

**Patterns of Africa-Asia Trade and Investment:  
Preliminary Findings**

Synthesis Paper  
(Discussion Draft)

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This discussion draft highlights the initial findings from the ongoing World Bank study on Africa-Asia trade and investment relations to foster basic understanding of and facilitate discussion on the subject, taking the opportunity of the Third Tokyo International Conference on African Development (TICAD III). Readers should be advised that the draft is still preliminary and will be finalized with additional analytical work and the discussion at TICAD III. The findings, interpretations, and conclusions expressed here are those of the author(s) and do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments they represent. The World Bank cannot guarantee the accuracy of the data included in this draft.

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## Executive Summary

Trade data show that Asia has emerged as an important partner in Africa's trade and development. Africa's exports to Asia have grown in both proportion and absolute value during the 1990s. Of Africa's total export earnings, estimated to be about US\$130 billion per year (1999–2001 average), 16 percent are from sales to Asia. The rate of increase in export values to Asia (10 percent per year) has been higher than the rate to the European Union (EU) and the United States during the past decade. Asia's developing economies have increased their imports from African countries significantly during the same period. The data indicate that some Asian countries have significantly increased their reliance on African imports.

Africa's exports to Asia are mainly driven by primary commodities and related products. Similar to the case of exports to the EU and the United States, oil and its related products account for a large share of Africa's exports to Asia. However, other primary commodities such as agricultural and fishery products and minerals and crude materials are also increasingly exported to Asia. Exports of mineral fuels and other raw materials such as mineral and mining products have demonstrated strong growth in African exports to Asia because of rising manufacturing sectors in Asia, particularly in China, India, Korea, Taiwan, and the Association of Southeast Asian (ASEAN) countries. Although only a limited number of countries are endowed with mineral and mining resources, a wide range of non-oil producing countries also benefit from other types of raw materials and processed raw materials such as cotton, woods, and leather, as well as food and agricultural commodities, for expanding their export potentials. The growth in African exports of food and agricultural commodities to Asia can be explained by the large populations with growing income levels in Asian countries, which have increased the demand for African exports. Non-essential foods such as coffee, cacao, tea, and nuts will find stronger growth in Asia than in the already saturated markets of developed countries.

Therefore, Asia could become a strategic target for diversifying the markets for African products. Demand from Asian markets potentially fits well with the existing supply base of traditional primary commodities in Africa. By recognizing such linkage and by establishing new customer relations with Asian countries, African exporters could significantly expand their exports of traditional primary commodities—Africa's stagnated core businesses.

Market diversification is not the only benefit of deepened trade relations between the two regions. This study indicates that Asia can also contribute to Africa's quest for product diversification in its export structure. Asian countries are providing essential inputs for Africa's growing manufacturing sector, most notably in the textile and apparel sectors. There is a positive relationship between Africa's growth in manufacturing exports to the EU and the United States and growth in imports from Asia.

Although developed countries have made active efforts to grant preferential trade treatments, such as tariff-free and quota-free accesses, this study has observed that these treatments alone do not guarantee the full benefits of export expansion: The response of African countries is critical. Successful African exporters tend to proactively engage in improving their business environment both in terms of governance and infrastructure, and strengthening their supply-response capacity to seize opportunities arising from the external environment such as preferential trade treatments.

The sectoral analysis of the foreign direct investment (FDI) of several Asian countries to Africa has revealed that the relations between Asian investors and host countries in Africa are deeply motivated by the trade relations between the two regions. Asian investment to Africa can be categorized into three different types. The first type is investment targeted toward products to be

sold in Asia, typically natural resources and processed raw materials (for example, food), both of which are highly demanded by Asian manufacturers and consumers. Macro-instabilities in host countries have often hampered the flow of investment of this kind to Africa in the past, but now, driven by growing demand from Asia, there are signs that such investment may regain momentum. The second type of investment targets Africa's domestic markets, which have been constrained by the small size of local markets and the high transaction costs of its inefficient infrastructure. In the absence of effective regional integration and infrastructure services, the prospects of this type of investment are limited. The third type is targeted to the global market, typically third countries. This type of investment most effectively integrates production activities in Africa to global supply chains. In less developed countries, there tends to be investment in the textile and apparel sectors or service sectors, which is largely motivated by either low labor costs and/or favorable trade regimes provided by the third countries. In addition, there is notable development in countries such as South Africa that have attracted more sophisticated manufacturing/service investment. Such investment is genuinely attracted to the potential productivity increase of these countries.

The subregional export structures seem to indicate that African countries could enhance their export opportunities by improving intraregional mobility of goods and services, particularly between land-locked and coastal countries. The study recognizes that improvement in regional infrastructure, such as transportation or telecommunications, needs to be properly addressed in formulating policies to enhance the supply-response capacity of African countries.

The trade data indicate the existence of significant potential for expanding trade relations between Africa and Asia. To realize the full benefits from trade expansion, the following three proposals will help.

First, the knowledge base on Africa-Asia trade and investment relations needs to be strengthened to facilitate the discovery of market opportunities and to better understand to how the market works between the two regions. Such a knowledge base should be strengthened by accumulating a series of in-depth analytical studies to identify existing potential to expand trade and investment relations and to identify geographical and manmade constraints and other impediments in promoting trade and investment activities between the two regions. Such studies will provide the bases for formulating effective measures to improve connectivity to the global supply chains.

Second, an institutional arrangement will be needed to enhance strategic dialogue between African and Asian countries and to raise awareness of emerging business opportunities among businesses in the two regions. Building on the current framework of the Tokyo International Conference on African Development (TICAD), such an arrangement should enable broad-based, consolidated policy dialogues to take place between African and Asian countries—both their governments and their businesses.

And third, African countries and international donors need to recognize the importance of an enabling environment for business activities, which is essential for economic growth. Partnership coordination, such as under TICAD, has the potential to orient development supports to economic growth that is essential for African countries to be able to achieve the Millennium Development Goals (MDGs).

## 1. Introduction

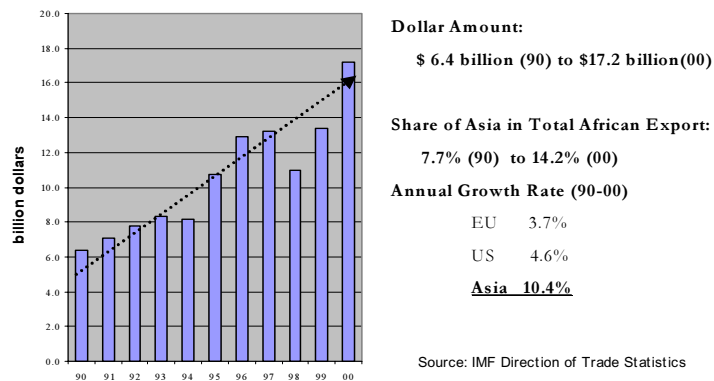
The main objective of this report is to build a basic understanding of the potential of Africa-Asia trade and investment relations—a recognized priority area in the Tokyo International Conference on African Development (TICAD). As one of the co-organizers of TICAD, the World Bank has been undertaking a series of studies on this subject with funding support from the Japan Consultant Trust Fund.

The importance of South-South trade has been recognized for some time; however, there has been no in-depth study specifically conducted on Africa-Asia trade relations in the past. Two major reasons why little research attention has been paid to this issue are the lack of data availability and the relatively small size of the trade flow between the two regions. Many African countries have failed to maintain proper reporting of their trade data, and the only alternative for such countries has been using the data from their trade counterparts, which requires substantial work. Also, the small size of Asia-Africa trade flows relative to other important trade flows involving either the United States or European markets has limited the analytical attention of the researchers. According to International Monetary Fund (IMF) data, African exports to Asia account for only 0.3 percent of world trade.<sup>1</sup>

Furthermore, in the past, Africans have tended to view trade with European countries as more important than trade with other regions. After all, only recently, after its introduction of the Africa Growth and Opportunity Act (AGOA), has the United States started to receive extra attention as a potential trade partner. Likewise, Asians have tended to view the amount of imports from Africa as relatively insignificant (African imports account for only 1.4 percent of their total imports).

Despite such traditional perceptions, the importance of Africa-Asia trade should not be underestimated, especially for its potential to contribute to the economic development of African economies. In reality, the relatively small amount of trade in Asia equates to a considerable amount in Africa. The IMF trade data show Asia-directed exports have grown rapidly in the past decade and made up 14.2 percent of total African exports in 2000, up from 7.7 percent in 1990. The average annual growth rate of African exports to Asia throughout the 1990s was 10.4 percent, much higher than 3.7 percent for the EU or 4.6 percent for the United States (Figure 1.1).

**Figure 1.1 Africa's Exports to Asia (1990-2000)**



<sup>1</sup> International Monetary Fund (IMF), *Direction of Trade Statistics*.

For this reason, we believe that it is particularly timely to study the contents of the trade flows between the two continents. The IMF data, however, do not breakdown the exports by product compositions.<sup>2</sup> In our analysis, we tried to identify the changes in the patterns of African trade in the 1990s, mainly using the United Nations' COMTRADE database through WITS (World Integrated Trade Solution), the World Bank's data access software package. UN COMTRADE is the only database with global coverage, containing each country's export and import data by destination, by product type, and over a series of years.<sup>3</sup> One shortcoming of this database is the limited availability of the data for some African countries that have not done routine reporting.<sup>4</sup> In such cases, we used the import data from trade counterparts to proxy the country's exports. Despite some inconsistencies in data treatment, overall the data compiled from UN COMTRADE show patterns similar to those of other trade data, such as IMF Direction of Trade Statistics or the World Trade Organization's (WTO) International Trade Statistics, and we hope this pioneering work will contribute to the promotion of African exports in the future with the deepening of Asia-Africa trade relations.

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<sup>2</sup> Also, the IMF data occasionally incorporate IMF estimates to maintain consistency within the data.

<sup>3</sup> Statistics Canada has recompiled the UN trade data (industry-specific data in SITC Rev. 2 coding system) into World Trade Analyzer (WTA) dataset. By using partner-side data, the dataset controls for statistical discrepancies between export and import data. Also it is reported to have significantly high data coverage (87% of bilateral trade information and 98% of single direction flow information). However, Statistics Canada has recompiled the UN data so that it better matches with Canadian trade and industry classifications. Also, the data is available only up to 1997.

<sup>4</sup> Even for the countries with sufficient data submission, the data are not always complete because governments sometimes suppress trade statistics of individual products in individual trade flows for various reasons. Because UN COMTRADE is a compilation of data sets submitted by the governments, it is not possible to identify such cases automatically in the data. We treat such cases as zero trade in our study.

## 2. Trade Environment for Africa

World trade dramatically expanded in the 1990s—a decade well characterized by the term *globalization*. Globalization has been facilitated by various factors such as the end of Cold War; the establishment of WTO, which sets a new momentum for trade expansion; and more important, the unprecedented development of information and communication technology, which helped recreate worldwide division of labor in production. From 1950s to 1994, the volume of world trade increased at an annual rate of slightly more than 6 percent and world output by closer to 4 percent. More than a quarter of national output of goods and services in 1998 was sold abroad, compared to just 8 percent in 1950.<sup>5</sup> Economic globalization affects developing countries, which have significantly increased their share of worldwide trade during the 1990s. For example, the developing country share of world exports increased by 4 percentage points during the decade to 27.4 percent in 1999. In 1999, the rate of exports expansion from developing countries was twice as high as the rate for the world as a whole. Undoubtedly, trade has increasingly significant implications in the context of development.

The importance of trade for development has been widely recognized and vastly discussed from various aspects. In general, trade contributes to economic development through helping developing countries to

- garner foreign exchanges indispensable for servicing their external debts
- improve domestic economic efficiency by reallocating resources toward sectors in which they have comparative advantages
- promote technological innovation domestically
- overcome size constraints of domestic markets
- capture benefits from economies of scale
- create new employment
- reduce poverty

The Doha Round of the WTO will play a key role in promoting integration of developing countries—including African countries—into the world trade system and enhancing their access to world markets. However, the multilateral framework of international trading system alone cannot guarantee success in trade-led development of African countries and their integration to the world market. Although significant, the framework is but one of the necessary conditions that characterize the external environment for African countries in trading with other regions. In parallel with the initiatives under the auspices of WTO, there have been accelerated moves in some developed countries to extend preferential trade treatments to African countries or to form bilateral free trade agreements, which further complicate the environment. These preferential treatments contain various rules and restrictions in areas such as rules of origin or eligibility in products. Although these rules and restrictions should preferably be subsumed under the multilateral framework in a long run, they generate some unique dynamics in the short run by motivating various actors, including the third countries, to gain from opportunities through reallocating some of their capital to Africa in a form of foreign direct investment (FDI).<sup>6</sup>

In the context of Africa's trade relations, it is therefore important to analyze how African countries have seized or can seize the opportunities arising from their external environment and to

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<sup>5</sup> WTO, *International Trade Statistics*.

<sup>6</sup> For example, AGOA exempts the least developed among eligible countries from its strict rules of origin that require countries to export products produced only from materials made in other AGOA eligible countries or the United States to receive duty-free benefits under AGOA. This exemption scheme, however, will expire in the fall of 2004.

draw specific policy prescriptions based on such analysis. And in doing so, more efforts need to be made to identify specific African products or sectors that are growing already or have the potential to grow further, and to strategize export promotion of such products by pooling together interregional supply and demand potentials. There is no panacea in trade policies. Best policies for individual countries need to be tailored to the existing supply and external demand potentials as well as to the environment they face. Individual African countries, with support from the international community, need to build supply capacity to effectively respond to the rising opportunities from external demand or from changes in the external environment. The strategy for such supply-response capacity building also needs to be formulated specifically for individual countries.

From a macro perspective, African economies have been unfavorably affected by their trade during the past decades. Although the absolute decline in trade volume experienced in the 1980s was halted in the 1990s, Africa's export market shares were still falling throughout the 1990s. Africa's share of world exports declined from over 3.5 percent in 1970 to about 1.5 percent by the end of the 1990s. The dramatic decline in Africa's exports over the last three decades represents a staggering income loss of US\$68 billion annually, equivalent to 21 percent of regional GDP and five times larger than the current level of official development assistance (ODA) they receive.<sup>7</sup> As competition heats up in the world trade market, the divide is widening between the countries that have successfully integrated into globalization and those that have not—a phenomenon often described as marginalization. The international community must take appropriate measures to enhance Africa's trade relations in the context of multilateral framework, but separate attention is needed to halt the stagnation in Africa's trade by identifying uncovered potentials for African countries to expand their trade activities and by analyzing the ways in which these countries can acquire sufficient supply-response capacity to seize the rising opportunities.

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<sup>7</sup> WTO Official Web site: [www.wto.org](http://www.wto.org)



### 3. Structure and Patterns of Current African Exports

In this section, we conduct a preliminary analysis on the current export structure of Africa by constructing a matrix of export shares for product groups and destinations from a set of cross-sectoral bilateral trade data compiled under UN COMTRADE. The products are grouped according to the SITC (Standard International Trade Classification) product classification system (Revision 2).<sup>8</sup> Although a number of studies have reported the structure of Africa's exports by highlighting some specific aspects—such as oil versus non-oil or primary commodities versus manufacturing products—for analytical purposes, only a limited number of studies have tried to analyze the structure of Africa's exports based on standardized product groups. Here we also try to link the analysis on general structure of African exports with information on specific products at highly disaggregated levels (SITC 3-digit and 4-digit).<sup>9</sup>

Based on this matrix, we first analyze the export structure of the entire Africa region (or All Africa) and briefly discuss subregions. We then turn to external trade regimes for African countries, conducting a cross-country analysis using country-specific export matrices for all 53 African countries in the study.

#### 3.1 Key Features in All Africa's Export Structure

Table 3.1 shows the export matrix for all Africa, which is compiled from the data from 77 of Africa's trade partners (see Appendix I for the list of partners), and gives an overview of changing patterns in and the composition of Africa's exports by product group and regions of destination. The reason for using trade partners' data is that only a few African countries have submitted their trade data to the UN COMTRADE database consistently in the 1990s. The 77 countries have been chosen on the basis of consistent data availability in the 1990s.<sup>10</sup>

Three major features of African exports are identified from the table: (1) Africa's high dependency on exports to the EU market and the high growth in exports to the Asian markets, (2) the dependency on primary commodities, and (3) small but promising growth in the export of manufactured products.

