self sufficiency in all areas of present imports in view of limit resources, lack of technology or level of industrial development. Thus ACP States will continue to import a large proportion of consumption and industrial items. It is important for ACP States with structural deficits to endeavour to reduce the trade balance deficits. Major commodity producers benefiting from windfall prices have been able to reduce the trade deficits during periods of commodity price booms. For other ACP States, the strengthening and diversification of production will help to reduce the trade deficits in a sustainable manner. ACP States could conduct a review of their import baskets and assess if there are certain import items that could potentially be produced locally or in the region, including by way of adding value to commodities, such as processed coffee like instant coffee or processed sugar, or by producing like products but using locally inputs such as banana or taro chips, or peanut cooking oil. So some level of import substitution could be undertaken, particularly based on domestically available inputs. This should also be developed by ACP States as part of the broader strategy of enhancing and diversifying productive capacities – both for exports and where appropriate for domestic consumption.

A fundamental policy challenge for ACP States especially in combating isolation from major markets and building up of national and regional economies that are competitive internationally is the need for greater attention to infrastructure development related to facilitating the flow of goods and services internally (within countries and regions) and externally with major existing and new trading partners. For most ACP States, their geography (long distance from main markets), high transport costs, narrow resource base and commodity-based exports renders their exports highly uncompetitive. This is particularly the case of SIDS and LLDCs. The continued development of transport and trade facilitation measures is a prerequisite for ACP States in producing and trading competitively. For example, targeted development of niche tourism will require the development of related transportation links with major markets. In order to effectively exploit the potential of regional markets, improvements in regional transportation networks between countries of the region are essential. Strengthening trade and economic ties with emerging economies will necessitate the development of transport linkages that can facilitate such new trade flows on a competitive basis.

The aid for trade initiative under the WTO provides an important avenue through which ACP States can channel new and additional funding for trade-related technical assistance into infrastructure development, rehabilitation and upgrading. Infrastructure development is very capital-intensive and hence the need to mobilize adequate and sufficient funding under aid for trade programmes. South-South development cooperation, especially between emerging economies and ACP States, could be engaged to also focus on financing infrastructure development priorities including those that are intra-regional and span several countries in a regional grouping.

Another fundamental policy consideration that ACP States, and in fact the entire world, confronts is that, in future, economies will be carbon-constrained. This places an onus upon all countries to ensure a process of structural transformation towards more climate-friendly and greener or more sustainable production, trading and consumption processes and patterns – i.e. balancing the necessity of promoting economic growth with the necessity of protecting and preserving the shared environment. ACP States are already facing the impact of climate change, environmental degradation and related consequences like a rise in sea levels, widening desertification, and loss of biodiversity, which is threatening production processes and livelihoods. A re-balancing and re-shaping of development strategies and practices towards a new type of economy based on knowledge, efficiency and more responsible stewardship of the planet is an imperative. Such structural transformation and transition towards a green economy does not have to be at the expense of growth and development. The transition can be beneficial from the trade perspective - trade enables countries to import green products that are not produced domestically in sufficient quantities and to secure export gains for those green products that they can produce competitively.

Further, trade can be an enabling factor, rather than an obstacle, in the search for a lower carbon-intensive world economy. New technology and market opportunities have emerged that may now allow ACP States to diversify into new agricultural, industrial and services sectors and leap-frog polluting and unsustainable economic practices. Growing environmental and ethical preferences among firms and consumers are supporting dynamic global markets for energy-efficient and renewable energy technologies, organic foods, sustainably produced biofuels and timber products, ecotourism, and fair-trade products. The production of many of these products also provides decent employment and increased development opportunities for poorer communities in developing countries. The supply-side response to this burgeoning market for green goods and technologies has been significant, with a rapid ramping-up of production and export capacity in many developing countries. There are thus opportunities for growing the participation of ACP States and their enterprises in global supply chains covering production and distribution of many “green goods”.

A formidable global market for green goods and services exports is emerging which developing countries can tap into. At the same time, the green economy may also pose risks. This includes the threat of green protectionism affecting market access conditions by way of greening of national regulation, stringent environmental and social standards, governmental procurement, industrial policy, private standards and buying patterns of consumers. There is a strong case for international cooperation to help ensure that the green economy opportunities are enhanced and the risks minimized. Other related issues to be addressed include: trade competitiveness aspects of climate change policies; trade and investment opportunities arising as climate change measures are adopted; investment promotion and development gains in developing countries; and compatibility issues between climate policy and trade rules.

UNCTAD is supporting developing countries including ACP States in developing biodiversity friendly production and trade, and exploiting the positive nexus between trade, investment and climate change mitigation and adaptation measures. UNCTAD is also contributing to the preparations for the United Nations Conference on Sustainable Development (Rio+20) that will take place in Brazil from 4-6 June 2012 in terms of assessing and proposing measures to enhance a beneficial relation between international trade and the green economy, in pursuance of sustainable development and poverty reduction,[24] so that developing countries including ACP States and the international community can develop win-win-win solutions for trade, development and the environment.

