Chapter 3

Trade Policies and Regional Integration in Africa

Developments in international trade negotiations in 2011

The trend towards concluding regional and bilateral trade agreements to promote trade and development has gained momentum worldwide. Participation in some form of Preferential Trade Agreement (PTA) has increased within the last 20 years, with the number of active PTAs rising from 70 in 1990 to almost 300 in 2011. African countries have concluded a considerable number of agreements among themselves (24 PTAs in force) but there is no evidence of a growing number of PTAs between Africa and its emerging partners in the Americas or in Asia (although four PTAs were concluded with West Asia and three with East Asia in 2010). Some African countries belonging to the group of African, Caribbean and Pacific (ACP) countries have signed Economic Partnership Agreements (EPAs) with the European Union (EU), making Europe the region outside Africa with the highest number of agreements with African countries (16) (WTO, 2011).

Progress in the Economic Partnership Agreements (EPAs) remained limited throughout 2011. However, in September 2011, the European Commission announced plans to remove trade preferences arising from the Market Access Regulation by January 2014 in the event of countries not ratifying and implementing their respective EPAs, thus potentially losing some preferential access to EU markets. At present only half of the 36 nations which have initialled EPAs have proceeded towards ratification[1]. Least Developed Countries (LDCs) will continue to benefit from duty-free and quota-free (DFQF) access under the auspices of the Everything but Arms (EBA) scheme, low-income countries (LICs) and lower middle-income countries (LMICs) will remain as beneficiaries of the Generalised System of Preferences (GSP), but Botswana and Namibia, being upper middle-income countries, will be excluded from each initiative in the absence of ratification (International Centre for Trade and Sustainable Development [ICSTD] and European Centre for Development Policy and Management [ECDPM], 2011). Outstanding issues continue to be causes of contention, with Africa insisting on the developmental aims of the EPAs, with ample policy space to further its industrialisation and structural transformation imperatives. Crucially, there is concern that a hasty conclusion of the agreements might impede Africa's regional integration agenda, partly as a result of the different nature of country positions in the various regional groupings. The risk of an unfavourable impact of such a process on fostering the deeper integration of African economies calls for further reflection, as it is only through boosting intra-African trade, thereby exploiting economies of scale to hone Africa's comparative advantage, that the continent can unlock its potential and competitively situate itself in a strong position in the global economy. A faltering EPA process may further galvanise an already strengthening South-South relationship between Africa and the emerging economies, not least because of the minimal conditionalities associated.

Box 3.1. **A step forward in EPA negotiations in the economic community of west African states (ECOWAS) sub-region**

In general, the EPA negotiations revolve around market access, fisheries, sanitary and phytosanitary (SPS) measures, agriculture, services, investment and competition. In the Western African (WA) region, represented by ECOWAS[2] , the EPA negotiations focus on several thematic areas, particularly on trade liberalisation in goods between WA and the EU, liberalisation in services, development assistance within the context of EPAs, structures for the management of the agreement and mechanisms for settlement of disputes, among others.

During 2007 and 2008, the WA region had 21 divergences over the text of the agreement, primarily centred on the flexibility of the ECOWAS Common External Tariff (CET), the establishment of the EPA management and implementation institutions to bring on board all stakeholders of the two partners, changes in export duties and taxes and agriculture. Since the mini-ministerial conference (MMC) held in Accra, Ghana in December 2011, only four areas of divergence remain: subsidies; the most favoured nation (MFN) clause; the non-execution clause; and the commitment to negotiate free trade areas (FTAs) with other countries. With respect to subsidies, the EU maintains that a settlement can only be obtained at the multilateral level through negotiations at the World Trade Organization, whereas with respect to the MFN clause ECOWAS maintains the need for political space to enable the region to promote and strengthen South-South trade. Furthermore, EU negotiators continue to insist upon the inclusion of the non-execution clause as one of the EU requirements. ECOWAS objects, as the region believes that such political aspects of the ACP-EU Partnership have been settled in the relevant provisions of the Cotonou Agreement. Finally, with regard to the commitment to negotiate FTAs with other countries, ECOWAS negotiators are insisting that their mandate focuses on negotiations with EU members only.