##### *High Dependency on EU Market and High Growth to the Asian Markets*

The matrix shows that in 2000 Africa as a region exported approximately US\$129 billion to the world, 52.23 percent of which went to the EU, 19.07 percent to the United States, 16.43 percent to Asia, and 3.42 percent to Africa.<sup>11</sup> A comparison of annual rates of change among Africa's trading partner regions, however, shows another dimension of the export pattern. African exports to Asia experienced a 10.06 percent average annual increase in value throughout the 1990s, which was significantly higher than 1.28 percent for the EU and 5.14 percent for the United States over the same period. The limited increase in Africa's exports to EU could be partly explained by EU's increasing reliance on imports from Eastern European and CIS countries. Among EU's

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<sup>8</sup> Although SITC Rev. 2 is not the newest classification system, it has the largest coverage for the trade data submitted to the United Nations by African countries.

<sup>9</sup> Ng and Yeats (2002) studied the patterns of African exports at similarly disaggregated levels using UN COMTRADE with more in-depth analysis on traditional exports of African countries. This study, however, places more focus on specific inter-regional trade relations, namely trade relations between Africa and Asia, analyzes Africa's imports from Asia as well as exports to Asia, and discusses implications of promoting inter-regional, South-South trade.

<sup>10</sup> UN COMTRADE reports imports on *c.i.f.* basis (i.e., inclusive of insurance and freight costs) while reports exports on *f.o.b.* basis (that is., excluding these costs).

<sup>11</sup> Calculated as 1999–2001 averages. The figure is basically consistent with the figures obtained from the IMF data.

total imports from developing countries, the share of imports from Africa declined by 6 percentage points during the 1990s (17 percent in 1989–1991 average to 11 percent in 1999–2001 average), and the share of imports from East Europe and Central Asia increased by 8 percentage points (from 23 to 31 percent) during the same period.<sup>12</sup>

**Table 3.1 Export Matrix of Africa**

Product	SITC CODE	Africa	EU	US	Asia	Others	World
Food and live animals	0	0.44%	6.60%	0.63%	1.41%	0.77%	9.84%
		8.42%	1.99%	4.23%	4.01%	7.82%	2.99%
Beverages and tobacco	1	0.06%	0.57%	0.06%	0.18%	0.12%	0.99%
		7.55%	5.28%	-0.11%	2.55%	12.89%	5.05%
Crude materials, inedible, except fuels	2	0.29%	3.81%	0.62%	2.47%	0.74%	7.93%
		3.08%	-0.31%	2.23%	5.68%	3.53%	1.90%
Mineral fuels, lubricants and related materials	3	1.46%	21.97%	13.28%	6.84%	4.73%	48.28%
		10.45%	-0.49%	4.11%	21.14%	9.19%	3.26%
Animal and vegetable oils, fats and waxes	4	0.02%	0.26%	0.01%	0.01%	0.01%	0.32%
		3.42%	-1.72%	8.12%	-3.26%	11.16%	-1.02%
Chemicals and related products, n.e.s.	5	0.29%	1.19%	0.29%	0.72%	0.51%	3.00%
		2.57%	1.33%	15.69%	2.30%	4.49%	3.01%
Manufactured goods classified chiefly by material	6	0.46%	6.31%	2.21%	3.07%	0.73%	12.79%
		-0.83%	2.55%	5.37%	5.51%	3.73%	3.56%
Machinery and transport equipment	7	0.27%	3.29%	0.49%	0.62%	0.50%	5.16%
		3.25%	14.25%	24.23%	13.99%	1.32%	11.77%
Miscellaneous manufactured articles	8	0.12%	6.07%	1.20%	0.08%	0.14%	7.61%
		8.72%	6.73%	17.05%	12.28%	8.58%	7.96%
Commodities and transactions not classified elsewhere in the SITC	9	0.01%	2.11%	0.29%	1.02%	0.61%	4.03%
		-12.57%	-3.96%	14.48%	12.34%	49.61%	1.51%
Total		3.42%	52.23%	19.07%	16.43%	8.85%	100.00%
		(\$4,410,552)	(\$67,384,822)	(\$24,599,106)	(\$21,200,571)	(\$11,414,817)	(\$129,009,869)
		5.64%	1.28%	5.14%	10.06%	7.77%	3.68%

Figures: Top: Share in total export to the world (1999-2001 averages)

Middle (displayed only in the last row) . . . Absolute export volume (US\$'000)

Bottom: Average annual change; Average annual changes are calculated by computing changes between 1990-1992 averages and 1999-2001 averages, and then annualizing these changes.

Figures are based on partners' import data.

Colors: ■ =high share, high annual change, ■ =low share, high annual change, ■ =high share, low annual change, where high share is above 2% (20% in the last row and 10% in the last column) and high annual change is above 2%.

Source: UN COMTRADE Database

### Dependency on Primary Commodities

African exports depend heavily on primary commodities. SITC groups 0-5 account for about a 70 percent share of Africa's total exports. Among these product groups, "mineral, fuels, lubricants, and related materials" (SITC 3), in particular, accounts for an overwhelming 48 percent share of total exports, reflecting Africa's high reliance on petroleum exports. Other minerals include gold, silver, platinum, pearls, and diamonds.<sup>13</sup> Also, "food and live animals" (SITC 0) is another category of commodities important for non-oil exporting countries, accounting for approximately 10 percent of total exports. This group includes fruits and nuts, fishery products, tea, cocoa, coffee, and spices.

The trend in the export amounts of these commodities has been largely subject to the changes in commodity prices. Reflecting the downward trend in major commodity prices in the late 1990s, average annual rates of increase of SITC 0-5 have remained mediocre from -0.02 percent to 5.05 percent for the period between 1990 and 2000. These figures, in general, illustrate the stagnation of African exports. For this reason, fostering diversified and competitive industries that are less dependent on natural resources has been considered a policy priority for many African countries.

<sup>12</sup> IMF, *Direction of Trade Statistics*.

<sup>13</sup> Gold is classified under SITC 9 under SITC Rev.2.

A regional breakdown of the commodity exports, however, gives different view. Although most commodity exports destined to the EU show relatively stagnated or even decreasing trends, exports destined to Asia, though relatively small in size, have in most items increased sharply. Exports of “minerals fuels, lubricants, and related materials” (SITC 3) and “crude materials, inedible, except fuels” (SITC 2) to Asia have shown impressive annual rates of increase at 21.14 percent and 5.68 percent, respectively, suggesting that the rapid industrialization taking place in Asian countries has created increased import demands in petroleum and raw materials from Africa.

### Promising Growth in Manufactured Products

In 2000, export of manufactured products as shown in SITC groups 6-8 altogether represented 26 percent of total African exports. In the export matrix, “manufactured goods classified chiefly by material” (SITC 6), which contains silver, platinum, aluminum, pig iron, copper, diamonds, leather, and textile yarn, demonstrated relatively significant growth to all EU, U.S., and Asian markets. Closely observing manufactured items on the SITC 3-digit level reveals that apparel and textile products have come to account for sizable shares in relation to the EU and the United States (see Table 3.2).

**Table 3.2 Current Major Exports from All Africa to Asia, EU and US (SITC 3 digit)**

Asia				EU				US			
Ranking	Product	Product Name	Share (68-00)Avg	Ranking	Product Code	Product Name	Share (69-01)Avg	Ranking	Product	Product Name	Share (69-01)Avg
1	333	Petroleum crude & coobtain from bituminerals	32.8%	1	333	Petroleum crude & coobtain from bituminerals	28.8%	1	333	Petroleum crude & coobtain from bituminerals	55.2%
2	971	Golfram monety	7.5%	2	341	Fish,fresh (live/deador chilled/whole/fillets)	6.0%	2	334	Petroleum productsrefined	12.3%
3	681	Silverplatinum & other metals of the platinum group	4.9%	3	667	Pearlsprecious& semipreciousstonesunwork/rough	4.8%	3	681	Silverplatinum & other metals of the platinum group	5.5%
4	263	Cotton	3.5%	4	334	Petroleum productsrefined	4.8%	4	341	Fish,fresh (live/deador chilled/whole/fillets)	1.9%
5	522	Inorganic chemical elements oxides & halogen salts	3.4%	5	845	Outer garments women's of textile fabrics	2.8%	5	667	Pearlsprecious& semipreciousstonesunwork/rough	1.8%
6	684	Aluminum	3.1%	6	057	Fruit & nuts (not incl. oil nuts), fresh or dried	2.6%	6	845	Outer garments and other articles knitted	1.5%
7	671	Pig iron special basis, sponge iron, iron or steel	2.7%	7	842	Outer garments men's of textile fabrics	2.5%	7	843	Outer garments women's of textile fabrics	1.4%
8	247	Other wood in the rough or roughly squared	2.5%	8	072	Cocoa	2.5%	8	072	Cocoa	1.3%
9	036	Crustaceans and molluscs, fresh, chilled, frozen etc.	2.4%	9	322	Coal lignite and peat	2.1%	9	842	Outer garments men's of textile fabrics	1.2%
10	322	Coal lignite and peat	2.4%	10	971	Golfram monety	1.9%	10	671	Pig iron special basis, sponge iron, iron or steel	1.0%
11	334	Petroleum products refined	1.8%	11	846	Under garments knitted or crocheted	1.7%	11	287	Ores and concentrates of base metals, n.e.s.	0.9%
12	682	Copper	1.7%	12	845	Outer garments and other articles knitted	1.6%	12	288	Non-ferrous base metal waste and scrap, n.e.s.	0.7%
13	281	Iron ore and concentrates	1.6%	13	036	Crustaceans and molluscs, fresh, chilled, frozen etc.	1.2%	13	846	Under garments knitted or crocheted	0.6%
14	067	Fruit & nuts (not incl. oil nuts), fresh or dried	1.6%	14	034	Fish, fresh (live or dead), chilled or frozen	1.2%	14	844	Under garments of textile fabrics	0.4%
15	287	Ores and concentrates of base metals, n.e.s.	1.5%	15	681	Silverplatinum & other metals of the platinum group	1.1%	15	776	Thermionic, cold & photo-cathode valves, tubes, parts	0.4%
16	667	Pearls precious & semi-precious stones unwork/rough	1.4%	16	071	Coffee and coffee substitutes	1.1%	16	743	Pumps & compressors, fans & blowers, centrifuges	0.4%
17	251	Eggs in shell	1.2%	17	287	Ores and concentrates of base metals, n.e.s.	1.0%	17	781	Passenger motor cars, for transport of pass& goods	0.3%
18	753	Ships boats and floating structures	1.0%	18	684	Aluminum	0.9%	18	278	Other crude metals	0.3%
19	246	Pulpwood (including chips and wood waste)	1.0%	19	743	Pumps & compressors, fans & blowers, centrifuges	0.9%	19	684	Aluminum	0.3%
20	034	Fish, fresh (live or dead), chilled or frozen	1.0%	20	248	Wood simply worked and railway sleepers of wood	0.9%	20	511	Hydrocarbons nes& their hydrogen & etc derivatives	0.3%
21	121	Sheep, live	1.0%	21	773	Equipment for distributing electricity	0.9%	21	784	Parts & accessories of 722-781-782-783-	0.3%
22	692	Hgots and other primary fms of iron or steel	0.9%	22	781	Passenger motor cars for transport of pass& goods	0.9%	22	522	Inorganic chemical elements oxides & halogen salts	0.3%
23	074	Tea and mate	0.9%	23	037	Fish, non-skeleto and molluscs, prepar. or preserv.	0.8%	23	034	Fish, fresh (live or dead), chilled or frozen	0.3%
24	271	Fertilizers manufactured	0.7%	24	671	Pig iron special basis, sponge iron, iron or steel	0.8%	24	674	Universal plates and sheets of iron or steel	0.2%
25	776	Thermionic, cold & photo-cathode valves, tubes, parts	0.6%	25	054	Vegetables, fresh, chilled, frozen (pres. roots, tubers)	0.8%	25	121	Sheep, live	0.2%
26	689	Miscellaneous ferrous base metals, embly, in metallic	0.6%	26	247	Other wood in the rough or roughly squared	0.7%	26	689	Miscellaneous ferrous base metals, embly, in metallic	0.2%
27	582	Fertilizers manufactured	0.6%	27	061	Sugar and honey	0.7%	27	071	Coffee and coffee substitutes	0.2%
28	061	Sugar and honey	0.5%	28	121	Sheep, live	0.6%	28	057	Fruit & nuts (not incl. oil nuts), fresh or dried	0.2%
29	071	Coffee and coffee substitutes	0.5%	29	821	Furniture and parts thereof	0.6%	29	061	Sugar and honey	0.2%
30	282	Waste and scrap metal of iron or steel	0.5%	30	292	Crude vegetable materials, n.e.s.	0.6%	30	075	Spices	0.2%
31	341	Fish, fresh (live/deador chilled/whole/fillets)	0.5%	31	562	Fertilizers manufactured	0.6%	31	673	Iron and steel bars, rods, angles, shapes & sections	0.2%
32	674	Universal plates and sheets of iron or steel	0.5%	32	263	Cotton	0.5%	32	672	Parts and other primary fms of iron or steel	0.2%
33	683	Nickel	0.5%	33	289	Ores & concentrates of precious metals, waste, scrap	0.5%	33	659	Fluorocarbon, etc.	0.2%
34	072	Cocoa	0.5%	34	844	Under garments of textile fabrics	0.5%	34	282	Crude vegetable materials, n.e.s.	0.2%
35	228	Other crude metals	0.4%	35	281	Iron ore and concentrates	0.5%	35	582	Fertilizers manufactured	0.1%
36	222	Oil seeds and oleaginous fruit, whole or broken	0.4%	36	522	Inorganic chemical elements oxides & halogen salts	0.5%	36	232	Natural rubber latex, natural rubber & sim. nat. gums	0.1%
37	288	Non-ferrous base metal waste and scrap, n.e.s.	0.4%	37	611	Sugar beet and cane, raw, solid	0.4%	37	651	Textile yarn	0.1%
38	611	Sugar beet and cane, raw, solid	0.4%	38	733	Ships boats and floating structures	0.4%	38	821	Furniture and parts thereof	0.1%
39	781	Passenger motor cars, for transport of pass& goods	0.4%	39	776	Thermionic, cold & photo-cathode valves, tubes, parts	0.4%	39	335	Residual non-metallic products nes& related materials	0.1%
40	673	Iron and steel bars, rods, angles, shapes & sections	0.3%	40	851	Footwear	0.4%	40	897	Isocyanate, polyurethane and other art. of urea, isocyan.	0.1%
41	273	Stone, sand and gravel	0.3%	41	784	Parts & accessories of 722-781-782-783-	0.4%	41	251	Eggs in shell	0.1%
42	058	Spices	0.3%	42	423	Fixed vegetable oils, soft, crude, refined, purified	0.4%	42	271	Fertilizers, crude	0.1%
43	058	Fruit preserved and fruit preparations	0.3%	43	651	Textile yarn	0.4%	43	886	Works of art, collectors pieces & antiques	0.1%
44	511	Hydrocarbons nes& their hydrogen & etc derivatives	0.2%	44	112	Wool of sheep and goats, fresh, chilled or frozen	0.3%	44	971	Golfram monety	0.1%
45	523	Other inorganic chemicals	0.2%	45	674	Universal plates and sheets of iron or steel	0.3%	45	058	Fruit preserved and fruit preparations	0.1%
46	211	Hides and skins (except furskins), raw	0.2%	46	772	Electr. app. such as sw. ch. waste, tv. sets, etc.	0.3%	46	634	Veneers plywood, improved or reconstituted wood	0.1%
47	651	Textile yarn	0.2%	47	074	Tea and mate	0.3%	47	248	Wood simply worked and railway sleepers of wood	0.1%
48	516	Other organic chemicals	0.2%	48	058	Fruit preserved and fruit preparations	0.3%	48	056	Vegetables, nes & tubers prepared/preserved, n.e.s.	0.1%
49	282	Crude vegetable materials, n.e.s.	0.2%	49	634	Veneers plywood, improved or reconstituted wood	0.3%	49	782	Motor vehicles for transport of goods/materials	0.1%
50	512	Alcohols (phenols), alcohols & their derivat.	0.2%	50	271	Fertilizers, crude	0.3%	50	658	Made-up articles wholly/chiefly of textile materials	0.1%
above total			94.1%	above total			82.4%	above total			94.8%

Figures: The share figures are out of total Africa's exports to each partner region/country. For Asia, shares are based on average of 1998-2000. For US and EU, shares are based on averages of 1999-2001. All figures are based on partners' import data.

