

SUB-SAHARAN AFRICA'S EXPORT TRENDS AND THE EPAS

EXECUTIVE SUMMARY

Trade trends are changing quite rapidly for Africa. A careful analysis of Africa's export statistics reveals startling facts regarding the markets that are most important for Africa today, and in the years to come:

- 1) As a whole, Europe remains the largest export market for sub-Saharan Africa. However, Africa's exports to the intra-African market are growing at a much faster pace than exports to the EU market.
- 2) For some sub-regions and countries, e.g. the East African Community as well as countries such as Zambia, Senegal, Kenya, the intra-African market is already the larger market for their exports than the EU market.
- 3) Africa has been and remains the much larger market for sub-Saharan Africa's (SSA) manufactured exports than the EU. If SSA countries are aiming to move up the industrial ladder and diversify their trade, the African market, not so much the EU market, is the most promising export destination.
- 4) The quality of sub-Saharan Africa's trade to the EU is questionable. 90% of exports to the EU (excluding South Africa's exports) are by way of fuels and other primary products, only 10% are manufactured exports.

If Africa is to grow its industrial capacities, its most promising market is its own intra-African market, which absorbs the bulk of its manufactured exports. In contrast, Africa's exports to EU are mainly oil, gas, minerals / raw materials, fish and flowers.

The intra-African market, however, is at risk of being taken over by products from the EU, should African countries sign and implement the Economic Partnership Agreements (EPAs) with the EU.

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I. INTRODUCTION

1. Some trade trends must be kept in mind as sub-Saharan African (SSA) countries are negotiating the Economic Partnership Agreements (EPAs) with the European Union (EU). As there are heavy costs that will be borne by SSA countries should they sign the EPA, this analysis is an attempt to help SSA make a more accurate cost-benefit analysis.

II. EU IS AFRICA’S LARGEST EXPORT MARKET FOR AFRICA’S TOTAL EXPORTS; FOR NON-OIL EXPORTS, INTRA-AFRICAN TRADE IS NEARLY OVERTAKING EXPORTS TO THE EU

2. The Diagram 1 below shows that the EU is in absolute terms, still the largest market for Africa. However, Diagram 2 shows the phenomenal growth of the African market compared to the EU market for SSA products. The intra-African market has grown 5 times the rate of growth of the EU market since 1980.

Diagram 1: Total Exports from SSA Countries to EU and to Africa

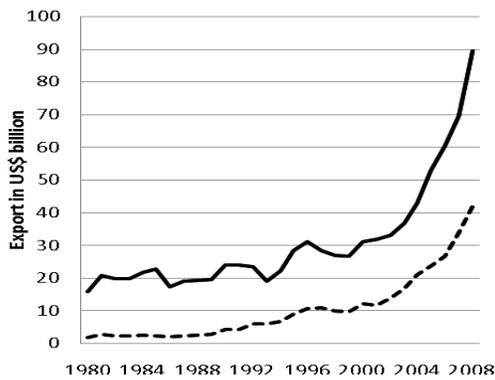
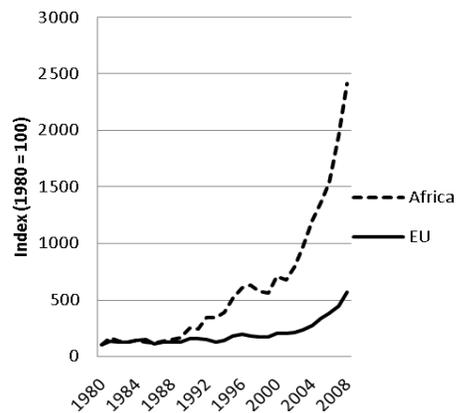


