

The Changing Global Trade Architecture: Implications for Africa's Regional Integration and Development

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This article analyses the trends in global trade since the beginning of the new millennium and discusses the implications of these trends for Africa's regional integration agenda. The article argues that the mainstream narrative of market and linear integration is inappropriate for Africa and should be replaced by a development integration approach. It calls for Africa's main trading partners; the EU, the US and China to align their trade relationships with Africa in support of Africa's own vision and Programme for regional integration reflected in the Continental Free Trade Area (CFTA) and Agenda 2063.

1 INTRODUCTION

'Africa- the hopeless Continent'! These were the words inscribed across the front cover of the Economist magazine at the turn of the new millennium (Economist, 13 May 2000). This negative narrative of Africa's prospects underwent a major turn with the publication of McKinsey's report on Africa's economic prospects a decade later. 'Lions on the move. The Progress and Potential of African Economies'. McKinsey's study was amongst the first significant reports to change the narrative on Africa's economic future (McKinsey, 2010). This report was followed by a slew of similar studies and reports that prompted the Economist itself to state that: 'Over the past decade six of the world's ten fastest-growing countries were African. In eight of the past ten years, Africa has grown faster than East Asia, including Japan' (Economist, 3 December 2011). This was an extraordinary turn for a magazine that had labelled Africa as 'the hopeless continent' just a decade ago. In the second decade of the new millennium, the narrative – Africa is 'rising' – has now firmly replaced the narrative of 'the hopeless continent' (Deloitte and Touche, 2013, 2014).

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Africa has made significant progress in the new millennium, growing by over 5% per annum on average since 2000 (excluding South Africa) (WB, 2013) creating the conditions for reductions its high poverty levels. These high growth rates in Africa are unprecedented. Africa's economies have begun to diversify from a reliance on commodities and increasing investment in its productive capacity and infrastructure. What has been driving this growth? While the high commodity prices (or commodity super-cycle) have been the main driver of African growth in the first decade of the new millennium, other factors such as; increased domestic demand, increasing private sector investment in manufacturing and services, public investment in infrastructure and increased remittances are also fuelling growth (WB, 2013). Other studies reflect that only about a quarter of Africa's growth is due to the commodity boom, with wholesale and retail, transport and telecommunications, finance and banking, manufacturing and agriculture also playing significant roles in this African growth renaissance (McKinsey, 2010). Africa thus has multiple sources of growth. It is for this reason that the current slowdown of global growth and fall of commodity prices, mainly as a consequence of the global economic crisis of 2008/2009, is unlikely to halt the processes of growth and development underway in Africa (WB, 2015).

What are the main changes in the global trading architecture that has influenced Africa's growth and trade trajectory? How have these changes in the global trade architecture impacted on the global trading system and what implications does this have for Africa? How have these changes in the global architecture of trade impacted on the nature of the trade relations between Africa and its main traditional developed country partners; the EU and the US; and its main developing country partner, China? How has the changing narrative of trade and trade integration impacted on Africa's own strategy to integrate its region and develop the African continent?

The article will begin by sketching the main elements of the changes in the global trade architecture in the first decade of the new millennium. The article then explains how these changes impacted on the Doha Development Round. The shift to mega-regionals and mega-bilaterals by the major developed country players and the implications of these developments for Africa's trade with the world will also be briefly discussed. The article then sets out the changes in the trade policies of the EU and the US on Africa in the new millennium and the implications of these policies for Africa's economic development. The article goes on to discuss the role of China in the trade and economic development of Africa since the dawn of the new millennium. Other developed countries, such as Japan and developing countries, such as India are also increasingly significant players on the African continent. However, due to a lack of space their role will be discussed on another occasion. The article argues that the dramatic changes in the trade architecture of the world during the first decade of the new millennium has created

both opportunities and challenges for Africa's development. African countries need to develop proactive strategies to harness these new changes and utilize them to advance the integration of the African continent.

Finally, the article discusses the unfolding regional integration strategy of African countries. The recent World Bank paper implores African countries to liberalize their markets, not only to each other, but also to the rest of the world following the so-called 'open-regionalism' approach to trade integration. This article criticizes this approach as a return to the failed Washington Consensus approach to trade integration and as being inappropriate to Africa's development situation. African countries it is argued will need to advance their regional integration in a pragmatic manner following a 'development integration approach' that calls for African countries to coordinate the opening of markets to each other, while building industrial capabilities and developing cross border infrastructure. This three-fold strategy to regional integration is argued to be more appropriate for Africa's integration and development than previous approaches based on the Washington Consensus.