Colors: =products in the SITC 7 group; =products in the SITC 8 group

Source: UN COMTRADE Database

### 3.2 Subregional Features of Africa's Exports

Next, we will take a brief look at the subregional features of Africa's exports by comparing patterns in and the composition of exports at the subregional level. For this purpose, we divide Africa into five subregions—Northern, Eastern, Western, Central, and Southern Africa.<sup>14</sup>

#### Product Groups

Table 3.3 compares the five subregions in terms of compositions of SITC product groups in their exports. In all subregions except for Eastern Africa, “minerals fuels, lubricants, and related materials” (SITC 3) scores significantly high shares in overall African exports. In fact, major oil exporters are distributed widely across Africa: Egypt, Libya, and Algeria in Northern Africa; Sudan in Eastern Africa; Cameroon, Central African Republic, Congo Republic, Democratic Republic of Congo, Equatorial Guinea, and Gabon in Central Africa; Guinea, Niger, and Nigeria in Western Africa; and Angola in Southern Africa.

**Table 3.3 Current Subregional Export Structures by SITC Product Group**

Product	Product Name	Northern 45,526,559 (US\$, 000)		Eastern 6,605,728 (US\$, 000)		Western 26,940,901 (US\$, 000)		Central 10,509,432 (US\$, 000)		Southern 39,427,246 (US\$, 000)		All 129,009,869 (US\$, 000)	
0	Food and live animals	1.89%	4.80%	2.16%	41.56%	3.02%	14.49%	0.45%	5.56%	2.54%	8.26%	9.86%	9.86%
1	Beverages and tobacco	0.02%	0.07%	0.07%	1.43%	0.01%	0.04%	0.01%	0.08%	0.88%	2.87%	0.99%	0.99%
2	Crude materials, inedible, except fuels	1.04%	2.95%	0.57%	10.98%	1.90%	9.11%	1.35%	16.70%	3.14%	10.24%	8.00%	8.00%
3	Mineral fuels, lubricants and related	21.66%	61.57%	0.78%	15.04%	13.90%	66.72%	5.13%	63.47%	6.48%	21.12%	47.96%	47.96%
4	Animal and vegetable oils, fats and	0.19%	0.53%	0.01%	0.11%	0.10%	0.46%	0.00%	0.03%	0.03%	0.08%	0.31%	0.31%
5	Chemicals and related products, n.e.s.	1.68%	4.77%	0.05%	1.05%	0.19%	0.90%	0.03%	0.43%	1.20%	3.91%	3.15%	3.15%
6	Manufactured goods classified chiefly by	1.55%	4.40%	0.21%	4.06%	0.88%	4.22%	1.01%	12.43%	9.11%	29.68%	12.76%	12.76%
7	Machinery and transport equipments	1.65%	4.70%	0.09%	1.78%	0.58%	2.78%	0.05%	0.60%	2.77%	9.03%	5.14%	5.14%
8	Miscellaneous manufactured articles	5.24%	14.90%	1.18%	22.63%	0.09%	0.42%	0.02%	0.20%	1.03%	3.35%	7.55%	7.55%
9	Commodities and transactions n.e.s.	0.46%	1.32%	0.07%	1.36%	0.18%	0.86%	0.04%	0.49%	3.52%	11.47%	4.27%	4.27%
Total	Total Trade	35.17%	100.00%	5.20%	100.00%	20.83%	100.00%	8.09%	100.00%	30.71%	100.00%	100.00%	100.00%
		Left: share in total African exports				Over 25% share in total subregional exports							
		Right: share in total subregional exports				10-25%							
						Under 10%							

Figures: The share figures are based on averages of 1999-2001. The figures for all subregions are slightly different from All Africa figures in Table 3.1 largely due to round-up errors.

All figures are based on partners' import data.

Source: UN COMTRADE Database

The relative importance of mineral fuels, however, sharply differs among subregions. Northern, Western, and Central Africa depend on mineral fuels for more than 60 percent of their exports. In Eastern Africa, where oil exports are much smaller than in other subregions, “food and live animals” (SITC 1) and “miscellaneous manufactured products” (SITC 8) have prominent shares. (SITC 1 products include textile and apparel products in Mauritius, Madagascar, Kenya, and others; SITC 8 products include tea, fruits, nuts, spices, and fishery products from various countries in the subregions). In Southern Africa, “manufactured goods classified chiefly by materials” (SITC 6)—including silver, copper, platinum, aluminum, diamonds, leather, and textile yarn from various countries in the subregion—have a higher share than SITC 3 products. Southern Africa—considered the most industrialized and fastest growing region in Sub-Saharan Africa—scores high shares in various groups such as “crude materials, inedible, except for fuels” (SITC 2, which includes iron ore), “machinery and transport equipments” (SITC 7, which includes automobiles from South Africa), “miscellaneous manufactured articles” (SITC 8, which

<sup>14</sup> See Appendix I for the lists of countries in individual subregions.

includes textile and apparel products from countries such as South Africa and Lesotho), and “products and commodities not else classified” (SITC 9, which includes gold from South Africa and Zimbabwe).

Even in the three subregions where oil dominates the exports, other groups of products also have significant shares. Northern Africa, for example, has a significant share of exports in “miscellaneous manufactured goods” (SITC 8), reflecting established supply bases for textile and apparel products. Similar to Southern Africa, Northern Africa also exports a wide range of manufactured products. In Central and Western Africa, however, manufacturing products are not as diversified as in Northern and Southern Africa, but they do have tangible non-oil exports such as “food and live animals” (SITC 0), “crude materials, inedible, except for fuels” (SITC 2), and “manufactured goods classified chiefly by materials” (SITC 6). These groups include such products as cocoa, fruits and nuts, fishery products, cotton, diamonds, woods, leather, and aluminum.

### Destined Markets

Turning to the question of how subregions differ in terms of export destinations, Table 3.4 compares the five subregions in terms of shares of their major trade partner regions in total African exports as well as average annual changes in exports per trade partner during the 1990s. It is easily observed that the EU is the leading destination of exports for all five subregions, confirming our earlier findings. Northern, Eastern, and Southern Africa score significantly high shares of exports to the EU out of total African exports. Northern Africa, with over 70 percent of its export earnings from sales to the EU, shows the highest dependence on the EU market, a reflection of its geographical proximity to Europe. Eastern Africa also receives more than a half of its export earnings from the EU market. All other subregions receive over 35 percent of their export earnings from the EU. The large shares of exports to the EU are rather steady for Africa as a whole, but Southern Africa is increasing its exports to the EU rather rapidly as a result of the free trade agreement between the EU and South Africa.

**Table 3.4 Current Subregional Export Structures by Partner Regions**

	Northern		Eastern		Western		Central		Southern		All	
	45,526,559 (US\$,000)		6,605,728 (US\$,000)		26,940,901 (US\$,000)		10,509,432 (US\$,000)		39,427,248 (US\$,000)		129,009,869 (US\$,000)	
<b>Africa</b>	0.75%	2.14%	0.19%	3.62%	1.21%	5.79%	0.11%	1.35%	1.29%	4.21%	3.55%	3.55%
	2.43%		1.79%		13.19%		-2.79%		4.18%		5.68%	
<b>EU</b>	25.34%	72.07%	2.71%	52.06%	7.79%	37.38%	3.19%	39.49%	12.77%	41.56%	51.80%	51.80%
	1.38%		2.59%		-1.29%		-2.08%		3.94%		1.28%	
<b>US</b>	3.06%	8.70%	0.54%	10.48%	7.02%	33.71%	2.29%	28.28%	6.00%	19.52%	18.91%	18.91%
	3.80%		7.47%		4.02%		5.91%		6.91%		5.14%	
<b>Asia</b>	1.93%	5.48%	1.46%	28.03%	2.80%	13.42%	2.22%	27.43%	8.57%	27.90%	16.97%	16.97%
	4.59%		11.73%		10.96%		21.57%		9.15%		10.06%	
<b>Others</b>	4.08%	11.61%	0.30%	5.81%	2.02%	9.70%	0.28%	3.45%	2.09%	6.80%	7.77%	8.77%
	10.00%		6.78%		5.30%		0.91%		7.97%			
<b>World</b>	35.16%	100.00%	5.20%	100.00%	20.83%	100.00%	8.09%	100.00%	30.72%	100.00%	100.00%	100.00%
	2.47%		5.20%		2.63%		3.36%		5.99%		3.70%	
Left Upper: share in total African exports					Over 50% share in total subregional exports				Annual average increase over 3% in bold			
Left Lower: annual average increase (1989-2001)					10-50% share							
Right: share in total subregional exports					Under 10% share							

Figures: The share figures are based on averages of 1999-2001. All figures are based on partners' import data.  
Source: UN COMTRADE Database

Other bilateral relations with significantly high shares in total Africa's exports include Western and Southern Africa with exports to the United States, and Southern Africa with exports to Asia.

Comparing the degrees of reliance on the U.S. and Asian markets among the subregions, we observe that Western and Central Africa receive more than a quarter of their export earnings from the United States, and Eastern, Central, and Southern Africa receive more than a quarter of their export earnings from Asia. Although the degree of reliance on Asian markets is not comparable to the degree of reliance on the EU for all subregions, the average increase in export values in the table indicates that all subregions are increasing their reliance on Asian markets as their destined markets, consistent with our earlier findings. Central Africa, in particular, is increasing its exports to Asia most rapidly. Although crude oil exports from such countries as Equatorial Guinea, Republic of Congo, and Gabon are the principal drivers for such growth, cotton exports from Chad also contribute significantly to the growth.

In all subregions, the shares of intra-Africa trade are limited to much smaller numbers compared to other partner regions. Given that the most of the most of the subregions contain a large number of land-locked countries, establishment of regional infrastructure, which connects land-locked countries with major sea ports in coastal countries, is a critical condition for expanding their trade opportunities. Success in regional infrastructure projects such as Chad-Cameroon Pipeline is strongly hoped for. Also, regional integration conducive to trade enhancement need to be achieved through effective regional integration agreements (RIAs) (see Box 3.1).

### Box 3.1 Regional Integration Agreements in Africa

Regional integration agreements (REIs) have evolved considerably in the African region. There are currently ten important REIs in Africa, which are summarized in Table 3.5. Several major automobile plants already operate in South Africa targeting neighboring markets in addition to South Africa itself. In 2002, two Japanese electrical appliance manufacturers for refrigerators and air-conditioners established assembling factories in Egypt, as an entry point into the market of COMESA. Although there are still remaining issues in the practical effectiveness of those regional economic zones and infrastructure within zones, the global trend is suggesting a direction for regional integration under the WTO framework. One of the strategies would be to develop a regional hub with sufficient infrastructure for accommodating FDI with concentration of services in trade, finance, transportation, communication and other service infrastructure. South Africa has already taken a hub role in Southern Africa, as has Egypt in Northern Africa. USAID is assisting in its program, Trade for African Development and Enterprises (TRADE), in developing so-called Regional Hubs for Global Competitiveness in three regional missions of USAID: Acra (Ghana), Nairobi (Kenya), and Gaborone (Botswana).

Overall, viable regional integration would help African countries to overcome capacity constraints of small domestic markets in individual countries. Regional integration broadens the scope of market-based economic development of small African countries, each of which has a very fragmented domestic market of factors and goods. Through regional integration, these countries can have better allocation of resources and economies of scale. To have regional integration more conducive to trade enhancement in Africa, the regional integration agreements needs to have more outward-looking trade orientation and to avoid unnecessary overlapping and inconsistency among different agreements. Adequate infrastructure and appropriate governance over the infrastructure system are also essential for effective regional integration.

Table 3.5 Subregional Arrangements in Africa

Regional Integration Agreement	Acronym / Formation Date	Members	Comments
Cross-Border Initiative	CBI (1992)	Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	A voluntary framework agreement for the implementation of trade and investment policies.
East African Community	EAC (1999)	Kenya, Tanzania, Uganda	Focus on regional integration of trade and investment policy, monetary and fiscal policy, and labor and capital markets.
Economic and Monetary Community of Central Africa	CEMAC (1994)	Cameroon, Central African Republic, Chad, Congo, Gabon, Equatorial Guinea	Aims to promote harmonious development of member states within the framework of economic and monetary union.
Economic Community of West African States	ECOWAS (1975)	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo	Promotes economic integration in all fields of economic activity.
Common Market for Eastern and Southern Africa	COMESA (1993)	Angola, Burundi, Comoros, Djibouti, Egypt, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	Promotes intraregional trade through removal of all internal tariffs and non-tariff barriers (NTBs) to trade.
India Ocean Commission	IOC (1984)	Comoros, Madagascar, Mauritius, Seychelles	Supports cooperation in economic and trade co-operation, agriculture, fisheries, and ecosystems
Southern African Development Community	SADC (1980)	Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	Formerly Southern African Development Coordination Conference (SADCC)
West African Economic and Monetary Union	WAEMU (1994)	Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo.	Aims to create a common market based on the free movement of goods, services, capital and persons.
Southern African Customs Union	SACU (1910)	Botswana, Lesotho, Namibia, South Africa, Swaziland	Aims to maintain free trade between member countries, and a common external tariff and a common excise tariff to the customs area.

Source: Japan Center for International Finance (2003)

### 3.3 External Trade Regimes and Cross-Country Analysis

Here we provide an overview of external trade regimes and how preferential arrangements by their trading partners have contributed to expansion of African exports. It is preferable that some specific attributes or measures are found to correlate with export growth, but it is hard to identify any such correlation in direct ways.

Appendix II provides comprehensive data on the multilateral, bilateral, and regional trade institutions with which African countries are affiliated. The data also include countries' eligibility status on several preferential treatments provided by major industrialized countries. WTO membership has been extended to 41 of 53 countries in Africa. Even though membership in the WTO is expected to provide these countries with preferable conditions for promoting trade in terms of most favored nation (MFN) status, the membership itself does not necessarily guarantee growth in export earnings for all African countries because most African countries have already been granted with preferential treatments under the Generalized System of Preferences (GSP) with tariff rates much lower than MFN tariff rates.

Based on the understanding that export growth will contribute to development in Africa, developed countries have extended preferential market access measures to African countries with the aim of promoting Africa's external trade and thereby facilitating the integration of Africa into the global economy. In particular, the EU and the United States have implemented various measures to facilitate exports from the region. The EU currently extends preferential access to its market under the Cotonou Agreement and the Everything but Arms (EBA) initiative (see Box 3.2). The Cotonou Agreement, which replaced the Lomé Convention for ACP (Africa, the Caribbean, and the Pacific) countries, covers all Sub-Saharan African countries, whereas EBA covers all African least developed countries.

#### **Box 3.2 EU and US Preferential Trade Measures for African Countries**

In 2001, the "Everything but Arms" (EBA) initiative was introduced by the EU. The EBA regulation grants duty-free access to imports of all products from the least developed countries, with the exception of arms and munitions, and without any quantitative restrictions. Liberalization was immediately implemented except for three products: fresh bananas, rice, and sugar, whose tariffs will be gradually reduced to zero. Prior to the EBA initiative, the Generalized System of Preferences (GSP) and the Lomé Convention, which has been replaced by the Cotonou Agreement in 2000, had existed to grant developing countries, including African countries, preferential trade access to the EU. Under these schemes, all industrial products from Africa enter the EU duty- and quota-free, and most of the agricultural products have been completely liberalized or enjoy preferential access such as duty-free quotas.

The African Growth and Opportunity Act (AGOA) was signed into U.S. law in 2000. It is the latest in a series of regional initiatives in U.S. trade policy toward Sub-Saharan African countries. It aims at broadly promoting economic development in Africa, enabling countries to embrace globalization and securing durable political and economic stability. It offers increased preferential access for African exports to the United States. AGOA benefits are not, however, automatically extended to all these countries. AGOA establishes a series of eligibility criteria in terms of economic reforms, the rule of law, protection of human rights, labor rights, corruption, and other matters. Countries are required to meet such criteria to be designated eligible for the program.

The impact of AGOA is very significant for the textile and apparel sector, because these items are exported by nearly all Sub-Saharan African countries and because their tariff and quota barriers are relatively high. However, AGOA countries enjoy the preferences only if they meet strict rules of origin. Basically, apparel products assembled and even further processed from fabrics and yarns that are made in the United States are unrestricted, whereas those assembled from regional fabric that is made from U.S. or African yarn is subject to a cap of 1.5 percent of overall U.S. apparel imports, growing to 3.5 percent until 2008. However, for least developed countries with per capita GNP under US\$1,500, unrestricted access has been granted even for apparel assembled in those countries using foreign fabric or yarn until 2004. Thereafter, those countries will have to follow the same restrictions mentioned above. Thus, at least until 2004, least developed countries in Africa can enjoy duty-free access to the U.S. apparel market as long as their products are assembled in their own countries.