Other issues of divergence relate to the addition of resources (Economic Partnership Agreement Development Programme [EPADP]), the establishment of a contract on the amount to be allocated to the EPADP and the mandate of the joint EPA council on development issues. Hence, despite significant progress in the WA region, the EPA is yet to be finalised. Countries such as Ghana and Côte d'Ivoire, which signed interim agreements with the EU, are under pressure to ratify them, and yet such ratification may negatively affect regional integration efforts. The lack of concessions from the EU has reinforced Africa's need to look into alternatives to the EPAs, in particular boosting intra-African trade as well as its engagement with emerging economies. Above all, a political decision is imperative for guiding future EPA negotiations.

Source: UNECA.

Notwithstanding the high aspirations for concluding the Doha Development Round (DDA) by the year's end, 2011 witnessed sluggish progress in the current status of negotiations. The Eighth WTO ministerial conference alluded to the need to redefine a new strategy for future negotiations premised on an "early harvest". For Africa, these comprise, *inter alia*, DFQF access and rules of origin, cotton, special and differential treatment (S&DT), and deeper market access in agriculture, non-agriculture goods and services. Unless consensus is reached on an appropriate balance in the contributions and responsibilities between emerging and advanced economies, it is hard to see how negotiating nations can extricate themselves from the current impasse. On the crucial issue of cotton, the ministerial conference saw the C4

Group of African cotton producers (Benin, Burkina Faso, Chad and Mali) submit a proposal with the intention of freezing developed countries' cotton subsidies at current levels, which was eventually not agreed upon. With respect to non-agricultural market access (NAMA), discussions on tariff-related issues are to resume in March, which is indicative of members' commitment to the multilateral trade process. As always, African negotiators will continue to diminish the risks and maximise the gains in the consensus that they seek so as to ensure new issues are not reintroduced without definitively finalising current areas of negotiations and that developmental issues, in particular S&DT, remain at the heart of the agenda.

Box 3.2. **Signs of export sophistication in intra-African trade**

Scrutiny of intra-African trade data reveals that goods traded internally are more sophisticated than those traded with partners outside the continent. The following table presents this evidence for Kenya and Ghana's largest exports, showing that exports destined for African markets contain more value added than those exported elsewhere. This evidence of a mutually reinforcing relationship between regional integration and export sophistication adds further impetus to the case for expanding intra-African trade.

Top Five Exports by Value to Africa and the Rest of the World, 2008

Ghana top 5 exports to the world	***Ghana top 5 exports to Africa***
Gold, semi-manufactured forms	Gold, semi-manufactured forms
Cocoa beans, whole or broken, raw or roasted	Machinery parts, non-electrical
Cashew nuts, fresh or dried	Plywood, all softwood
Gold in unwrought forms	Panels, laminated woods
Lumber, non-coniferous	Aluminium alloy plate, sheet, strips
Kenya top 5 exports to the world	***Kenya top 5 exports to Africa***
Tea, black in packages	Tea, black in packages
Cut flowers and flower buds, fresh	Oils, petroleum, bituminous distillates
Vegetables, fresh or chilled	Portland cement, other than white cement
Cut flowers and flower buds, dried	Cigarettes containing tobacco
Coffee, not roasted not decaffeinated	Medicaments, in dosage

Source: United Nations, 2011

Intra-African average applied protection is still quite high at 8.7 per cent[3]. However, the Sixth Ordinary Session of the African Union ministers of trade held in Kigali from 29 October to 2 November 2010 resolved to fast-track the establishment of a Continental Free Trade Area to remove tariffs on internally traded goods and services. The United Nations Economic Commission for Africa's (UNECA) computable general equilibrium modelling of a continental FTA suggests a 51.7% increase in the share of intra-African trade between 2010 and 2022. If customs procedures and port handling became twice as efficient in a continental FTA, the share of intra-African trade would even double over the 12 year period, further reinforcing the need to address trade facilitation. (UNECA, forthcoming)