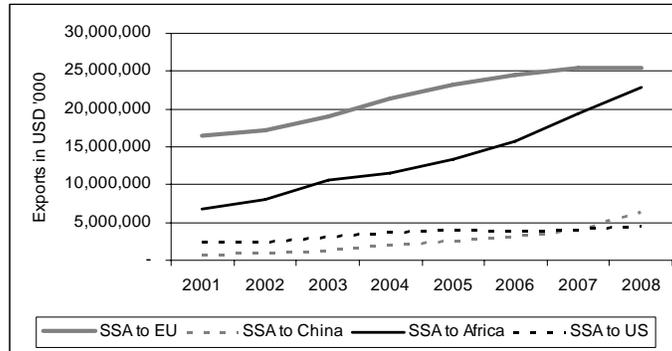
Diagram 2: Rate of Growth of the 2 Markets – African Market Growing at a Faster Rate



Source : Data from UNCTADstat

3. When we look at non-oil exports from SSA to various destinations, Europe is still the biggest market. However, this is closely followed by Africa, and the gap between non-oil exports to EU and to Africa is diminishing very quickly.

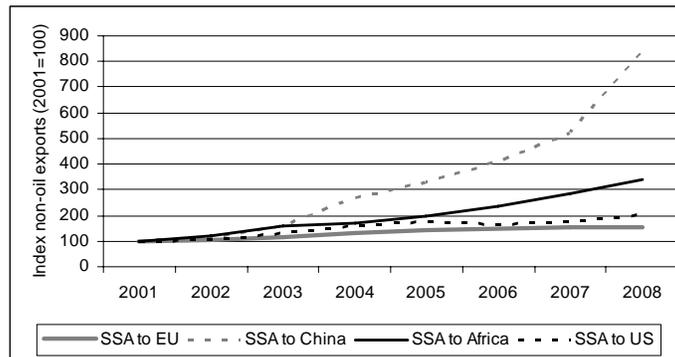
Diagram 3: SSA's (excluding South-Africa) Non-Oil Exports to Various Destinations



Source:: Data from ITC TradeMap

- In terms of the growth of the different markets for SSA's non-oil exports, China is the fastest growing, followed by Africa, and only after that by the US and the EU markets.

Diagram 4: Growth of African Non-Oil Exports to Various Destinations



Note: 'Non-oil' exports include all products minus those in HS Chapter 27 (mineral fuels, oils, distillation products, etc)

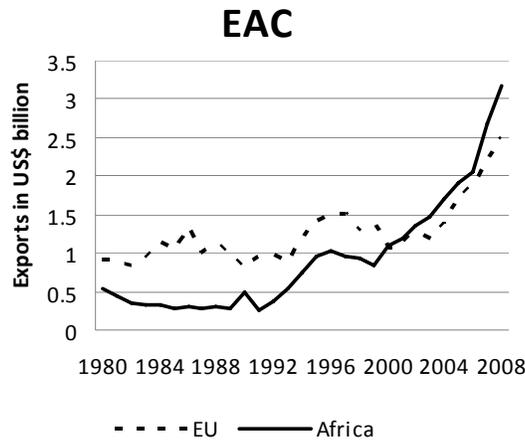
Source:: Data from ITC TradeMap.

III. THE INTRA-AFRICAN MARKET IS THE BIGGEST MARKET FOR SOME SUB-REGIONS AND SOME COUNTRIES

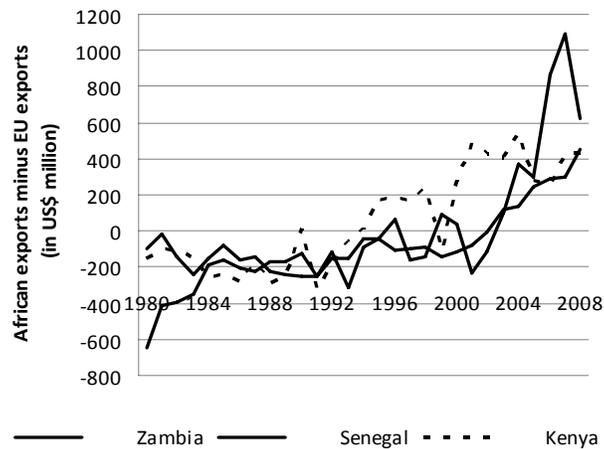
- Diagram 5 illustrates that for the East African Community (EAC) countries, exports to Africa has surpassed their exports to the EU. Whilst exports to the EU is about USD 2.5 billion, exports to Africa amount to USD 3.2 billion in 2008.