Source: United States (2003)

Table 3.6 summarizes the coverage of these preferential treatments and average annual changes of export values of African countries in the past decade. As shown in the table, the extension of preferential treatments itself does not seem to be directly correlated with increases in exports from Africa to the EU. Of course, the current high share of EU-destined exports in Africa's total exports can be partly attributed to these preferential treatments. However, overall, Africa's exports to the EU have been stable over the past decade. Furthermore, one World Bank report points out that the introduction of the EBA has had little effect on increasing trade because all industrial and most agricultural and fishery products exported to the EU had already enjoyed preferential access.<sup>15</sup>

**Table 3.6 Preferential Measures by EU and Changes in African Exports**

Ranking	Country	Average Annual Change of Total Export Value towards the EU	Cotonou Agreement	EBA (Everything But Arms)	FTA
1	Niger	113.19%			
2	Eritrea	39.61%			
3	Equatorial Guinea	33.73%			
4	Botswana	29.27%			
5	Seychelles	22.64%			
6	Tanzania	20.69%			
7	Rwanda	18.89%			
8	Burkina Faso	18.29%			
9	Zambia	14.73%			
10	Congo, Rep.	14.00%			
11	Sao Tome and Principe	11.86%			
12	Ghana	10.98%			
13	Ethiopia	9.14%			
14	Namibia	8.58%			
15	Morocco	8.05%			
16	South Africa	6.80%			
17	Tunisia	5.87%			
18	Sudan	5.40%			
19	Kenya	3.59%			
20	Mozambique	2.19%			
21	Mauritania	1.90%			
22	Algeria	1.57%			
23	Guinea	1.51%			
24	Mauritius	0.84%			
25	Madagascar	0.76%			
26	Angola	0.50%			
27	Egypt	-0.01%			
28	Cape Verde	-0.25%			
29	Cameroon	-0.38%			
30	Benin	-0.67%			
31	Zimbabwe	-1.03%			
32	Chad	-1.58%			
33	Central African Republic	-1.92%			
34	Liberia	-2.37%			
35	Congo, Democratic Rep.	-2.37%			
36	Senegal	-3.62%			
37	Cote d'Ivoire	-3.63%			
38	Malawi	-3.83%			
39	Nigeria	-4.34%			
40	Uganda	-4.75%			
41	Djibouti	-7.42%			
42	Guinea-Bissau	-7.52%			
43	Libya	-7.88%			
44	Sierra Leone	-8.70%			
45	Togo	-10.27%			
46	Gambia	-13.42%			
47	Comoros	-14.49%			
48	Gabon	-15.73%			
49	Burundi	-20.49%			
50	Somalia	-22.34%			
51	Mali	-22.54%			
52	Lesotho	-27.33%			
53	Swaziland	-73.42%			

Figures: The share figures are based on averages of 1999-2001. All figures are based on partners' import data.  
Source: UN COMTRADE Database

The

United States enacted the AGOA in 2000 with the aim of assisting economic development and political stability in the region. Overall, the impact of the tariff-free and quota-free part of this initiative has been limited because, as in the case of the EU, most African products entering the United States already had preferential access. The apparel and textiles sector benefits under AGOA, however, have had tangible effects on attracting foreign investment, especially from Asia, and on promoting trade in the sector.

<sup>15</sup> Breton (2003).



Table 3.7 ranks countries by export growth of garment products categorized under SITC 842-6, highlighting the countries eligible for AGOA's apparel and textiles benefits. Because AGOA was introduced in the year 2000, changes, if any, should be observed between the years before and after its introduction. As the table shows, changes have clearly occurred in some countries after the year 2000. Growth of apparel and textiles exports from Namibia, Tanzania, and Botswana turned from negative to positive from 2000–01 to 2001–02 and Ethiopia, Kenya, and Lesotho have registered high rates of positive changes from 1999 to 2002. The U.S. government has reported that these countries have increased exports under the AGOA apparel and textiles benefits.

The apparel and textiles benefits of the AGOA have had such tangible impacts because general tariff and quota barriers are relatively high for these products. Additionally, many African countries had been exporting apparel and textile products before the year 2000, and so Africa already had some industrial bases in the sector.<sup>16</sup> Looking at the countries that have taken advantage of the AGOA's apparel and textiles benefits, it is observed that most of those countries are located in Southern and Eastern Africa. Presumably, this has some correlation with the rapid inflow of FDI from Asian economies such as India, China, and Taiwan in response to the introduction of the AGOA.<sup>17</sup> The geographical proximity and the language factor (that is, Anglophone) may have attracted Asian investment more to Southern and Eastern Africa than to Central and Western Africa.

**Table 3.7 Preferential Measures by US and Changes in African Exports**

Ranking by 2001-02 Change	Country Name	Change of Total Export Value of SITC 842-6 Products Towards US			Apparel and Textile Benefits Under AGOA
		2001-02 Change	2000-01 Change	1999-00 Change	
1	Namibia	6684.5%	-40.68%	N/A	○
2	Burkina Faso	2402.1%	-67.84%	706.92%	
3	Tanzania	1921.5%	-62.40%	-98.69%	○
4	Liberia	360.1%	-36.18%	-6.69%	
5	Ethiopia	197.6%	7036.66%	98.12%	○
6	Mozambique	174.7%	N/A	-100.00%	○
7	Botswana	137.3%	-70.22%	N/A	○
8	Kenya	82.1%	48.68%	11.04%	○
9	Swaziland	77.1%	50.68%	N/A	○
10	Mali	51.5%	-1.83%	-63.54%	
11	Lesotho	43.6%	52.74%	N/A	○
12	Cote d'Ivoire	34.1%	75.04%	-6.57%	
13	Cape Verde	29.7%	34.17%	1383.24%	○
14	Tunisia	27.7%	-1.78%	-34.71%	○
15	Togo	11.9%	-45.00%	-72.46%	
16	Mauritius	0.6%	-2.72%	-5.50%	
17	South Africa	-1.9%	22.32%	-40.60%	
18	Malawi	-1.9%	52.30%	417.46%	○
19	Guinea	-6.7%	-78.10%	847.52%	
20	Egypt	-13.9%	-5.22%	23.00%	
21	Morocco	-25.3%	1.72%	5.70%	
22	Ghana	-38.7%	28.26%	-98.60%	○
23	Gambia	-42.6%	48.66%	176.09%	○
24	Zimbabwe	-48.4%	-23.78%	-6.16%	○
25	Madagascar	-52.6%	63.03%	137.09%	○
26	Senegal	-64.4%	-22.61%	39.11%	○
27	Sierra Leone	-65.1%	460.43%	83.64%	
28	Niger	-65.4%	44.08%	29.61%	○
29	Cameroon	-80.4%	109.49%	-70.92%	○
30	Nigeria	-80.5%	134.65%	6.67%	
31	Mauritania	-84.1%	147.31%	-87.11%	
32	Somalia	-94.9%	673.59%	-96.55%	
33	Uganda	-97.8%	N/A	N/A	
-	Benin	N/A	337.00%	N/A	
-	Congo, Democratic Rep.	N/A	-10.07%	N/A	○
-	Zambia	N/A	-13.46%	41674.88%	
-	Burundi	N/A	-94.76%	N/A	○
-	Eritrea	N/A	-99.24%	9947.68%	
-	Central African Republic	N/A	N/A	N/A	○
-	Gabon	N/A	-100.00%	N/A	○
-	Senegal	N/A	-100.00%	-86.44%	
-	Sudan	N/A	-100.00%	N/A	○
-	Algeria	N/A	N/A	N/A	
-	Angola	N/A	N/A	N/A	
-	Chad	N/A	N/A	N/A	○
-	Comoros	N/A	N/A	N/A	
-	Congo, Rep.	N/A	N/A	N/A	
-	Dibouti	N/A	N/A	N/A	○
-	Equatorial Guinea	N/A	N/A	N/A	○
-	Guinea-Bissau	N/A	N/A	N/A	
-	Liberia	N/A	N/A	N/A	○
-	Rwanda	N/A	N/A	-100.0%	○
-	Sao Tome and Principe	N/A	N/A	N/A	○

Figures: The share figures are based on averages of 1999-2001. All figures are based on partners' import data.

Source: UN COMTRADE Database

<sup>16</sup> Among them, South Africa and Mauritius have been the major exporters since pre-AGOA period.

<sup>17</sup> This point will be analyzed more in depth in Section 5.

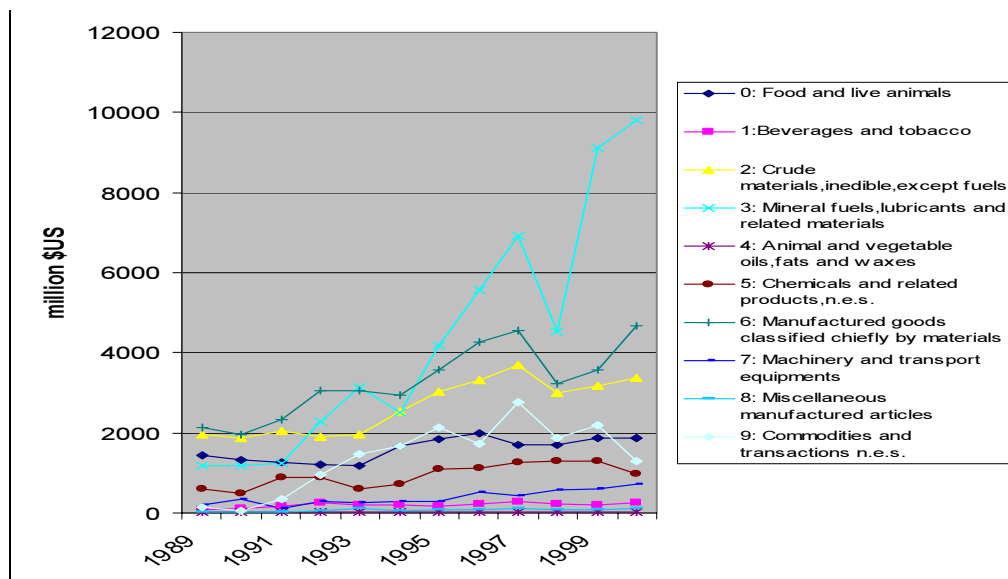
## 4. Overview of Structure of Africa's Exports to Asia

In the previous section, we provided the overall picture of the export structure of African countries based on the export matrixes. One of the basic findings is that Africa's exports to Asia have grown rapidly during the past decade, mostly driven by crude oil and other primary commodities. Here, we take a closer look at the pattern of trade between Africa and Asia throughout the 1990s.

### 4.1 Basic Characteristics of Africa's Exports to Asia

Figure 4.1 illustrates the trends in Africa's export values to Asia for each product group (SITC 1 digit level). Although the figure confirms our earlier findings, a particular drive for growth during the 1990s is found in SITC 3 (crude materials), which dramatically increased throughout the decade.<sup>18</sup> Another significant group is SITC 9, which includes gold. A group of primary commodities—non-fuel inedible crude materials (SITC 2) that include cotton and woods—has also increased significantly since the beginning of the decade. In contrast, the figure shows that a few traditional commodity exports from Africa—food and live animals (SITC 0)—though showing a steady increase, do not share the same magnitude of increase.

**Figure 4.1 Trend in Africa's Exports to Asia in the 1990s: By SITC Product Group**



Figures: The share figures are based on averages of 1998-200. All figures are based on partners' import data.  
Source: UN COMTRADE Database

Of the total US\$21 billion in Africa's exports to Asia today, a large share is concentrated in a relatively small number of countries in Africa. Table 4.1 shows the major African countries with exports to Asia, both in terms of share of total African export values and average annual increase

<sup>18</sup> Because the Government of India did not report the country's crude oil imports for 2000, UN COMTRADE is not able to provide more accurate figures regarding Asian imports from Africa in SITC 3 and the aggregate Asian imports from Africa. The statistics used for this paper therefore do not include Indian crude oil imports for 2000.

in export values. Of the 53 African countries this report covers, the five largest exporters—South Africa (39.5 percent), Nigeria (11.9 percent), Angola (7.7 percent), Republic of Congo (6.1 percent), and Morocco (4.7 percent)—account for more than two-thirds of total African exports to Asia. The reason for such concentration in few countries is that mineral fuels, especially crude oil, account for one-third of the total export values. South Africa, however, which has begun its path of industrialization, contributes to the region’s exports to Asia in a number of other products, including manufactured products. The table shows that in terms of the average annual rate of increase in exports to Asia, a better mix of countries has recorded strong increases in export values to Asia during the 1990s.

**Table 4.1 Major African Exporters to Asia: Share and Rate of Change**

	Share (%)		rate of change p.a. (%)
South Africa	39.46	Eq. Guinea	116.75
Nigeria	11.91	Congo, Rep.	72.51
Angola	7.68	Niger	59.52
Congo, Rep.	6.12	Angola	45.55
Morocco	4.71	Nigeria	38.63
Egypt	4.02	Djibouti	31.75
Sudan	2.72	Guinea	25.12
Gabon	2.28	Cape Verde	20.58
Zimbabwe	1.84	Cameroon	15.79
Cameroon	1.72	Benin	15.62
Zambia	1.36	Mauritius	15.27
Kenya	1.33	Guinea-Bissau	14.59
Cote d'Ivoire	1.21	Sao Tome and Principe	14.45
Tunisia	1.19	Sudan	13.83
Tanzania	1.18	South Africa	13.17
Eq. Guinea	1.17	Uganda	10.90
Algeria	0.99	Comoros	10.66
Liberia	0.86	Gabon	10.14
Niger	0.84	Egypt	9.36
Ghana	0.82	Kenya	6.55

Figures: The share figures are based on averages of 1998-2000. The rates of changes were computed by taking annual average changes between the averages of 1989-1991 and those of 1998-2000. All figures are based on partners’ import data.  
Source: UN COMTRADE Database

Table 4.2 presents a detailed list of the major African exports to Asia, identified at a highly disaggregated level (SITC 4-digit) and ranked according to the value shares in total Africa’s exports to Asia (three-year-averages from 1998–2000). The table also shows the major exporters and importers of those products to provide a detailed picture of the pattern of Africa’s exports to Asia.

The table helps us understand more than just the 1-digit level characteristics of African exports to Asia. As expected, crude oil (SITC 3330) and gold (SITC 9710) top the list. These two products characterize the basic patterns we saw for the corresponding 1-digit groups (SITC 3 and 9) in Figure 4.1. A few countries line up as crude oil exporters to Asia, with the largest exporters being Nigeria (33.92 percent), Angola (23.31 percent), and Republic of Congo (17.32 percent). On the import side, China, Korea, India, and Taiwan almost evenly import the most crude oil from



Africa.<sup>19</sup> The major non-fuel inedible crude materials exports include cotton (SITC 2631) and sawlogs and veneer logs (SITC 2472), both of which have varieties of African countries leading in their export. Although exports in agricultural products are not prominent at the 1-digit level, the table includes some agricultural commodities such as crustaceans and mollusks (SITC 0360), nuts (SITC 0577), and tea (SITC 0741). Importers of these products in Asia seem to be concentrated in specific countries, catering to particular tastes and food culture of consumers in those countries (for example, fishery products to Japan, nuts to India, tea to Pakistan). Besides oil and gold, there are some more mineral and mining products prominent in the table, such as iron ore (SITC 2815), coal (SITC 3222), copper (SITC 6821), and diamonds (SITC 6672). Additionally, Africa exports heavy manufactured products, such as aluminum (SITC 6841) and ferro-alloys (SITC 6716), to Asia.

The major exports from Africa to Asia can roughly be categorized into three groups. The first group is minerals and mining products, including mineral fuels such as oil, which are exported by a handful of countries rich in these natural resources. The second group of exports is agricultural and fishery products. Although relatively small in values compared to the first group, these products constitute a significant part of exports by non-oil-exporting countries. And the last group of exports is heavy manufacturing products, mainly produced by the rapidly growing economy of South Africa. Although limited to very few countries such as South Africa so far, these manufacturing products already provide significant export earnings to the region.

## **4.2 Major Trade Partners in Asia for Africa's Exports**

By looking at the Asian side, we notice from Table 4.2 that a good mix of countries is represented as leading importers for each product. Although Japan's position in the region as the leading trading country is unchanged as long as overall trade with the world is concerned, clearly that it is not the case for Africa-Asia trade relations specifically. Countries such as China, India, Korea, and Taiwan contribute significantly in many products that have high shares among Asian imports from Africa. In fact, as can be seen in Figure 4.2, the increase of African exports to Asia is mainly driven by exports to those four countries. Japan was the largest importer of African products in early 1990s, but India and China have now surpassed Japan in since the mid-1990s.<sup>20</sup> Table 4.2 shows that China, Korea, India, and Taiwan are the largest importers of crude oil from Africa. And the share of mineral fuels in Asia's overall imports from Africa has grown most rapidly since the beginning of the 1990s. It is important to note, however, that Asia's large oil importers do show increasing imports of non-oil products from Africa during the same period.