Africa's escalating economic ties with emerging economies

The increasing role of emerging economies, such as China, India and Brazil, in Africa's trade and investment continued and intensified in 2011. This magnifies opportunities for deeper South-South co-operation aimed at advancing Africa's market diversification and investment, especially considering the current plight confronting the economies of the United States and Europe. (UNECA, 2011; Cheru and Obi, 2010; Eichengreen *et al.*, 2010; Ajakaiye, 2006). In the light of the opportunities and challenges posed by recent dynamics, it is imperative that Africa assert itself and map out an articulate, long-term, national and regional strategy as to how best to frame its engagement with southern partners into a mutually reinforcing affiliation. It is as yet uncertain what African nations aspire to gain from the emerging economies, although the latter seem to know what they require from the former (Cheru and Obi, 2010). Strategic engagement in channelling southern Foreign Direct Investment (FDI) towards enhancing productive capabilities, upgrading infrastructure and magnifying co-operation in agriculture in a bid to boost the production of higher value-added agricultural products is vital. It is imperative that the "resource-for-infrastructure" trend witnessed in a number of African countries during the past decade go beyond such an exchange so as to incorporate upgrading the skills of the domestic workforce, local content requirements and, crucially, technology transfer. The ability of Africa to innovate and move up the developmental ladder is primarily contingent on its technological capabilities, and the lack thereof has negatively impacted on its competitiveness, constraining structural transformation and economic growth. Africa should therefore seize this opportunity by scaling up its efforts in this respect to maximise the potential benefits it can reap from deeper Southern engagement. Principally, political consensus amongst governments, business leaders, foreign investors and knowledge institutions is pivotal to devising a successful technology and innovation strategy. As crucial as the state is in this realm, governments must regard the private sector as a partner in strategic development goals. Unleashing the latter's innovative essence is key, as it has long been powerless in the face of fiercely competitive regional and global markets. African governments ought to create more incentives to intensify the level of innovation and aid domestic firms in developing dynamic competitive advantages, as it is only in dynamic sectors, where labour productivity is rising through technical progress premised on enhanced skills and innovative efforts, that sustainable growth can be attained.

Aid for trade

More evidence is emerging about the Aid for Trade (AfT) initiative's impact. AfT to Africa rose by 21.2% in 2009, continuing its eight-year upwards trend, being the steadiest source of trade policy reform in Africa among developing regions. About 37% of total AfT disbursements (41% of commitments) were destined for Africa in 2009. There was considerable variation among African recipients. Moreover, recent research confirms that the initiative helps to increase trade (Helble *et al.* 2009), and significantly reduces trade costs in developing countries (Busse *et al.* 2011). However, Busse *et al.* (2011) also show that AfT flows need to be large enough to lower trade costs in the case of LDCs. In Africa, AfT contributes to diversifying exports and to improving trade competitiveness (Karingi and Leyaro, 2009).

As part of its mandate as an international organisation charged with the monitoring and evaluation of the Aid for Trade Initiative, UNECA has compiled evidence from African case stories submitted to the WTO's third Global Review of Aid for Trade in July 2011 (UNECA, 2011). Of a total of 37 case stories submitted by African member states for the third Global Review on Aid for Trade 2011, 14 countries relate their case stories to the AfT category Trade Policies and Regulations. Among them, three case stories (Nigeria, Zambia and Zimbabwe) explicitly deal with trade facilitation issues, and all three have a regional dimension of trade facilitation. The Nigerian case study covers activities along the transit corridor shared with Benin which are part of wider efforts on behalf of ECOWAS to improve trade along the Lagos-Abidjan transit corridor. Its approach involved the creation of an inclusive forum, the Task Force on Trade Facilitation, which effectively engages all relevant stakeholders and strengthens ownership of the project. Zimbabwe and Zambia each submitted a case story on their shared experiences with the Chirundu one-stop border post, an initiative under the COMESA-EAC-SADC (Common Market for Eastern and Southern Africa-East African Community-South African Development Community) agreement to improve inter and intra-regional economic community (REC) trade. The three approaches describe efforts to lower cross-border trading costs with concrete objectives such as reducing the documentation and time in transit and streamlining procedures and systems. They function as examples for trade facilitation mechanisms which are relevant for many other African countries. In the light of Africa's recent efforts to boost intra-African trade, identifying areas in which AfT funds can directly contribute to such an endeavour is imperative.