2 THE CHANGING ARCHITECTURE OF WORLD TRADE

China's accession to the WTO, at the launch of the Doha Development Round, in November 2001, was to catapult China into the pinnacle of global trade within a decade, and transform the existing patterns of north-south trade that emerged after the second World-War. China's high growth rates – of over 10% per annum – created the demand for Africa's commodities that was to see Africa's dramatic rise from at least two lost decades of development. In the first decade of the new millennium African economics grew at an unprecedented rate of over 5% per annum. China's rise, and that of other emerging developing countries that became known as the BRICS (Brazil, Russia, India, China and South Africa), has changed the architecture of world trade in the first decade of the new millennium. The changes in the world trading system in just over a decade have been dramatic. A few data points illustrate these changes: China overtook Japan as the leading Asian exporter in 2004 and became the world's largest exporter in 2009 (overtaking the US in 2007 and Germany in 2009) (WTO, 2015). The share of developing country exports in world trade grew from 26% in 1995 to 44% in 2014 while the share of developed economies exports in world trade declined from 70% to 52, during the same period (WTO, 2015).

Before China's accession to the WTO in 2001, its exports constituted 4% of world exports, in 2000. By 2003 this grew to 6% and by 2014 China's merchandise exports had risen to 12% of the world total exports. India too had boosted its merchandise exports into the world from 0.8% in 2003 to 1.7% in 2014. Brazil

increased its share of world exports from 1% in 2003 to 1.2% in 2014. In contrast South Africa's performance has been relatively unspectacular, decreasing from 0.7% in 1993 to 0.5% in 2003 and remaining with this share in 2014. (WTO, 2015). Africa's share of world exports had also grown from 3% in 1990 to 3.3% in 2010. In the same period however, East Asia's share had grown from 8% to 17.8% (UNECA, 2015). While Africa has made some real progress, it still has a considerable way to go to catch up with other fast-growing economies in Asia and Latin America.

3 THE COLLAPSE OF THE WTO DOHA ROUND

Unfortunately, these dramatic developments in world trade, since the second World-War (discussed above), became one of the main reasons for the collapse of the WTO Doha Round ministerial meetings, held in Geneva, in 2008. The Doha Round has not succeeded in emerging from this crises notwithstanding efforts made to secure incremental outcomes at the Ninth WTO Ministerial Conference, held in Bali, Indonesia (December 2013) and the more recent Tenth WTO Ministerial Conference held in Nairobi, Kenya (December 2015) (Wilkinson, 2014; Kanth, 2016). The main argument of the major developed country members of the WTO, led by the US, is that the Doha Round is now obsolete given the new conditions in the world economy, including the rise of China and other emerging economies (*see* Ismail, 2012a; 2012b). In addition it is argued by these writers that the dominant role of 'global value chains' in world trade, require 'new approaches' and 'new pathways' (Hoekman, 2014). The so-called 'new pathways' preferred by the US is; a shift from multilateral approaches towards plurilateral approaches, and; an abandonment of the single-under-taking approach (that requires all issues to be agreed together) towards single-issue approaches (such as that on Trade Facilitation adopted in Bali). Interestingly, this 'new narrative' has become the mainstream paradigm on trade influencing the 'epistemic community' of researchers and policy thinkers in the WTO, OECD and the World Bank, in much the same way as the 'Washington Consensus' was to become in the late 1980s and 1990s (Williamson, 2008; Hoekman, 2014; World Bank, 2015).

The collapse of the Doha Round of trade negotiations in 2008 saw a simultaneous shift of the US towards Mega-Regional and Mega-Bilateral approaches to trade negotiations. The US prioritized the Trans-Pacific Partnership Agreement (TPP) and Trans-Atlantic Partnership Agreement (TTIP) negotiations and shifted its negotiating resources towards negotiating higher regulatory standards and disciplines on a range on trade related issues that it believed were more important in driving the interests of its lead firms in the global value chains. This was accompanied by; plurilateral approaches on Services negotiations (TISA) and on Environmental Goods and Services, and; an abandonment of the

single undertaking in favour of single-issue approaches in the WTO, such as Trade Facilitation. The EU, at first reluctantly, and then more enthusiastically, decided to fall in line and support these approaches, as it shared a common objective with the US to apply pressure on China to raise its standards on trade to that of the developed countries (Hoekman, 2014; Ismail, 2012a and 2012b).