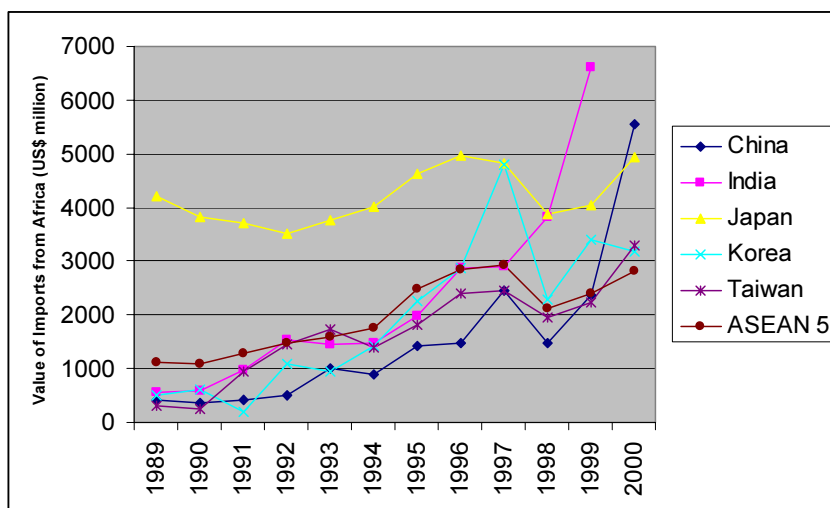
Various trade and investment initiatives have been undertaken by the governments of Asian countries to promote trade and investment activities by their national businesses with African countries. Box 4.1 examines such initiatives by three major Asian importers of African products—India, China, and Japan.

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<sup>19</sup> With more accurate figure for 2000 Indian statistics, the share of India is likely to be higher.

<sup>20</sup> In terms of non-oil exports of Africa, Japan has maintained its dominance as the major importer of African products throughout the 1990s.

**Figure 4.2 Trend in Africa's Exports to Asia: By Importer**



Note: ASEAN 5 consists of Indonesia, Malaysia, Philippines, Singapore, and Thailand.

Figures: All figures are based on partners' import data.

Source: UN COMTRADE Database

### Box 4.1 Asian Countries' Trade Initiative for Africa

#### India

India's trade with Sub-Saharan Africa has increased during the past decade. According to statistics by the Government of India, trade between India and Sub-Saharan Africa has increased from US\$893 million in 1991–92 to US\$7,014 million in 2000–2001. The growth rate of exports from Sub-Saharan Africa to India has been rapid: In 1991–1992, India imported US\$458 million of goods and services, but in 1999–2000 India imported as much as US\$5,517 million.

Faced with such a trend, the Government of India came to see the potential for developing India-Africa trade and recently launched a program called FOCUS: AFRICA from 2002 to 2003. The main focus of this program is to increase interactions between the two regions by identifying areas of bilateral trade and investment. India has decided to place emphasis on selected Sub-Saharan African countries, namely, Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania, and Ghana.<sup>1</sup> In terms of commodities, India mainly imports various kinds of material- and mineral-based products, such as crude oil and its related products, gold and silver, pearls, coal, wood, cotton, iron and steel, fertilizers, and so on.

The Government of India states four reasons why it is pursuing enhanced trade with Sub-Saharan Africa. First, Sub-Saharan countries have been liberalizing their markets, and their economies are growing. Second, shares of India-Africa trade are still minimal; India's exports to Sub-Saharan Africa constitute a mere 4.08 percent of total exports to the region. Similarly, imports from Sub-Saharan African countries constitute only 3.18 percent of India's total imports in 2000–2001. Third, direct shipping lines between India and South Africa have been established recently. Fourth, language barriers can be surmounted with the help of business software for quick translation between English and prominent African languages.

In the FOCUS: AFRICA program, there are several measures to be implemented by the Government of India as well as the Export Credit Guarantee Corporation (ECGC), the Ex-Im Bank, and Chambers of Commerce and Industry. Measures undertaken by the Government of India are fourfold: (1) enhanced interaction, (2) institutional mechanisms, (3) trade missions, and (4) trade promotion measures. In regard to institutional mechanisms, India has already had Joint Trade Committees with Senegal, Kenya, Zimbabwe, Ghana, Uganda, Côte d'Ivoire, Namibia, and Ethiopia, and it aims to initiate the same kinds of committees with the remaining focus countries. Concerning trade promotion measures, the India Trade Promotion Organization is to undertake various measures such as participation in specialized and commodity specific fairs and exhibitions in Sub-Saharan African countries, special promotion and publicity in the Sub-Saharan African countries, and organizing buyer-seller meetings.

## **Box 4.1 Asian Countries' Trade Initiative for Africa (continued)**

### *China*

Since the 1950s, China has signed trade treaties with a substantial number of African countries on the establishment of diplomatic relations. Some of these treaties were occasionally suspended or inactivated due to unstable political situations, primarily on the African side. Morocco and Egypt were the first to have trade relations with China. At present, 39 African countries have signed trade agreements, and four countries have concluded agreements to prohibit double taxation. In conjunction with the recent economic development in China and African countries, trade agreements seem to have accelerated the growth of trade between them. Currently 14 African countries have trade volumes in excess of US\$100 million with China.

To the benefit of African development, some African countries have enjoyed export surpluses with China. Angola, for example, signed a trade agreement with China in 1984 and formed a committee on trade and economy in 1988. Trade volume between the two countries has drastically increased since then. China's imports from Angola, in terms of annual growth rates, registered 131 percent and 418 percent in 1999 and 2000, respectively. A major export from Angola to China is crude oil, which has created a large trade deficit for China. The trade agreement between Sudan and China has a long history. The two countries first concluded the agreement in 1962 and transformed it in 1993 into a kind of agreement for economic, trade, and technological cooperation, which was accompanied by supplementary agreements for protecting investments and prohibiting double taxation. South Africa has an equal trade relationship with China with little trade deficit or surplus. South Africa's major exports are crude materials and manufactured goods classified chiefly by material, whereas China exports miscellaneous manufactured goods such as apparel products.

Such close trade relations between Africa and China have, to a large extent, been realized through FDI by the private sector. China's FDI in Africa registered nearly US\$100 million for 54 projects in 1999, which brought the cumulative investment volume to US\$440 million for 351 projects. In terms of sectors, China's investments have been directed toward manufacturing, which includes apparel, medicine, electric appliances, and other miscellaneous goods. Interestingly, African investors, however, have been increasing their investment in many areas of China's economy, including petrochemical, electric machinery, chemical and pharmaceutical products, agriculture development, and service industries. It is reported that Africa's cumulative investment in China reached US\$520 million as of 1999.

Source: Government of People's Republic of China, Ministry of Foreign Trade and Economic Cooperation (official website).

### *Japan*

The trade volume between Africa and Japan has decreased somewhat since 1995. In recent years, exports from Africa to Japan decreased by 8.2 percent year-on-year to US\$4.57 billion by 2001. Imports from Japan to Africa also dropped by 12.1 percent to US\$4.45 billion over the same period. The decrease in some exports has been partially compensated by an increase in other exports. For instance, the rapid growth of automotive exports from South Africa compensates for the decline of base metal exports from the African continent. Similarly, exports of wood-related products from South Africa have increased, whereas exports of unworked metal materials have decreased for all of Africa. Moreover, a decrease in exports of fish, mainly from northwest Africa, has been offset by an increase in exports of crude oil from Sudan.

In fiscal year 2002, the Japanese Ministry of Finance decided to expand the coverage of preferential tariff treatments for import goods from the least developed countries with a view to extending economic cooperation upon discussions at the Group of 7 Summit Meetings as well as preparing for a new round of negotiations in the WTO. The newly revised preferential tariff treatments for these countries are expected to play a positive role in accelerating exports from Africa. In particular, agricultural and fishery goods, a sector that had been less liberalized, benefited from the treatment.

Japan's preferential trade treatment is twofold: general preferential tariffs in a form of reduced tariff rates vis-à-vis MFN tariff rates, which are widely extended to developing countries; preferential tariff treatments in a form of duty-free and quota-free treatment, which are extended to the least developed countries. Under the current general preferential tariff treatments, 221 out of 1,600 agricultural and fishery products and 3,284 out of 4,400 industrial products are granted preferential treatment. Furthermore, the current least developed country preferential tariff treatments cover an additional 77 agricultural and fishery products and 1,035 industrial products. Under the new revision of these treatments, a major focus is placed on the expansion of preferential tariff treatments for agricultural and fishery products, under which Japan will extend general preferential tariff coverage to an additional 118 goods and extend preferential tariff coverage to an additional 102 goods such as prawns and apricots.

Among African countries, Mauritania, Gambia, Angola, Tanzania, Zambia, Angola, and Malawi have ample track records of exports to Japan and are anticipated to be major beneficiaries under the revised least developed country preferential tariff treatment. Similarly, South Africa and Morocco will be major beneficiaries of the revised general preferential tariff treatments.

According to statistics published by the Japanese Ministry of Finance, Japanese FDI in Africa totalled US\$193 million for 13 new projects in the fiscal year 2001—3.6 times as much as the previous year. This increase was due in part to Japanese FDI in Liberia and South Africa related to ship ownership and the manufacture of industrial goods. On addition, the rapid increase in exports of automobile-related products from South Africa is related to Japanese FDI in the South African manufacturing sector.

Source: Government of Japan, Ministry of Finance (official website) and Japan External Trade Organization (2002)

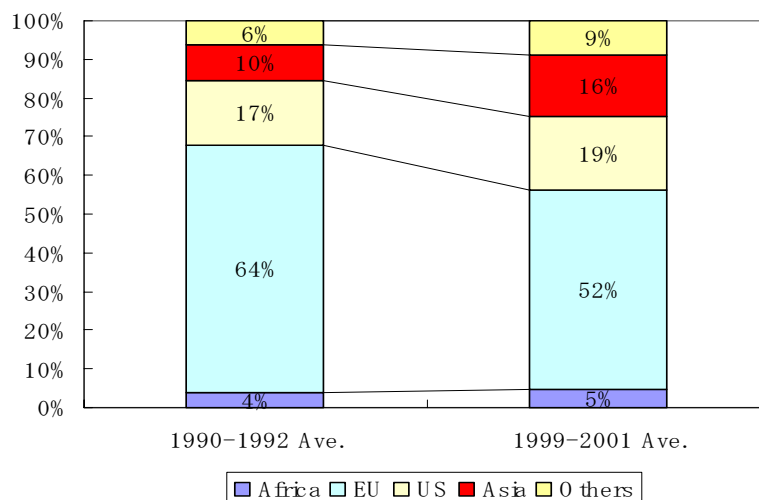
## 5. Implications of Africa-Asia Trade Relations in Africa's Trade Strategies

### 5.1 Contribution to Overall Export Expansion

In the previous two sections, we provided the overall picture of the export structure of African countries and the basic patterns of trade between Africa and Asia. As indicated in the export matrix in Table 3.1, Africa's total trade values in nominal terms increased by 3.7 percent on an annual basis over the period 1990–2001. Exports from All Africa to Asia grew by 10.06 percent annually over the same period. Figure 5.1 shows the change in the share of exports from All Africa consumed by each trading partner group between the periods 1990–1992 and 1999–2001. Based on the 1990–1992 average, Asia accounted for 10 percent of total exports from Africa, which increased to 16 percent when calculated based on the 1999–2001 average. The increase in relative weight of Asia as Africa's export partner remains true even when oil is excluded. All non-oil exports from Africa to Asia amount to US\$13 billion (1999–2001 average), which is about 20 percent of Africa's total non-oil exports, increasing from 15 percent in the early 1990s.

The above picture clearly shows that Asia contributes to the expansion of Africa's exports in terms of aggregate values. Because the most immediate benefit from exports is the opportunity they give the countries to earn foreign exchanges, a trade expansion in absolute terms should be undertaken because of the importance of exports to Africa's overall trade structure. Moreover, Asia's increase in share as a destination of African exports implies that it is increasingly important to understand the pattern of Africa-Asia trade in the overall export expansion of African countries. Africa-Asia trade relations need to be interpreted from both directions of trade to be able to understand their impact on the overall export diversification of African countries. Setting aside the issue of terms of trade, an increase in exports in terms of value is basically an increase in export earnings, which should be considered as a viable first step toward promoting more growth-oriented trade relations between the two regions.

**Figure 5.1 Distribution Share of Exports from All Africa**



Figures: All figures are based on partners' import data.  
Source: UN COMTRADE Database



## **5.2 Contribution to Market Diversification in Primary Commodity Exports**

Overall export expansion brings an immediate benefit from foreign exchange earnings, but the next question is how such earnings from trade can be expanded in more structural ways. By analyzing the contents of the Asian contribution to the overall export expansion of African countries, we see that Asia contributes to Africa's export diversifications in two important ways: in terms of destined markets (market diversification) and in terms of products (product diversification).

Market diversification is particularly relevant to primary commodity exports, which are commonly considered the traditional exports of most African countries. Although unfavorable decreases in the prices of those commodities over the past decades have lessened the magnitude of export earnings of primary commodity exporters in Africa, African countries have also experienced difficulty in expanding their exports in real terms because of the stagnant demand in their existing export destinations. However, by exploring markets among Asian countries, where there is unsaturated rising demand for primary commodities, and by establishing new market relations with them, African exporters can find new opportunities to expand their exports of these products. In fact, the data indicate that such expansion has already started taking place. As we have seen earlier, the expansion of Africa's exports to Asia during the 1990s was mainly driven by exports in primary commodities, which top the list of major African exports to Asia in terms of shares (Table 4.1). It is therefore quite logical to form an export expansion strategy for African countries that diversifies their destined markets by targeting untapped demands for products for which Africa already has established supply bases. There is no doubt that the increase in demand in terms of the number of trade partners as well as the amount brings enormous benefits to the suppliers. And such an increase in demand will be forthcoming, if African suppliers effectively connect themselves to emerging markets in Asia, including in countries such as China and India.

There are two ways in which African exporters can effectively meet the rising demand in Asia. First, Africa is an important supplier of raw materials and fuels to Asian industries. Endowed with rich natural resources, Africa supplies essential minerals and mining products to the growing manufacturing sectors in Asia that have an increasing demand for products such as raw materials and energy resources for their manufacturing production. Second, Africa is an important supplier of consumption goods such as food to the rising consumer populations in Asia. Asia is the most populated region in the world, and the average income level of its population is increasing more rapidly than in the other developing regions of the world. Growing purchasing power in Asia provides a new set of opportunities for African food producers to expand their exports.

### ***Supplying Raw Materials and Energy Resources to the Manufacturing Sectors in Asia***

Natural resource-based products, such as minerals and mining products, have relatively low differentiability on the supply side because of their nature as endowed resources and have high substitutability on the demand side because of the presence of alternative resources and technological advancement. This difference between supply and demand makes the market mechanism more demand-driven. And although this characterization of these products remains valid, exporters of such products could still implement proactive strategies from the supply side by exploring new markets with untapped potentials, thereby broadening their customer base. This is an effective way to offset negative impacts from more established trade relations with traditional customers in industrialized countries. This could be interpreted as a way to diversify risk associated with economic fluctuation among partner countries, but by diversifying the types of customers, exporters could locate additional unsaturated demand for their products. Just like

income level, production techniques and technology vary among countries. What is obsolete in industrialized countries is not necessarily obsolete in developing countries. As Asia's industrial sectors continue to grow, they will need a seamless supply of raw materials and energy resources. African exporters can use this window of opportunity to develop new Asian markets for their commodities.

One widely accepted view is that countries should not put excessive reliance on exports in these products because of unpredictable price changes and the risk of loss in export earnings. Though valid, this concern should not make countries shy away from opportunities to attract foreign investment and expand exports in such sectors. As the cases of Botswana (diamonds) and South Africa (gold) clearly exhibit, resource-rich countries can use their natural resources as the first viable step to increase export earnings, attract foreign investment, and effectively reallocate economic resources for other sectors to diversify the structure of production and exports. These countries have successfully maintained good governance and management policies over their natural resources (see Box 5.1). They also implement sound macroeconomic policies, such as avoiding external debt and excessive public investment during boom periods, which help their economies reallocate export earnings from natural resources to strengthening production sectors.

### **Box 5.1 Governance in Natural Resource Management**

Recent World Bank research on the causes of conflict and civil war finds that the countries most likely to be blighted by conflict are those whose economies depend heavily on natural resources. Proper governance in natural resource management is critically important for such countries to avoid political instability and to facilitate efficient reallocation of earnings from natural resources to longer-term development programs.