Best practices emerging from the third global review include effective national co-ordination or implementation mechanisms, private sector engagement, ownership by partner countries and donor commitment. On the other hand, factors causing problems are project management difficulties, problems on the partner country side, inadequate funding, as well as the lack of bankable AfT projects which meet AfT funding criteria, thereby compromising the financing of potential projects at both national and regional levels. Some progress is being observed on monitoring and evaluation, a key issue for AfT effectiveness. However, there is room for improvement on raising accountability, identifying inefficiencies and raising the impact AfT can potentially have by establishing adequate tools to assess and monitor progress in AfT project implementation and sustainability.

Developments in regional integration in Africa

African countries have a long history of trying to form groups, at a regional and continental level. Since the 1960s, many associations have emerged and faded again. The African Common Market, comprising Algeria, Egypt, Ghana, Guinea, Mali and Morocco, was set up in 1962. The Equatorial Customs Union (Cameroon, Central African Republic, Chad, Congo and Gabon) was also set up in 1962 and eventually led to the present Central African Economic and Monetary Community. The East African Community (EAC) was once the most developed regional group in Africa. But new forums have emerged, reflecting the political will of African leaders towards regional integration.

Through regional integration, African countries will no doubt improve the low levels of intra-African and internal trade. The present map of many small isolated economies poses a challenge to Africa's trade development. Regional integration accelerates economic growth and sustainable development in Africa. Although there have been several opportunities for integration, Africa is yet to see the expected results due to problems with the implementation of activities and programmes.

Achievements in regional integration

Progress on implementation is being made through REC's, but this needs to be reinforced at regional and continental level.

The 1991 Abuja Treaty set ambitious targets to establish an African Economic Community with a single currency by 2023. Its implementation is currently at the third stage --establishing regional free trade areas and customs unions by 2017. The Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC) have reached free trade area status and launched customs union programmes aiming for the 2017 target date. The EAC's customs union entered into force in 2005 and is so far the only one in place. The EAC launched a common market in 2010. The Intergovernmental Authority on Development (IGAD) and the Community of Sahel-Saharan States (CEN-SAD) remain at second stage of co-ordinating and harmonising activities among member states.

In West Africa, links have been strengthened between ECOWAS and the West African Economic and Monetary Union (UEMOA). The two have a common programme on trade liberalisation and macro-economic policy convergence. In Central Africa, ECCAS and the Economic Community of Central African States (CEMAC) are boosting ties so they can also harmonise their programmes. The EAC and COMESA have signed a memorandum of understanding to foster the harmonisation of policies and programmes. COMESA and SADC have also launched joint activities, including setting up a task force to deal with common issues.

African Union ministers of trade decided at a meeting in Kigali in 2010 to fast-track efforts to tackle remaining obstacles to setting up a continental free trade area.[4] The African Union Commission and other organizations have since made recommendations on boosting intra-African trade and speeding up the free trade area which were endorsed at an African Union summit in January 2012.

Initiatives by African leaders

Regional integration is being held up by inadequate financial resources and expertise, countries' membership of more than one organisation, the duplication of mandates, poor co-ordination and harmonisation of policies between the organisations, weak infrastructure and the inconsistent policies of pan-African institutions.