6. Diagram 6 illustrates this for individual countries e.g. Kenya, Zambia and Senegal. The lines rising above 0 show the amounts for which exports to the African market have surpassed exports to Europe.

Diagrams 5 and 6: EAC, Zambia, Senegal and Kenya’s Exports to the EU and African Markets - Africa is a More Important Market than the EU



Source : Data from UNCTADstat



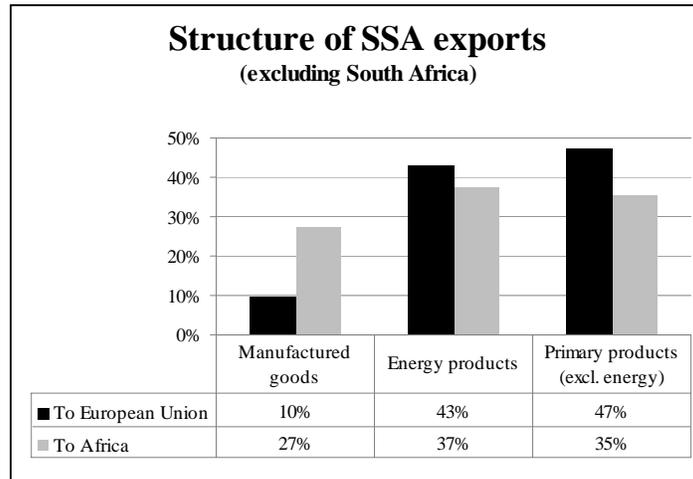
Source : Data from UNCTADstat

IV. HUBS AND SPOKES TRADE PATTERN BETWEEN EU AND AFRICA

7. In order for trade to support development, the quality of trade between countries is important. Otherwise, we can have trade volumes increasing, but with no improvements in the exporting countries’ industrialisation process or development.

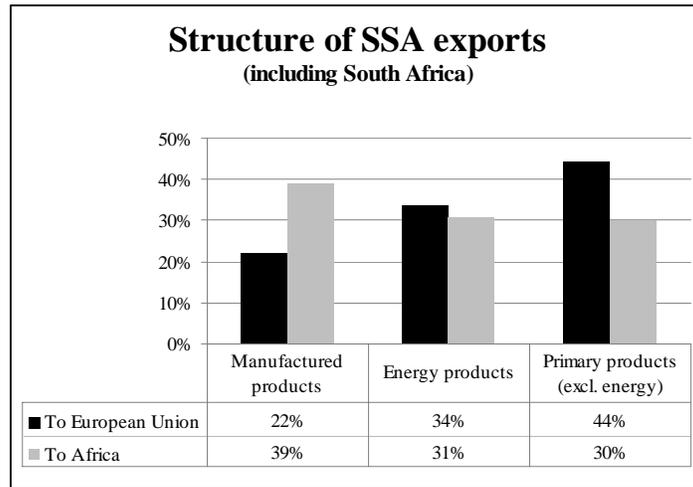
8. There is a hubs and spokes trade pattern between EU and Africa. The quality of Africa’s exports to Europe is questionable as it consists mainly of non-processed primary products and raw materials. Diagrams 7 and 8 show that using data from 2004 - 2008, 90% of exports from sub-Saharan Africa (excluding South Africa) to Europe are fuels and other primary products. Only 10% of exports are in the form of processed/manufactured products. Even with the inclusion of South Africa, only 22% of SSA’s exports are in the form of manufactured products, and 78% are fuels and primary products. In other words, SSA countries export primarily raw materials to Europe, whilst they predominantly import capital goods (e.g. machinery) and other high value-added products (e.g. medicaments, cars, information technology products) from Europe.