The existing cases of Africa's natural resource policies suggest two key elements in successful governance of natural resources: One is transparency in revenue information; the other is involvement of international organizations, such as the World Bank and IMF, in developing their policies.

Botswana is a primary example of how a government's fairly open disclosure policy of revenue information from natural resources (that is, diamonds) has supported stable governance over the resources, allowing the country to reallocate the earnings from natural resources to longer-term development programs.

Angola borrowed heavily during the last decades at a premium on international market, using future oil revenue as collateral. The growing debt burden turned the Angolan government to IMF and the World Bank. Angola's "oil diagnostic" program involved IMF to monitor the Angolan government's oil revenues, improving transparency of the government's oil development policy.

The Chad-Cameroon Petroleum Development and Pipeline Project is one example in which conditionality has been used to attract foreign investment on a natural resource development project. One of the Majors has agreed to invest on the condition that the Chad government sign an agreement with the World Bank and IMF arranging for a large portion of the government's oil revenues to go to priority development projects. As a result, the government passed a law that requires 10 percent of revenue to be invested in a future generations fund, and 80 percent to health, education, and vital infrastructure.

Source: Bannon and Collier (2003).

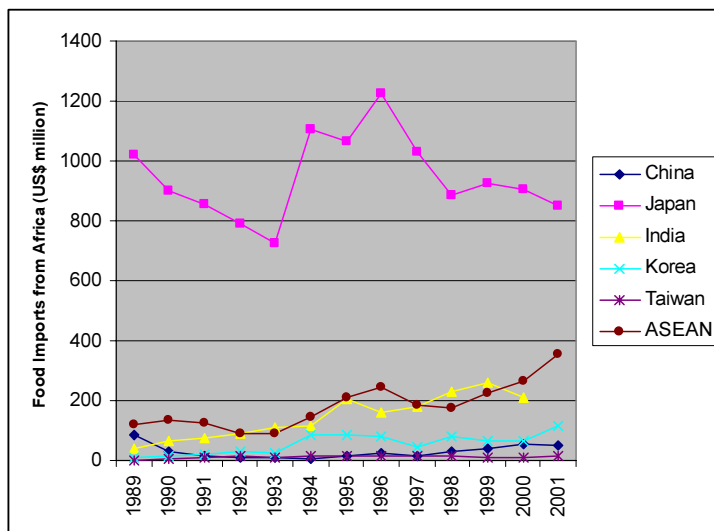
### ***Supplying Food and Other Consumption Goods to the Rising Consumer Populations in Asia***

Agricultural, fishery, and other food-related commodities have characteristics of high homogeneity compared to manufactured products. Thus, exporters of such commodities face constraints in expanding their exports in the saturated markets of industrialized countries. Food-related commodity producers could still explore the possibility of expanding exports in such markets by differentiating the product characteristics, by exporting products at more processed levels, or by developing production process catering for emerging tastes in high-income countries

(for example, organic foods). However, the scope of such differentiation is often limited in a short run because of the established structure of industry organization. Many exporters also lack sufficient capacity to develop more differentiated products.

As in the case of natural resource commodities, establishing new trade relations with Asia—thereby diversifying their destined markets—is an effective way for African exporters of food-related commodities to expand exports. Food products are usually characterized as products with low income elasticity, an economic term that means that the demand for the products increases at a much slower rate than income increases. Low income elasticity is often considered as the primary reason for stagnant demand for primary commodities exported by African countries. As mentioned earlier, consumers in the developing countries in Asia are rapidly increasing their purchasing power. Building new trade relations with such countries can help African exporters overcome the constraint of low income elasticity. Given the low income elasticity of food demand, expansion of new trading partners in Asia will have more significant consequences than expansion of sales within existing saturated markets. Figure 5.2 presents an illuminating picture of how Asian countries, particularly India and the five ASEAN countries, are already increasing their imports of food from Africa.

**Figure 5.2 Trend in Asia’s Food Imports from All Africa**



Note: ASEAN 5 consists of Indonesia, Malaysia, Philippines, Singapore, and Thailand.  
 Figures: All figures are based on partners' import data.  
 Source: UN COMTRADE Database

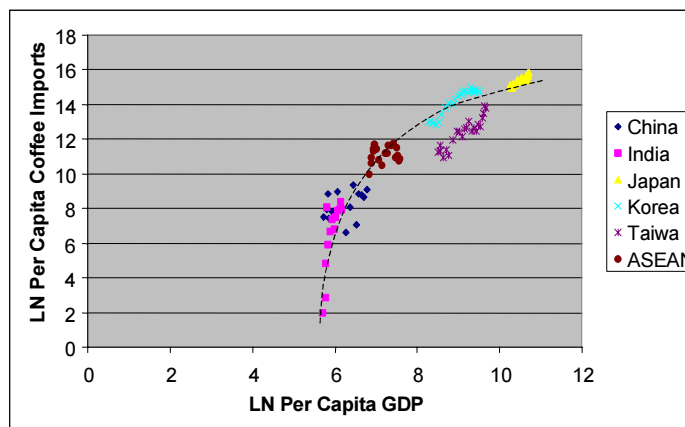
The agricultural commodities that appear in the list of major African exports are non-essential or exotic products such as nuts and tea. Among food-related primary commodities, non-essential agricultural commodities such as coffee and cacao, or exotic commodities such as fruits and nuts, tend to be more elastic to income than essential food items such as cereals. Demand for such products rises as income grows. And it rises more rapidly when the absolute level of income is relatively low. Using the example of coffee, Box 5.2 discusses in more detail how Asian countries provide potential market opportunities for African exporters. Potentials exist not only in countries such as Japan, where people with a higher level of income than other Asian countries consume more coffee per capita, but also in countries such as China and India, where people’s demand for coffee is rising faster.

### Box 5.2 Per Capita Coffee Imports of Asian Countries

Coffee is one of the major agricultural commodities that Africa exports to the world. It is a nonessential food item and has more income elastic demand than essential food items, so the demand rises as income rises. Moreover, the demand for coffee still has income elasticity decreasing with the level of income. In other words, the marginal increase in demand for coffee with an increase in income is larger when the absolute level of income is lower. To illustrate this point, annual per capita coffee imports by Asian countries from 1980 to 2001 were plotted against the levels of per capita income of corresponding countries in corresponding years in Figure 5.3. The figure clearly exhibits the pattern of decreasing income elasticity: The demand for coffee increases as countries become richer, with a caveat that the growth of coffee demand is “faster” when the level of income is low. (The slope of the curve in Figure 5.3 represents income elasticity of demand for coffee imports.)

Coffee imports by Japan are in a mature phase in the sense that coffee has low income elasticity. However, Japanese imports as well as increases in imports come with significantly higher amounts in absolute terms than the rest of Asia. India and China, however, have imported much less but have demand increasing more rapidly as their income increases. Countries such as Korea, Taiwan, and the ASEAN countries lie in between. The export expansion strategy for coffee exporters would target both lower income segment of consumers, where the demand increases rapidly, and the higher income segment, where the demand increase is not rapid but comes with higher order. Other agricultural and food products on average have lower income elasticity than products such as coffee. This means that the income elasticity decreases faster or the curve in the Figure 5.3 is flatter than in the case of coffee. Export strategy for food products other than coffee targeted at the higher segment of consumers would not yield as much expansion as would coffee. However, the expansion strategy targeted at the lower segment of consumers remains effective, and the marginal increase in aggregate demand for such exports is significant.

Figure 5.3 Income Elasticity of Coffee Imports among Asian Countries



Note: Data points are the respective countries' figures from 1980 to 2001.

ASEAN consists of Singapore, Malaysia, Indonesia, Thailand, and the Philippines.

Source: UN COMTRADE, World Bank World Development Indicators, IMF Commodity Price Statistics



### 5.3 Contribution to Product Diversification in Manufacturing Sectors

Another important aspect of Asia's partnership with Africa in diversifying exports is related to the more traditional concept of diversification, namely diversifying the line of export products away from concentrated exports in primary commodities. Asia contributes to Africa's product diversification in the export structure through supplying necessary materials and capital goods for growing manufacturing sectors. Africa's total export earnings from manufacturing products have doubled during the 1990s to US\$31 billion (1999–2001 average). Europe and the United States have been significant markets for Africa's manufactured products. Currently, the EU accounts for about 65 percent of total African manufacturing exports, and the United States accounts for about 12 percent. Although the EU share is dominant, African exports to the United States have grown by 236 percent during the 1990s. As mentioned earlier, the EU and the United States now provide enhanced market access opportunities to African countries through their preferential measures such as AGOA and EBA. Although those measures have wide coverage for eligible products, it is commonly viewed that basic, labor-intensive, manufactured products such as textile and apparel products are among the first group to take advantage of these opportunities.

Africa's exports of manufactured products to Asia are not comparable in size to its exports to Europe or the United States. However, it should not be interpreted automatically that Africa-Asia trade relations are not catering to product diversification in Africa's export structure. In fact, Asia is emerging as an important partner of Africa's quest for product diversification in two ways. The first and most important way is that Asia is helping bring Africa to the global supply-chain mechanism in manufacturing products. Asian countries are important suppliers of necessary inputs for Africa's manufacturing sectors, particularly the textile and apparel sectors. Table 5.1 in the previous page identifies major exports from Asia to Africa at a highly disaggregated level (SITC 4-digit). From this table, it is clear that the raw and intermediate materials of textile and garment products figure prominently among major Africa's imports from Asia. China, Taiwan, India, Pakistan, and Korea provide a significant amount of various fabrics to Africa. Also, Asia exports motor vehicle parts and telecommunication equipment to Africa to be assembled at plants owned by Japanese or Korean enterprises.

These industries are generally characterized as global supply-chain industries, often managed by multinational corporations. Global supply-chain industries have emerged as rapid innovation in communication technology takes place at the global scale and as the world economy becomes more integrated. They have effectively invested in the locations where they can process their products most cost-effectively using inputs from home or from the third countries and where they have better access to large consumer markets usually in developed countries (intermediary trade or indirect trade). In many cases, these are located in developing countries where the local industries receive generous preferential treatments from developed countries in accessing their markets. Countries such as Mauritius, Madagascar, and Lesotho actively promote inward foreign investment in those industries by establishing FDI-targeted industrial zones and promoting export-oriented, private sector development through establishing export-processing zones (EPZs). As a result, they have achieved high growth in the production and exports of textile and apparel products (see Box 5.3).

Figure 5.4 illustrates how Africa's imports from Asia are integrated with Africa's manufacturing exports in trade statistics by plotting value-increases in manufacturing exports from individual African countries to the EU and the United States during the 1990s and value-increases in their imports from Asia. On average, an African country with a large increase in manufacturing exports to the EU and the United States has also experienced a similarly large increase in imports from Asia, irrespective of the size of domestic markets. In the case of textile and apparel products, the

positive linkage between Asian inputs is more vivid because many African countries now embrace Chinese and Taiwanese investors to build garment factories to export their products to the EU and the United States (see Box 5.4).

### **Box 5.3 What Has Contributed to Growth of Mauritius's Apparel Exports?**

In Sub-Saharan Africa, few countries have gained a high standard of living. However, Mauritius is the notable exception. Between 1973 and 1999, Mauritius's real GDP averaged 5.9 percent annual growth, compared to 2.4 percent for Sub-Saharan Africa as a whole. The average income of Mauritians has more than tripled over the 30-year period, while that of Africans as a whole increased by only 32 percent. It is considered that the textile and garment industries, the largest single sector of exports totaling 65 percent of all exports in 1999, contributed to Mauritius's strong GDP growth.

There are three possible explanations for the impressive growth of Mauritius's apparel exports: (1) a strategic trade policy to set up an export-processing zone, (2) strong domestic institutions, and (3) the ethnic diversity of Mauritius's society.

Because of the introduction of an export-oriented manufacturing strategy, Mauritius has experienced remarkable success in expanding its manufacturing industry and export base since the early 1980s. After having failed to pursue a policy of import-substitution in the years immediately following independence, the government focused on promoting exports and creating an export-processing zone. Mauritius's openness to FDI, facilitated by the creation of an export-processing zone, attracted FDI from India and China and later Europe, especially in the textile industry. Investors have various incentives, such as import-duty exemptions and zero taxation of dividends, if they locate their subsidiaries in Mauritius. In addition, investors are not required to establish joint ventures with the Mauritius government, unlike in other African countries.

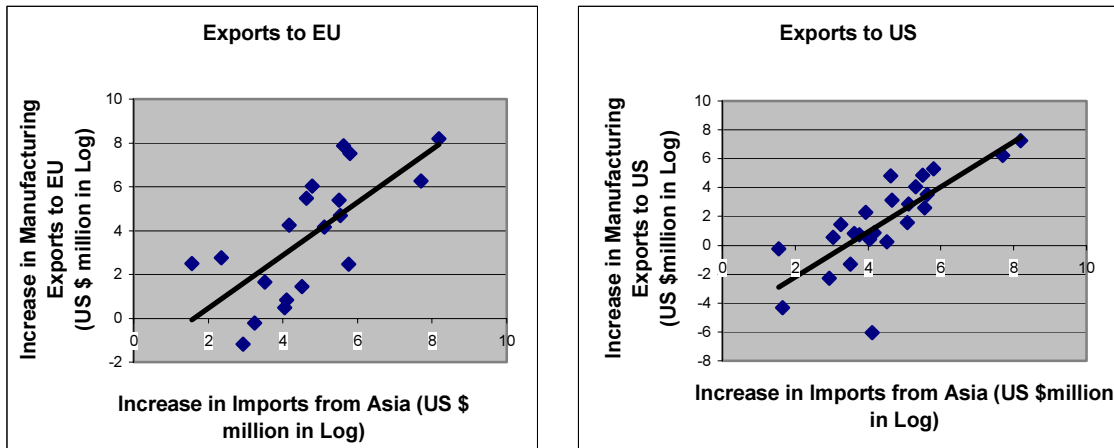
Second, strong domestic consultation mechanisms have contributed to the growth of Mauritius's apparel industry to a significant extent. In the early 1980s, macroeconomic adjustment policy was set forth by three different governments of varying ideological beliefs. Literally, adjustment preconditioned a national consensus among different opinions, which accordingly necessitated workable consultation mechanisms. Further, a Mauritanian culture of transparency and participatory politics approved the early economic warning and feedback system, allowing emerging economic problems to be dealt with at an early stage.

In addition to the two factors mentioned above, there is another factor specific only to Mauritius in Sub-Saharan Africa, which may also have played an important role: the country's ethnic diversity and how it was managed so far by the Mauritius government. In Mauritius society, descendants of indentured workers from India make up about 60 percent of the population and the rest of the population is comprised of black Americans, Creoles (native to the region), Chinese, and Europeans. Such ethnic diversity has contributed to Mauritius's economy by maintaining the country's economic ties with the roots of its diverse ethnic groups and attracting investments from them. For instance, the Chinese community has attracted investment from Hong Kong entrepreneurs who were looking for overseas locations for their textile operations to avoid the textile quotas imposed on Hong Kong.

Such a mixture of various factors, especially ethnic diversity, will not easily be replicated by other African countries. However, the case of Mauritius vividly shows that good governance and appropriate economic policies, which have been regarded as important conditions for development, are ideal factors for achieving export gains as well.

Source: Subramanian (2001), Basu and Srinivasan (2002)

**Figure 5.4 Africa's Manufacturing Exports to EU and US**



Note: Increase is an absolute increase of respective statistics from early 90s (89-91 average) and late 90s (99-01 average or 98-00 average). Data points are African countries with positive increases in imports from Asia and manufacturing exports to EU and US.

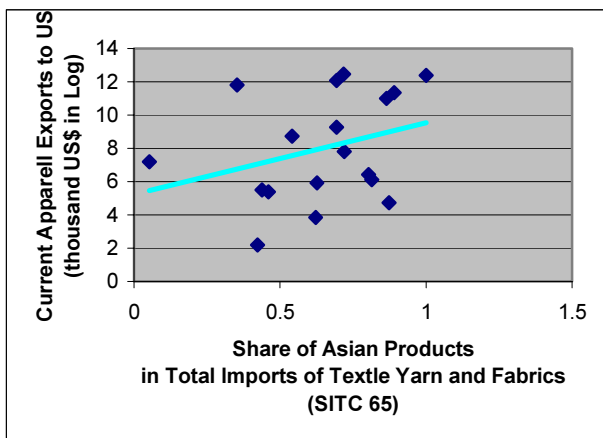
Source: UN COMTRADE Database

**Box 5.4 AGOA Textile Benefit and Textile Yarn and Fabrics from Asia**

The introduction of AGOA has promoted a number of foreign investors to invest in the apparel sector of Sub-Saharan African countries, and moreover, many of the investors are from Asian countries. In Namibia, a Malaysian-based firm has invested over \$200 million in a textile and garment-manufacturing plant that generated over 4,200 jobs. In Mauritius, a Chinese firm has begun to construct a \$60 million cotton yarn spinning mill, and an Indian firm started to build a spinning mill to take advantage of AGOA's textile and apparel benefits. In Swaziland, there are currently 20 Taiwanese investing companies since AGOA went into effect (only three Taiwanese companies were operating prior to AGOA). Taiwanese entrepreneurs have also invested large amounts in South Africa and Lesotho.