The African Union (AU), the UN Economic Commission for Africa (UNECA), African Development Bank (AfDB) and regional committees are all trying to tackle the problems by eliminating trade barriers, improving economic integration, promoting free movement of people as an important element of cross-border trade, and harmonise policies and programmes.

Eliminating trade barriers: African products are not competitive globally due to factors such as high transport costs, storage and handling charges, and customs procedures. In addition, African traders face transport problems, unsanctioned fees, harassment and corruption along trade and transit corridors. Regional committees such as COMESA, ECOWAS, EAC and SADC, together with various management institutions are trying to harmonise, simplify and automate customs procedures and documentation, enhance transport and logistics services, and improve infrastructure.

Improving economic integration: The AU, regional groups and national governments are seeking to improve and strengthen financial markets. At a continental level, the African Union is working on setting up the African Investment Bank, the African Central Bank, and the African Monetary Fund.

COMESA, using the Eastern and Southern African Trade and Development Bank, or PTA Bank, is providing USD 2 billion of technical assistance to promote investment and provide trade financing facilities. The East African Development Bank (EADB) is also trying to enhance its financing role in the EAC region. For ECOWAS countries, Ecobank is providing banking and financial intermediation services within and beyond the region. The African Export and Import Bank (Afrexim), based in Cairo, is another continental initiative designed to promote and support trade finance in Africa.

Promoting free movement of people: The 1991 Abuja treaty urged signatories to adopt employment policies that allow free movement of persons within the proposed African Economic Community. Regional committees are meant to carry out the stages toward free movement of persons, rights of residence and establishment. Some protocols and frameworks have been adopted but progress remains mixed. Some regional groups have taken concrete steps through agreements on visa relaxation, single tourist visas, and regional passports. Regional groups and countries that are falling behind on their commitments to implement protocols on free movement of persons are being urged to redouble their efforts.

Harmonisation of policies and programmes among the RECs: The African Union has set up a Minimum Integration Programme (MIP) setting out priority areas of concern where REC's could strengthen co-operation and benefit from the comparative advantages of integration. The MIP incorporates objectives from the AU's Strategic Plan (2009-2012), as well as a monitoring and assessment mechanism.

Regional communities, AU member states and development partners such as UNECA and the AfDB are working on the programme. But implementation and the various projects face constraints such as a lack of effective co-ordination from the AU Commission, a lack of compatibility between national policies and regional approaches. To a lesser extent, countries' membership of different regional groups, inadequate financial resources for projects and existence of different priorities among the regional groups have also hindered efforts. African heads of state agreed to establish an "Integration Fund" to finance the MIP and endorsed an action plan to give new impetus to the programme's activities.

Regional infrastructure

Weak infrastructure is a major impediment to trade, competitiveness and sustainable development in most African countries, particularly landlocked and small island states. Transport costs in Africa remain among the highest in the world, which clearly undermines competitiveness on local and international markets. According to recent studies, transport costs as a share of value of Africa's exports ranges between 30% and 50%. In landlocked countries, it can reach three-quarters of the value of exports. The average for other developing countries is about 17%.

Deepening integration hinges largely on the continent's ability to get infrastructure and energy in place to reduce the cost of doing business and increase competitiveness. Considerable efforts are being made to improve road infrastructure. However, the rail network also leaves much to be desired. Intensified efforts are also required in port modernisation, air transport connections, information technology and energy. The African Union and AfDB are leading the Programme for Infrastructure Development in Africa (PIDA) aiming to mobilise USD 80 billion over the next decade to speed up progress on super-infrastructures and across-the-continent links.

Progress in infrastructure developments

Trading across Africa's borders is cumbersome, with multiple customs checks, differing technical standards, and informal checkpoints in some countries. The road and rail network is sparse and many ports and airports need refurbishment and expansion. Most African countries need to increase efficiency in customs administration, cargo handling, and logistics services. According to the World Bank's 2009 *Doing Business* report, most sub-Saharan African countries rank in the bottom 40% of all countries in the trading across borders indicator.