A final policy issue concerns regional economic integration process among ACP States and the notion of an all-ACP trade agreement. The great majority of ACP States have small economies with narrow resource bases, which inhibit opportunities for expanded economic growth and development. In such situations, regional cooperation and integration becomes a key development and diversification strategy even if standard economic theory would perceive limited benefits, particularly in view of similarities in natural resource endowments and the fact that even the combined economic size of an integrated region would still be relatively small. A regional strategy is indispensable for enhancing integration into the regional and global economy, by pooling resources and developing common development strategies that pull up the entire region. Moreover, the scope for developing trade in semi-manufactures and manufactures is greater than with respect to established trade relations with major trading partners, which are based mainly on trade in raw commodities. Importantly, regional integration in services can enable countries to develop and strengthen services trade and development and enhance product diversification. The scope for developing

[24] See for example UNCTAD (2010), *The Green Economy: Trade and Sustainable Development Implications* (Report of the Ad Hoc Expert Meeting, Palais des Nations, Geneva, from 7 to 8 October 2010); UNCTAD (2010), *The Green Economy: Trade and Sustainable Development Implication* (UNCTAD/DITC/TED/2010/2); or UNCTAD (2011), *1992-2012: The Road to Rio+20 for a Development-led Green Economy*.

intra-ACP services trade and transfer of relevant technology and knowhow could be even greater, given similarities in conditions prevailing in ACP States and the advantages of modern information technology and communications, which would minimize the importance of transport costs and scale economies. Thus regional integration among ACP States is vital to structural transformation of these countries.

A key challenge for ACP States in this regard is that, despite years of efforts at forming, consolidating and implementing regional economic integration processes, including through the creation of many regional economic communities, intra-group trade has remained and concentrated in a few countries. To a large extent (some researchers from ACP States and ACP States as well are pointing this out), regional integration and cooperation suffers from major design flaws.[25] ACP regional integration processes also confront difficulties arising from a multiplicity of regional integration and cooperation arrangements. The involvement in multiple arrangements among ACP States in being made further complex by the negotiations of trade agreements with developed countries, such as the EPAs with the EU and PACER-plus, and possible initiation of negotiations of new agreements with other countries.

In terms of the design issue, most ACP regions have adopted the EU model of integration based on the standard Viner customs union theory in which countries move through a stage of preferential trade agreements and, ultimately, to economic and monetary unions. In this process, countries gradually give up economic sovereignty beginning with partial loss of autonomy in instituting tariff policy to total loss in a customs union and common market, and likewise in the case of economic and monetary union in exchange for common policies. The entire ambitious and deeper regional integration edifice would have to be supported by a large secretariat independent from member States. There is need to review whether such a linear and progressive integration is feasible for ACP States and, if not, to re-adjust it to a more differentiated and possibly less ambitious approach tailor-made to suit to the economic and political specificities of the regions concerned. For example, in Eastern and Southern Africa, the amalgamation of SADC, COMESA and EAC is premised on the goal of creating a common free trade area, rather than aiming for the formation of a common customs union or common market. Likewise, the African Union Ministers of Trade meeting in November 2010 discussed the African integration process and agreed, as a priority, to the formation of an African free trade area as the main goal. Such internal review and evaluation of the approach to regional integration among ACP States is necessary and urgent, so that regional integration processes can be appropriately designed and consistent with the development conditions of ACP regions to become effective development tools.

As regards an intra-ACP trade framework, which has been under consideration by ACP States on various occasions, it seems appropriate to focus on free trade rather than an economic integration agreement. Yet there are some doubts about how far the conclusion of a free trade agreement would actually succeed in promoting intra-ACP trade taking into account existing structural and competitiveness constraints, as well the fact that all ACP States have already entered into a range of bilateral, regional and multilateral free trade or economic integration agreements and/or negotiations that is consuming their limited resources. Reflection might therefore perhaps be undertaken as to whether an intra-ACP framework could be of a very broad and general nature, aimed at establishing a basis for launching work to: identify national competitive strengths in specific goods and services, as well as existing commonalities in regulatory and administrative frameworks, particularly for services; and then exchange experiences, knowledge and skills and promote regulatory convergence, mutual recognition or trade facilitation to capitalize upon such strengths or commonalities. While such an approach would often involve proceeding in a relatively gradual manner, this may not always be the case - depending upon the economic, political and regulatory state of affairs, it may be possible in some areas or sectors to proceed with relative rapidity, which could then be reflected in the elaboration of more advanced and detailed frameworks for such areas. Such an empirical and flexible a-la-carte approach tailored to the realities on the ground may yield greater dividends than pre-conceived blueprints for strengthening intra-ACP trade and economic integration.

In conclusion, ACP States' economic growth and development is heavily dependent on an enhanced, effective and more qualitative integration into the global trading system notwithstanding the group's generally low level of participation in international trade flows presently in terms of exports of both goods and services. The group needs to innovate, adjust and adapt new approaches, strategies, policies and measures to capture a larger share of global trade with the specific aim of fostering sustained and sustainable economic growth and development, employment creation and poverty alleviation and accelerate implementation of the UN Millennium Development Goals. It is a challenge that ACP States will have to confront upfront as they have a rapidly growing population to cater for through more inclusive development approaches; they need to build more resilient and sustainable bases of production and trade;

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[25] See, for example, Peter Draper (2010), *Rethinking the (European) Foundations of Sub-Saharan African Regional Economic Integration: A Political Economy Essay* (OECD Development Centre, Working Paper No. 293).

they need to take advantage of new opportunities in the South especially with emerging economies; and they need to fashion trade and cooperation accords with developed countries that respond to the specific development priorities.