Figure 5.5 plots AGOA textile beneficiary countries according to their volumes of garment exports to the United States and the share of Asia in total imports of raw materials, that is, textile yarn and fabrics (SITC 65). In general, countries with high volumes of garment exports tend to rely more on imports of fabric from Asian countries.

**Figure 5.5 AGOA Apparel and Textiles Beneficiaries and Fabric Yarn Importer**



Note: Data is based on the 1990-2001 averages. Data points are individual African countries eligible for apparel and textiles benefits under AGOA.

Source: UN COMTRADE Database



The second way that Asia contributes to Africa’s product diversification is in its role in providing important capital goods for the manufacturing sectors. Table 5.1 lists many products from the SITC 7 group—passenger motorcars, motor vehicles for transportation, mass transit passenger motor vehicles, and construction and mining machinery. With an exception of “ships, boats, and other vessels” (SITC 7932), which is for the purpose of registering fleets in Liberia, these products are exported to Africa to support African manufacturing activities such as production, transportation, and communication. Although Africa imports finished products such as passenger cars and trucks, Africa also imports parts of those products and complementary products such as tires.

An import substitution strategy was once popular among developing countries to develop their manufacturing sectors. However, as shown earlier in Table 3.2, which lists major exports of Africa to major trade partners, we cannot observe among growing African manufacturing exports to the EU or the United States any trace of past import substitution strategies undertaken by African countries. Under the import substitution policies, the countries invested in various manufacturing sectors and supported various industries, inviting foreign capital to expand domestic production capacity markets that were often accompanied with the high tariff protections. History shows that such policies often resulted in inefficient rent-seeking behaviors by the protected industries. As countries started implementing more liberalized trade policies, those industries have found themselves unable to compete against more cost-competitive foreign imports in the domestic market. Moreover, many African countries do not have domestic markets large enough for import substitution strategies to take effect. As shown in Figures 5.4 and 5.5, Africa’s strategy for product diversification is more prominent in global supply-chain industries such as textile and apparel than in inward-looking import substitution industries. And Asia has been playing an integral role in Africa’s development in global supply-chain industries by providing intermediate materials as well as capital and skills.

## **5.4 Integration of Trade and Investment Relations**

As mentioned in the previous section, Asian exports related to Africa’s manufacturing exports often take the form of direct investment by Asian firms to African countries. Such investment has been based on the motivation of Asian entrepreneurs to strategically participate in the global supply chains that are growing rapidly due to the combination of increased information technology, market liberalization, and preferential market access measures taken by some industrialized countries. In fact, this is one manifestation of how trade and investment activities become integrated and their strategies necessarily become seamlessly linked.

Asian investment in Africa takes three different forms, if categorized by the targeted market of their goods produced by the invested industries. The first form (Type 1) is investment targeted to producing goods to be sold in the investors’ own countries in Asia. Typical examples of such investment include natural resources extractive industries for mineral and mining products, as well as food processing projects such as fish cannery plants. Investment in extractive industries is large scale, based on the initial governmental agreements followed by private sector engagement, which includes some degree of technical transfer. Although Asian firms have invested in such projects in the past, unpredictable changes in local governments’ policies and macroinstability have often hampered the flow of investment of this kind to Africa. The potential investors are trading houses, resource suppliers, and a group of plant construction companies. Korean investment in Angola is a typical case in oil resources, which requires substantial amount of investment for processing plant (see Box 5.5). ODA loan and export credit are powerful policy instrument to support this investment cum trade project. Investment projects for food and agro-

base products processing requires smaller amount of investment, compared to mining and energy resource projects, while the specification of the products are to be carefully controlled to the market's quality needs. Trading companies frequently become investors with their interest in expanding both export and import trade.

The second form of investment (Type 2) is targeted to Africa's domestic markets. Examples include investments by Japanese entrepreneurs in home electronic appliance and textile plants in the 1980s, which aimed at Africa's local markets protected by the high tariffs under the import substitution policies by the governments. However, regional economic integration and import liberalization by the local governments have placed such investment in uncompetitive positions against imported products. As such, accessing even more competitive global markets has been out of reach for those protected industries in most cases. In various ways, such investment has been bound by the constraints of small local markets and high transaction costs. Because of small size of domestic market, a mass production business model, common in industrialized countries, is not suitable. However, there are cases in which small and medium-size production is feasible, as being shown by the Korean investment in Nigeria and Malawi (see Box 5.5). The investor in this case is a trade and industrial engineering firm that uses a human network in the respective African countries to minimize risk, rather than the government support as seen in Type 1.

The third form of investment (Type 3) is targeted to third countries, especially countries in other industrialized regions such as the EU and the United States. Investment of this type is often conducted by multinational corporations based on global supply chains. It can be divided further according to other characteristics. First, there are footloose industries in textile and apparel sectors or in service sectors (for example, data service and telemarketing service outsourced to Africa) that are largely motivated by the low labor costs in Africa and the existing trade policies in third countries where their products and services are destined. The Taiwanese enterprise investment in Swaziland is one such case motivated by AGOA (see Box 5.5). The size of investment is limited, but such investment has effectively generated employment in local economies. There is also a type of more forward-looking investment that is genuinely attracted to the potential productivity increase within Africa. To seize future potentials in the region, major automobile companies have established plants in South Africa, which is rapidly becoming a key economic hub in Africa.

In the context of Africa-Asia trade relations, natural resource-based investment (Type 1) and global supply-chain investment (Type 3) are critically linked to the strategy for Africa's customer diversification and product diversification in its exports. Tables 5.2-5.5 present the sector-specific FDI data from four Asian countries to Africa either in flow or cumulative stock values. From these tables, we observe that a significant amount of FDI went to mining industries or resource development (22.8 percent from Korea and 27.5 percent from China). At the same time, contrary to the 1970s when over 30 percent of investment went to these industries, Japanese investment in Africa's mining industries in the 1990s is of limited scale. It is important to analyze more carefully the experiences of Asian investment in mining industries (Type 1) to draw lessons from both successful and unsuccessful cases.

Global supply-chain investment (Type 3) is made in a more vivid way. In the case of Japan, large major manufacturing investment started to flow to Africa's transport product sector in the 1990s. Most of the investment went to South Africa, where a major Japanese automobile manufacturer started assembling cars, some of which are exported to the European market. Korean data do not reveal much about how its manufacturing investment is divided among sectors. However, the telecommunications sector has definitely generated assembly of telecommunications equipment

in countries such as South Africa and Ghana. China and Taiwan made a large part of their investment in the textile and apparel sectors in South Africa, Lesotho, Swaziland, and Mauritius. Although Type 2 investment is not visible in the tables, an investor for this type of investment is likely to be found in Asian countries where small and medium enterprises (SME) are active, such as Korea and Taiwan.

### **Box 5.5 Case Studies on Asian Investment to Africa**

#### ***Type 1: Firm A (Korea) in Angola***

With economic reforms under way in Angola, foreign investors have found increasing business opportunities in the energy, mining, telecommunications, manufacturing, agriculture, and fishing industries. The fact that Angola is ranked third in the world for new oil discoveries and is Sub-Saharan Africa's second largest oil producer will accelerate new business ventures. Angola is now Korea's second largest trading partner in Africa and its seventh largest supplier of crude oil. In the year 2000, Korea imported \$654 million in oil from Angola and exported \$17 million in cars and auto parts. In 2000, *Firm A* won a \$4.4 billion contract in Angola to build an oil refinery and offshore exploration platforms. The \$2.7 billion oil refinery will produce 200,000 barrels per day, mainly for export markets. The firm has also contracted to build oil and gas production platforms and storage facilities worth \$1.7 billion. This contract was facilitated by a bilateral agreement between Multilateral Investment Guarantee Agency (MIGA) and the Korea Export Insurance Corporation (KEIC), where both agencies will cooperate in reinsuring and coinsuring projects in order to share risks and increase the availability of insurance for Korean investors. It is pointed out that the above agreement originated from the desire of *Firm A* to seek coverage for its intended resource-based projects in Central and West Africa, mainly for oil projects in Angola. An official of KEIC said that one of the reasons for a conclusion of the agreement between MIGA and KEIC was the need for additional coverage and risk sharing in view of the large-scale project.

#### ***Type 2: Firm B (Korea) in Nigeria and Malawi***

*Firm B* is a medium-size engineering and trading firm, established in 1983. The company diversified into industrial engineering for small- and medium-scale projects. New additions to its major scope of business were then made including international trading for general import and export, manufacturing of industrial equipment and machinery, as well as consulting engineers for various development projects not only in the domestic market but also in developing countries. *Firm B* has six local subsidiary companies in Sub-Saharan Africa: Senegal, Ghana, Nigeria, Malawi, Namibia, and Madagascar, dealing in medium- and small-scale trade and investment activities. Its main strength lies in investment in manufacturing a variety of daily product needs, which target the domestic market. For instance, in 1986 they established a subsidiary in Nigeria, which aimed at dealing with trading, engineering and consulting. In Malawi, another subsidiary was founded in 1994 for manufacturing tableware. According to the president of *Firm B*, around 40 percent of its annual sales are generated by the African market. The success of these businesses in Africa is partly the result of the president's wide acquaintances in African diplomatic circles.

#### ***Type 3a: Firm C (Taiwan) in Swaziland***

*Firm C* is a powerful apparel company in Taipei, founded in 1978, and listed on the Taiwan Stock Exchange in December 1998. Recently, *Firm C* has been focusing on research and development of cotton products. Its product "Ultra Mercerized Cotton Color Yarn" won the products competition held by the Taiwanese government. Sales subsidiaries have been established in Los Angeles and New York, and a raw material procurement company was recently founded in China, in addition to a number of production factories abroad. *Firm C* founded two factories in Swaziland in 2001 and 2002. The products of this factory are exported to the United States. The main reason for investing in Swaziland was to obtain benefits from the African Growth and Opportunity Act (AGOA). The third factory was established in March 2002. Since the local procurement of raw materials will become compulsory by AGOA after October 2004, *Firm C* decided to set up the spinning factory in Swaziland. The products are sold domestically and will be sold to their factory in South Africa. About 60 Taiwanese companies operating in Swaziland, mainly in the apparel industry, have organized a corporate union and the President of the firm was appointed as Chair of this union. The union can negotiate with the Government of Swaziland on behalf of the textile industry of Swaziland.

#### ***Type 3b: Firm D (Japan) in South Africa***

As one of the few countries with the capacity to develop its automobile industry, South Africa has enjoyed tremendous success in recent years. Exports of automotive components and 1500-3000 cc automobiles increased dramatically by 60 percent from 2001 to 2002. At present, Germany is the main export market (40 percent of total auto exports), reflecting how South African component makers have been integrated into the global production networks of German car makers, all of which assemble cars in South Africa for exports to Europe and other overseas markets. The free trade agreement between EU and South Africa has accelerated this type of exports. Japan has consistently been among South Africa's top four automobile trading partners. In the past, South Africa mainly exported primary commodities, particularly minerals, to Japan, and Japan exported manufactured goods to South Africa in exchange. However, the emergence of South Africa as a major automobile assembly location has triggered major Japanese car manufacturers such as *Firm D* to increase its investment to South Africa. *Firm D* established its subsidiary plants in South Africa in 1962, the first of two plants the firm has in Africa. The plant in South Africa has been the main assembly plant for cars and trucks to be sold in South Africa and elsewhere in Africa. Recently, however, the firm's headquarters announced its greater involvement in the operations in South Africa by increasing its shares from 35.7 to 74.9 percent. By 2004, the firm plans to develop a strategy to empower its global supply system for its pick-up trucks, multi-purpose vehicles, as well as parts, effectively linking all of its overseas production hubs around the world. The firm aims to use its South African production hub to expand its sales to the European market as well as to the African market. Out of 60,000 vehicles it aims to produce in South Africa, a half would be exported to Europe and elsewhere in Africa.

**Table 5.2 Japanese FDI to Africa by Industry**

	(unit: %)		
	1971-80	1981-90	1991-02
Food	0.2	0.0	2.3
Textile	1.6	0.0	0.1
Lumber & Pulp	0.0	0.0	0.0
Chemical	1.0	0.2	0.4
Metal	1.3	2.5	1.8
Machinery	0.0	0.0	0.2
Electrical	0.2	0.1	0.1
<b>Transport</b>	<b>0.4</b>	<b>0.2</b>	<b>10.0</b>
others	0.4	0.0	2.7
<b>Manufacturing Total</b>	<b>5.3</b>	<b>3.1</b>	<b>17.5</b>
Farming & Forestry	0.4	0.0	1.9
Fishery	3.6	1.1	1.0
<b>Mining</b>	<b>30.5</b>	<b>2.5</b>	<b>1.0</b>
Construction	1.5	0.1	0.2
Trade	0.1	0.3	1.1
Finance & Insurance	0.0	0.8	3.9
<b>Service</b>	<b>1.6</b>	<b>16.1</b>	<b>1.6</b>
<b>Transportation</b>	<b>56.6</b>	<b>73.8</b>	<b>71.2</b>
Real Estate	0.0	1.6	0.0
others	0.0	0.6	0.5
<b>Non-Manufacturing Total</b>	<b>94.5</b>	<b>96.9</b>	<b>82.4</b>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: share in cumulative value in each period  
Source: Ministry of Finance, Japan

**Table 5.3 Korea's FDI to Africa by Industry**

(Unit: Million US\$, As of 30 April 2003)				
	No. of Proj.		Amount (\$ million)	
Construction	7	(5.0%)	1	(0.1%)
Mining	12	(8.5%)	166	(22.8%)
Finance & Insurance	0	(0.0%)	0	(0.0%)
Agriculture & Fishery	15	(10.6%)	7	(1.0%)
Trade & Retail	30	(21.3%)	124	(17.0%)
Real estate & Service	16	(11.3%)	6	(0.8%)
Hotel & Restaurant	7	(5.0%)	228	(31.3%)
Transport and warehouse	2	(1.4%)	1	(0.1%)
Manufacturing	50	(35.5%)	175	(24.0%)
Telecom.	2	(1.4%)	20	(2.7%)
Others	0	(0.0%)	0	(0.0%)
<b>Total</b>	<b>141</b>	<b>(100.0%)</b>	<b>728</b>	<b>(100.0%)</b>

Notes: Figures are cumulative total from 1968 to 2002.

Figures in parentheses indicate share in total number/amount.

Source: The Export-Import Bank of Korea

**Table 5.4 China's FDI in Africa by Industry**

(cumulative value 1979–2000)

	Number of projects		Amount invested (\$ million)	
Service	200	(40.1)	124.5	(18.3)
Manufacturing	230	(46.1)	315.27	(46.3)
Machinery	20	(4.0)	16.06	(2.4)
Electric appliances	36	(7.2)	25.4	(3.7)
Light industries	82	(16.4)	86.54	(12.7)
Spinning and weaving	58	(11.6)	101.6	(14.9)
Others	34	(6.8)	85.67	(12.6)
Agriculture	22	(4.4)	48.13	(7.1)
Resource development	44	(8.8)	187.6	(27.5)
Others	3	(0.6)	5.85	(0.9)
<b>Total</b>	<b>499</b>		<b>681.35</b>	

Note: Figures in parentheses indicate shares in total number/amount.

Source: Ministry of Commerce, PRC

**Table 5.5 Taiwan's FDI in Africa by Major Country and Industry**

(cumulative value until Dec. 2002)

(unit: \$ million)

Country	Cases	Value	Type of business
South Africa	620	1,500	Spinning, plastic processing, shoes, trade and distribution
Lesotho	30	600	Spinning and apparel
Swaziland	20	45	Apparel, restaurant, entertainment and mold manufacturing
Mauritius	8	20	Hotel, apparel, shoes, food processing and pottery manufacturing
Ivory Coast	9	11	Steel, restaurant, trade and vegetables
Ghana	12	8	Steel, car part import, farm and trade
Senegal	4	3	Battery, fishery and trade
Malawi	9	23	Apparel, lumber processing, metal goods and trade
<b>Africa total</b>	<b>712</b>	<b>2,209</b>	

Source: Ministry of Economic Affairs, Taiwan

## **6. Key Findings and Future Directions**

Here we summarize the key findings from the analyses presented in this report, and then, on the basis of these findings, we set forth tangible policy recommendations for promoting more trade and investment between Africa and Asia.