Diagram 7: Only 10% of SSA’s Exports to Europe are Manufactured Goods, 90% are Energy and Primary Products (Excluding South African Exports), 2004 - 2008



Source : Data from UNCTADstat

Diagram 8: 22% of SSA’s Exports to EU are Manufactured Goods, 78% are Energy and Primary Products (Including South Africa), 2004 - 2008



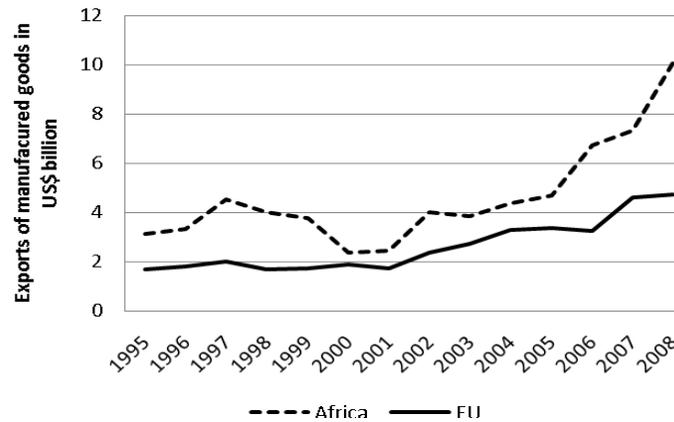
Source : Data from UNCTADstat

9. In contrast to the poor quality of trade to the EU, SSA's main export market for manufactured products is Africa. The structure of SSA's exports to Africa is much more sophisticated than their exports to Europe.
10. This poor quality of trade with the EU is not so much an issue of market access. The majority of SSA countries are least developed countries (LDCs) and they already have duty-free and quota-free access to the EU market. Instead, there are other barriers to the EU market such as the lack of competitiveness compared to European producers, non-tariff barriers (NTBs) and rules of origin.

V. AFRICA IS THE BIGGEST MARKET FOR SSA'S MANUFACTURED EXPORTS

11. Africa is the biggest market for sub-Saharan Africa's manufactured products (Diagram 9). In 2008, SSA's manufactured exports are USD 10 billion to Africa (excluding South Africa's exports) versus USD 4.8 billion to Europe.
12. Africa is therefore the most important market, if sub-Saharan African countries are to move up the industrial ladder and diversify their trade.

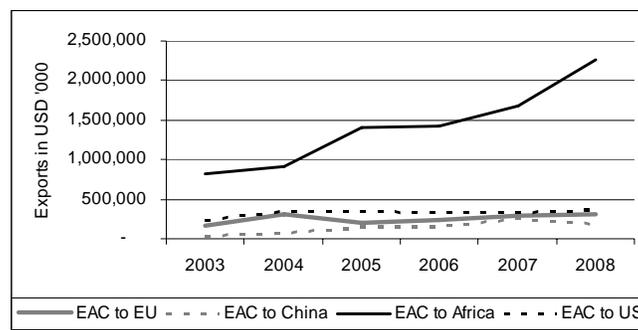
Diagram 9: Sub-Saharan Africa's Manufactured Exports (excluding South Africa's Exports)



Source : Data from UNCTADstat

13. When looking at the EAC region, EAC exports of industrial products predominantly find their way to the African market, not to the EU or other markets. This intra-EAC trade is therefore very important for EAC industrialisation.

Diagram 10: Industrial Exports of EAC Countries to Various Destinations, 2003 – 2008



Note: 'Industrial' exports include all industrial products (as understood in the WTO's non-agricultural market access (NAMA) negotiations except those of HS Chapter 3 (fish))

Source: Data from ITC TradeMap. Figures are taken from import data of destination countries

VI. CONCLUSION

14. The quality of trade from SSA to the EU market is dubious, with 90% of exports falling into the fuels and primary products categories (excluding South Africa's exports). A large portion of this is oil, gas, minerals / raw materials and fish.