Improving infrastructure has significantly boosted Africa's exports. But the proportion of paved roads in total in Africa is about five times less than in high income OECD countries. Telephone coverage is also much worse for North and sub-Saharan Africa compared with the OECD level. The end-result of this infrastructure bottleneck is that transport costs are 63% higher in African countries compared with developed countries.

Railways should constitute the backbone of the continent's transport network. However, railways are mostly single-track lines running from interior to coast with few connections. The railways are built with multiple track gauges and need to be upgraded.

Africa has the world's fastest growing air transport industry, especially after market liberalisation brought about by the 1999 Yamoussoukro Decision by African governments. Despite a slow implementation of the decision, a number of countries have granted each other bilateral rights that allow airlines to carry passengers to third countries.

Developing energy infrastructure has a key role in promoting industry and job creation, particularly in rural areas. The PIDA framework names energy infrastructure as the one that needs urgent attention. It is also the most costly to develop or refurbish. The continent, particularly sub-Saharan Africa, has the lowest access to electricity compared to the world's other developing regions. Yet, the continent has abundant oil, gas, coal and hydropower resources which in most cases are underexploited. The success of Africa in improving energy access and building infrastructure hinges on regional integration to make energy trade amongst African countries easier.

Africa's inability to mobilise finance and private sector involvement has held up energy and infrastructure development. The recent Africa Energy Outlook 2040 study (NEPAD, AU and AfDB 2011) concludes that an estimated USD 43.6 billion per year will be needed to meet forecast energy demand for Africa up to 2040.[5] According to an AfDB/AU study, Africa's known oil reserves have grown by more than 25% in the past 20 years. Known gas reserves have more than doubled. Nigeria, Algeria, Angola, South Sudan and Sudan account for about 90% of the continent's reserves.

Bridging the infrastructure gaps

The importance of roads, bridges, airports and other infrastructure is becoming better understood however. African leaders have agreed several plans, including the AU-NEPAD African Infrastructure Action Plan 201015, the Infrastructure Project Preparation Facility and the Pan-African Infrastructure Development Fund, to close Africa's infrastructure gap. The AfDB now spends more on infrastructure than any other aspect of development, and there is increasing regional co-operation on projects such as the trans-Africa highway and West African power pool. Pan-African institutions are all working with member states to improve infrastructure networks.

Regional groups are making efforts to improve railways, maritime and air transport, energy, and communications. African leaders are implementing a strategic vision for the continent's integration whereby infrastructure helps to boost economic and social development. However, many African countries have been struggling to mobilise resources to build or upgrade roads, bridges, ports, airports, railways and related facilities.

Notes

1. According to the European Commission (2011), Burundi, Comoros, Ghana, Kenya, Namibia, Rwanda, Tanzania, Uganda and Zambia have concluded negotiations, but have not signed their respective agreements. Botswana, Cameroon, Cote d'Ivoire, Lesotho, Mozambique, Swaziland and Zimbabwe have signed but not ratified their EPAs.

2. ECOWAS is the only regional economic community (REC) that witnessed some progress in the EPA negotiations during 2011.

3. MacMapHS6v2 database. Computations made using the TASTE software and reference group weight with scaling GTAP as aggregation method. See Boumellassa et al. (2009) for more details.

4. The three pan-African institutions are: the African Investment Bank, the African Monetary Fund and the African Central Bank.

5. Ministerial Conference on Water for Agriculture and Energy in Africa: the Challenge of Climate Change, Sirte, Libyan Arab Jamahiriya, 15-17 December 2008

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From:

African Economic Outlook 2012

Promoting Youth Employment

Access the complete publication at:

https://doi.org/10.1787/aeo-2012-en

Please cite this chapter as:

African Development Bank*, et al.* (2012), "Trade Policies and Regional Integration in Africa", in *African Economic Outlook 2012: Promoting Youth Employment*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/aeo-2012-5-en