### **6.1 Summary of Key Findings**

Key findings derived from discussions in the preceding sections that provide useful hints for developing Africa-Asia trade and investment relations and are summarized as follows.

#### ***Finding 1:***

Africa's exports to Asia have been growing both in proportion and in absolute value during the 1990s. Currently, 16 percent of Africa's export earnings are achieved from sales to Asia. Moreover, the rate of increase in export values to Asia (10 percent per year) has been the higher than the rates to the EU and the United States. Asia has therefore emerged as an important partner in Africa's trade and development.

#### ***Finding 2:***

Asia's developing economies import more from Africa than they did in past decades. Countries such as India, China, and Taiwan have significantly increased their overall dependency rate on African imports.

#### ***Finding 3:***

Africa's exports to Asia are mainly driven by primary commodities and related products, linked to either industrial growth or emerging consumer populations in Asia. Oil and its related products account for a large share, but other primary commodities such as agricultural and fishery products and minerals and crude materials are also increasingly exported to Asia.

- Exports of mineral fuels and other raw materials such as mineral and mining products have demonstrated strong growth in African exports to Asia as a result of the rising manufacturing sectors in Asia, particularly in China, India, Korea, Taiwan, and the ASEAN countries. Although only a limited number of countries are endowed with mineral and mining resources, a wide range of non-oil producing countries also benefit from other raw materials and their processing in sectors such as cotton, woods, and leather.
- Growth in Africa's exports to Asia in food and agricultural commodities can be explained by the large populations with growing income levels in Asian countries. Non-essential foods such as coffee, cacao, tea, and nuts will find stronger growth in Asia than in the saturated markets of developed countries.

*Finding 4:*

Thus, Asia could become a strategic target for diversifying the markets of African products as described in Finding 3. Demand from Asian markets potentially has a good fit with the existing supply base of traditional primary commodities in Africa. By recognizing such linkage and by establishing new consumer relations with Asian countries, African exporters could significantly expand their exports of traditional primary commodities, which are Africa's stagnated core businesses.

*Finding 5:*

Asia can contribute to Africa's quest for product diversification in its export structure. Asian countries are providing essential inputs for Africa's growing manufacturing sector, most notably the textile and apparel sectors. There is a positive relationship between Africa's growth in manufacturing exports to the EU and the United States and growth in imports from Asia.

*Finding 6:*

Although active efforts to grant preferential trade treatments, such as tariff-free and quota-free accesses, have been made by developed countries, these efforts alone have had only limited effects on increasing Africa's exports. The response of African countries is equally critical. African exporters that are successful tend to have proactive engagement to improve their business environment both in terms of governance and infrastructure, and to strengthen their supply-response capacity to seize opportunities arising from the external environment such as preferential trade treatments.

*Finding 7:*

FDI from several Asian countries to Africa has revealed that relations between Asian investors and host countries in Africa are deeply motivated by the trade relations between the two regions. Asian investment to Africa takes three different forms:

- **Investment targeted to products to be sold in Asia, typically natural resources and processed raw materials (for example, food), both of which are highly demanded by Asian manufactures and consumers.** Macroeconomic instabilities in host countries have often hampered flow of this kind of investment to Africa in the past, but driven by growing demand from Asia, there are signs that such investment may regain momentum.
- **Investment targeted to Africa's domestic markets.** Such investment has been constrained by the small size of local markets and the high transaction costs caused by lack of efficient infrastructure. In the absence of effective regional integration and infrastructure services, the prospects of such investment are limited.
- **Investment targeted to the global market, typically the third countries.** This type of investment most effectively integrates production activities in Africa to global supply chains. In less developed countries, there tends to be investment in industries in the

textile and apparel sectors or service sectors, which are largely motivated by either low labor costs and/or favorable trade regimes provided by the third countries. In addition, there is notable development in countries such as South Africa that have attracted more sophisticated manufacturing/service investment. Such investment is genuinely attracted to the potential productivity increase in these countries.

#### ***Finding 8:***

The subregional export structures seem to indicate that African countries could enhance their export opportunities by improving intraregional mobility of goods and services, particularly between land-locked and coastal countries. Improvement in regional infrastructure in areas such as transportation or telecommunications needs to be properly addressed in formulating policies to enhance the supply-response capacity of African countries.

## **6.2 Future Directions**

Based on these findings, it is clear that there is significant potential for expanding trade relations between Africa and Asia. To realize the full benefits from trade expansion between these two regions, three proposals need to be implemented: (1) strengthen the knowledge base on Africa-Asia trade and investment relations, (2) ensure an appropriate institutional framework for strategic dialogue between the two regions, and (3) promote understanding of the critical elements of an enabling environment for business activities and refocus development assistance to foster economic growth.

#### ***Direction 1:***

*The knowledge base on Africa-Asia trade and investment relations needs to be strengthened to facilitate the discovery of market opportunities between Africa and Asia and to better understand how the market works between the two regions.*

Such a knowledge base can be strengthened by accumulating a series of in-depth analytical studies (1) to identify existing potentials to expand trade and investment relations between the two regions, (2) to identify the geographical and manmade constraints and other impediments to promoting trade and investment activities, and (3) to promote better understanding of global supply chains and the way to improve connectivity to them. The World Bank will continue its efforts to contribute to the analytical work in these areas in cooperation with other organizations.

#### ***Direction 2:***

*An institutional arrangement will be needed to enhance strategic dialogue between African and Asian countries and to raise awareness of emerging business opportunities among businesses in the two regions. Building on the current framework of TICAD, such an arrangement should enable broad-based, consolidated policy dialogues to take place among African and Asian countries—both their governments and their businesses.*



There are many countries and economies in the two regions. Fragmented and spontaneous talks between individual African and Asian countries are often complicated and inefficient for promoting effective policy dialogues. It is important to maintain a continuous path of dialogues to exchange market views and information and to overcome existing negative perceptions between the two regions. Such dialogues will better enable individual African and Asian countries to take new high-level policy actions to promote trade and investment relations on an individual basis.

An institutional arrangement for such dialogues is an effective channel for African countries to improve their external relations with their economic partners in Asia and condition the ground for more proactive policy interactions in actual trade relations. Such forums can also identify necessary support mechanisms for African industries to develop a stronger supply-response capacity.

### ***Direction 3:***

*Finally, it is important for both African countries and the international donors to recognize the importance of an enabling environment for business activities—the essential element for economic growth. Partnership coordination efforts such as TICAD have the potential to orient the development supports to economic growth, which is critically needed for African countries to achieve the Millennium Development Goals (MDGs).*

The international donors have various policy instruments to assist African countries in fostering an enabling environment for business activities in Africa and to facilitate active business exchanges among countries through trade and investment (see Box 6.1). Bilateral as well as multilateral official development assistance (ODA) has a critical role to play in fostering enabling environment in particular in such areas as infrastructure services in transportation and telecommunication. Export credit and insurance schemes and investment guarantee systems are effective tools for the international donors to support private sector to build trade and investment channels between African countries and other regions. An international forum such as TICAD provides a significant opportunity for the international community to refocus its attention to the need to support African countries in building enabling business environment in their domestic economies and to design and coordinate effective public support schemes to facilitate enhance business transactions between African countries and other regions.

## Box 6.1 Bilateral Aid and Other Policy Instruments for Trade and Investment

Several Asian countries provide official development assistance (ODA) and promotional policy to support their enterprises for trade and investment activities in Africa. Given that many enterprises in Asian countries are not very familiar with the business environment in Africa, Asian governments' initiatives are quite effective in bringing their private sector to unknown business opportunities with rich resources and new markets. ODA supports to Africa's infrastructure also enable the Asian private sector to expand their business scope in Africa. Furthermore, export credit and insurance schemes are indispensable government support to minimize risk in unknown non-commercial risk in trade and investment. Table 6.1 indicates the policies and ODA programs by major Asian countries.

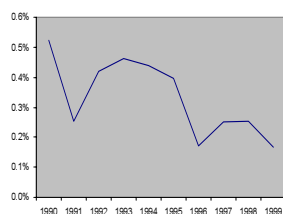
Although various development assistance and other public support schemes are considered effective, only 0.3 percent of ODA bilateral disbursements from DAC countries are directed toward trade and tourism programs in Africa. As shown in Figure 6.1, even that small proportion has declined significantly. ODA assistance to Africa has shifted from economic programs to social programs and policies supporting poverty-reduction strategies. Beginning in 1999, international development institutions have shifted their focus from corrective macroeconomic policies and market distortion remedies to poverty-reduction policies and strategies for low-income countries. In Africa, there has been a clear shift from the allocation of a significant share of ODA to the region directed to economic sectors to one directing a growing share to social sectors. Figure 6.2 shows that the distribution of economic sectors has shifted from over 60 percent in the early 1990s to about 40 percent in the early part of this decade.

**Table 6.1 Main Promotion Policy and Official Development Assistance (ODA) by Asian Countries**

Country	Promotion Policy	ODA
Japan	Duty-free and quota free access to LDCs' products, export credit and insurance, trade fair, missions	ODA to Africa accounts for 10% of Japanese ODA in forms of grant, technical assistance and loan.
Korea	Export credit and insurance, trade fair and missions	Technical assistance in training and experts. ODA loans tied to Korean enterprises, shares 11% of the entire loan
China	Chinese Trade and Investment Development Centers in 11 African countries. Credit facility for private corporation and special fund scheme for joint venture.	Agreements on economic and technical cooperation with 53 African countries.
Taiwan	Financial support for Taiwanese enterprises investment in African countries with diplomatic relations.	Technical assistance and grants in field of agriculture for countries with or likely to have diplomatic relations. Finance and investment to specific projects.
Singapore	Double tax deduction for costs for expanding overseas market and investment, international exhibition program.	Technical assistance for granting training program in development experience, particularly for export development.
Malaysia	Double tax deduction for export promotion, export credit refinancing, market development grant. Malaysian South-South Association for promotion of trade and investment.	Economic, technical, scientific and cultural cooperation agreement with 20 African countries.
India	"Focus Africa Program" to increase interactions with 7 major African partners for Joint Trade Committee, Joint Business Councils and Export Promotion.	Special Commonwealth African Assistance Plan for technical assistance to 34 African countries.

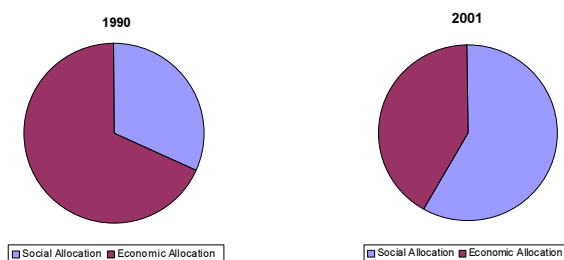
Source: Results of interviews to the respective authority by PADECO/UFJI Team

**Figure 6.1 Share of ODA from DAC Donors Directed at Trade and Tourism**



Source: OECD Database

**Figure 6.2 Africa: Social versus Economic Allocation of ODA**



Source: OECD Database

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## Appendix I: List of Country Groups

### A: Africa's Sub-Regions

<b>Northern Africa</b>	Algeria, Egypt, Libya, Morocco and Tunisia
<b>Eastern Africa</b>	Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tanzania, and Uganda
<b>Western Africa</b>	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo
<b>Central Africa</b>	Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, Gabon, and Sao Tome and Principe
<b>Southern Africa</b>	Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, and Zimbabwe

### B: Africa's Trade Partners

<b>Africa</b>	Algeria, Benin, Cameroon, Egypt, Ghana, Kenya, Madagascar, Malawi, Mauritius, Morocco, Nigeria, Senegal, South Africa, Togo, Tunisia, and Zimbabwe
<b>European Union</b>	Austria, Belgium, Denmark, Germany, Finland, France, Ireland, Italy, Greece, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom
<b>United States</b>	United States
<b>Asia</b>	China, Hong Kong, Malaysia, India, Indonesia, Japan, Korea, Pakistan, Philippines, Singapore, Taiwan, and Thailand
<b>Others</b>	Argentina, Australia, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cyprus, Ecuador, El Salvador, Guatemala, Honduras, Iceland, Jordan, Malta, Mexico, New Zealand, Nicaragua, Norway, Oman, Panama, Paraguay, Peru, Poland, Romania, Saudi Arabia, St. Lucia, Trinidad and Tobago, Turkey, Uruguay, and Venezuela
<b>World</b>	All of the above

Note: Countries selected here are based on their data availability in UN COMTRADE database for the entire period from 1989 to 2001 in SITC Rev. 2 classification.

## Appendix II: International Trade Regimes for African Countries

	Sub-Region	Country	WTO membership	LDCs designated by UN	United States		European Union			Japan	Africa									
					AGOA (African Growth and Opportunity ACT)	Apparel and Textile Benefits Under AGOA	Cotonou Agreement	EBA (Everything But Arms)	FTA	LDC Preferential Tariffs	SADC	COMESA	SACU	EAC	ECCAS /CEEAC	CEMAC	CMA	ECOWAS	WAEMU /UEMOA	
Africa Continent	Northern Africa	Algeria							○											
		Egypt	○						○											
		Libya																		
		Morocco	○							○(EC & EFTA)										
		Tunisia	○							○										
	Eastern Africa	Comoros		○				○	○		-	○								
		Djibouti	○	○	○			○	○		-	○								
		Eritrea		○	○			○	○		○									
		Ethiopia		○	○			○	○		○									
		Kenya	○		○			○	○			○		○						
		Madagascar	○	○	○			○	○		○									
		Mauritius	○		○			○	○		○									
		Rwanda	○	○	○			○	○		○					○				
		Seychelles			○				○			○								
		Somalia		○					○	○		○								
		Sudan		○					○	○		○								
		Tanzania	○	○	○				○	○		○				○				
		Uganda	○	○	○				○	○		○			○					
	Central Africa	Burundi	○	○	○			○	○		○									
		Cameroun	○		○		○		○						○	○				
		Central African Republic	○	○	○			○	○		○					○	○			
		Chad	○	○	○			○	○		○					○	○			
		Congo, Democratic Rep.	○	○	○			○	○		○	○				○	○			
		Congo, Rep.	○		○				○							○	○			
		Equatorial Guinea		○					○	○		○				○	○			
	Gabon	○		○				○	○						○	○				
	Sao Tome and Principe		○	○				○	○		○				○					
	Western Africa	Benin	○	○	○			○	○		○								○	○
		Burkina Faso	○	○				○	○		○								○	○
		Cape Verde		○	○		○		○	○		○								
		Cote d'Ivoire	○		○			○	○											○
		Gambia	○	○	○			○	○		○									○
		Ghana	○		○			○	○											○
		Guinea	○	○	○			○	○		○									○
Guinea-Bissau		○	○	○			○	○		○									○	
Liberia			○					○	○		○								○	
Mali		○	○	○			○	○		○									○	
Mauritania		○	○	○			○	○		○									○	
Niger		○	○	○			○	○		○									○	
Nigeria		○		○			○	○											○	
Senegal	○	○	○		○		○	○		○								○		
Sierra Leone	○	○	○			○	○		○									○		
Togo	○	○	○			○	○		○									○		
Southern Africa	Angola	○	○				○	○		○	○			○						
	Botswana	○		○		○		○		○			○							
	Lesotho	○	○	○		○		○		○			○					○		
	Malawi	○	○	○		○		○	○		○	○								
	Mozambique	○	○	○		○		○	○		○									
	Namibia	○		○		○		○			○	○						○		
	South Africa	○		○		○		○		○			○					○		
	Swaziland	○		○		○		○			○	○	○							
Zambia	○	○	○		○		○	○		○	○									
Zimbabwe	○		○		○		○			○	○									

SADC= Southern African Development Community  
 COMESA= Common Market for Eastern and Southern African States  
 SACU= Southern African Customs Union  
 EAC= East African Community  
 ECCAS/CEEAC= Economic Community of Central African States/Communauté Economique des Etats d'Afrique Centrale  
 CEMAC= Economic and Monetary Community of Central Africa  
 CMA= Common Monetary Area  
 ECOWAS= Economic Community of West African States  
 WAEMU/UEMOA= West African Economic and Monetary Union/Union Economique et Monétaire Ouest-Africaine