15. In contrast, it is the African market that is by far the most important market for sub-Saharan Africa in terms of manufactured exports.
16. This would change if the sub-Saharan African market would be opened to the EU through the EPAs. The EU has asked African countries to eliminate tariffs on at least 80% of trade with the EU or 80% of SSA countries' tariff lines. In doing so, applied tariffs on many industrial tariff lines in Africa would be brought down to zero.
17. The inability to protect Africa's fledgling industries through tariffs will lead to the collapse of many industries, or the inability to grow new industries. The opportunities African producers now have to access a bigger internal market for manufactured products would be lost as they would have to compete with EU manufactured exports in their own regional market. Such a situation would not bode well for the industrialisation prospects of Africa, or Africa's trade integration.

STATISTICAL ANNEX

1. Most trade figures in this note are compiled from UNCTADstat, on the basis of the Standard International Trade Classification (SITC). The designers of SITC attempted to reflect the level of processing of the goods referred to. As a result, the SITC system has two main categories: primary commodities with a low level of processing and manufactured goods with a high level of processing. The tables below provide an overview of products covered.

Table 1 - SITC product categories

Main category	Subcategory	SITC code
Primary commodities (low level of processing)	Basic food	SITC 0, 22, 4
	Beverages and Tobacco	SITC 1
	Ores, metals, precious stones and non-monetary gold	SITC 27, 28, 667, 68, 971
	Energy products (coal, oil, gas and electric energy)	SITC 3
Manufactured goods (high level of processing)	Chemical products	SITC 5
	Machinery and transport equipment	SITC 7
	Manufactured goods classified chiefly by material*	SITC 6 less 667 and 68
	Other manufactured goods*	SITC 8

*More details in the table below

Table 2 - SITC product categories; manufactured goods in more detail

Manufactured goods classified chiefly by material	61 - Leather, leather manufactures 62 - Rubber manufactures 63 - Cork and wood manufactures (excluding furniture) 64 - Paper, paperboard and articles of paper 65 - Textile yarn, fabrics and related products 66 - Non-metallic mineral manufactures, 67 - Iron and steel 69 - Manufactures of metals
Other manufactured goods	81 - Prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings 82 - Furniture, and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings 83 - Travel goods, handbags and similar containers 84 - Articles of apparel and clothing accessories 85 - Footwear 87 - Professional, scientific and controlling instruments and apparatus 88 - Photographic apparatus, equipment and supplies and optical goods, watches and clocks 89 - Miscellaneous manufactured articles

2. There can be discussion about the accuracy of these categories. For instance, beverages, cigarettes and cut flowers are relatively high-value added products. Furthermore, processing within the broad category of 'primary commodities' is evident for some products: aviation spirit has more value-added than crude oil, but they both fall under the same heading 'primary commodities'. Nevertheless, these two broad categories roughly capture the level of processing of the products described and are widely used by national statistical offices around the world, e.g. Eurostat of the EU.

3. Some figures are based on data from ITC TradeMap. TradeMap classifies goods according to the Harmonized System (HS), which is an international nomenclature defined by the World Customs Organisation (WCO). It allows countries to classify traded goods on a common basis for customs purposes. The HS comprises approximately 5,300 article/product descriptions that appear as headings and subheadings, arranged in 96 chapters. The six digits can be interpreted by groups of two digits. The first two digits (HS-2) identify the chapter the goods are classified in, e.g. 09 = Coffee, Tea, Maté and Spices. The next two digits (HS-4) identify groupings within that chapter, e.g. 09.02 = Tea, whether or not flavoured. The next two digits (HS-6) are even more specific, e.g. 09.02.10 Green tea (not fermented)... Up to the HS-6 digit level, all countries using the Harmonized System classify products in the same way.

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