Africa had played an extraordinary role in the Doha Round since the collapse of the Cancun Ministerial meeting, where 5 of its members joined the G20 group of developing countries on Agriculture. The African group was a powerful player as part of the African Caribbean and Pacific group, and being a dominant player in the Least Developed Countries group, where it has a majority of members. The African group also supported the Cotton 4 group of countries and raised its profile in the negotiations. The African Group also had a large number of small and vulnerable countries that negotiated special flexibilities for this group. Africa had begun to influence many of the outcomes of the negotiations in the WTO, including on Trips and Public Health, Cotton, Least Developed Countries, Small and Vulnerable Economies, etc. (*see* Ismail, 2009, 2011). However, the collapse of the Doha Round and the shift away from the single undertaking towards single issues by the US has fragmented the Africa group in the WTO and excluded it from the plurilateral negotiations, where it is regarded as a small and insignificant player. I have argued elsewhere that the shift away from the single undertaking of the Doha Round towards a single-issue negotiation and plurilateral approaches in the WTO will be disadvantageous to African interests for three reasons: first, such approaches delink the WTO negotiations from the Doha Development mandate that requires the prioritization of the 'needs and interests of the developing countries' and includes issues such as special and differential treatment, the LDC issues, and the concerns of small and vulnerable countries; second, the linkages that were developed in the Doha mandate with reforms to be made by developed countries in agriculture will be severed, thus removing this vital leverage that African countries have to secure their interests in agriculture, including on Cotton, and, third; the issues to be prioritized will inevitably be those favoured by the developed countries, such as Trade Facilitation, thus marginalizing the issues of concern to developing countries (Ismail, 2012a and 2012b).

However, just as in the period before the 9th Ministerial Conference, WTO members were divided once again just months before the Nairobi Ministerial Conference, and could not agree on both the agenda and the way forward post-Nairobi (Kanth, 2016). The most significant decision in Nairobi was that, to eliminate export subsidies and discipline export credits in agriculture. A number of other issues of interest to developing countries were also discussed but as the DG of the WTO himself stated: 'more limited progress was achieved in other areas on the SSM, public stockholding, minimizing the negative consequences of food aid,

the Least Developed Countries package and strengthening Special and Differential Treatment provisions' (Azevedo, 2016). On the crucial issue of the future of the Doha Round the WTO members were divided and the final declaration from Nairobi stated: 'We recognized that many Members reaffirm the Doha Development Agenda ... Other members ... do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations' (WTO, 2015b).

Thus, in the post-Nairobi WTO Geneva negotiating process, the Africa Group, will have to regain its approach of unity and solidarity in the WTO negotiations and develop its own strategy for engagement in the changed circumstances of the WTO negotiations. The main challenge for the developing countries in the post-Nairobi period is how to develop an alternative narrative to that of the US Global Value Chains (GVCs) narrative on trade and how to counter the US approach to the WTO negotiations, that includes a conscious effort to use its mega-plurilaterals and mega-bilaterals as part of its efforts to re-design the negotiating agenda on global rule-making by setting the 'gold-standard' in these negotiations and then pressurize developing countries to accept these when it is ready to multilateralize these plurilateral and bilateral negotiations in the WTO.

4 EU-AFRICA TRADE CHANGES FROM COTONOU TO EPAS

At the creation of the GATT in 1947 one of the most contentious issues between the US and the UK was that of trade preferences granted to the UK to its colonial countries that were represented in the Commonwealth – the so-called Imperial Preferences (Kock, 1969). The European Economic Community (EEC) itself, created by the Treaty of Rome in 1957, was allowed to grant preferences to its own members in a regional integration framework that allowed for free trade agreements under certain conditions set out in Article XXIV of the GATT. After the UK joined the EEC, in 1973, the original six members of the EEC (Belgium, Netherlands, Luxembourg, West Germany, Italy and France) extended a set of trade preferences and aid to their former colonies, in 1975, that became known as the Lome Convention. This agreement was controversial in the GATT as it did not have a clear framework for the establishment of a free trade agreement and it included protectionist policies such as the Common Agricultural Policy (CAP) and the European Coal and Steel Community (ECSC). The US however, supported the European Economic Community (EEC) and its enlargement, due to its interest to support political stability in Europe (Kock, 1969). The Lome Convention was also controversial because it did not provide preferences to those developing countries in Latin America and Asia that were not former colonies of the EEC. However, both the EEC and the US supported the preferences provided by the Lome Convention. The EU was granted a first waiver at

the WTO, for the Lome Convention, in 1996, which expired in 2000. The Lome Convention was changed to the Cotonou Agreement in 2000. At the launch of the Doha Round in 2001, the ACP request for extension of this waiver was granted after much debate, until 31 December 2007, under the condition that the discriminatory trade Cotonou regime in favour of the ACP only would be replaced by WTO-compatible trade regimes – FTAs or MFN.

The dramatic changes in the European Union, since the fall of the Berlin Wall and the end of the Cold War, has increased the membership of the EU from EU-15 to EU-28. Most of the EU-13 countries do not share the burden of responsibility for the colonial relations between Europe and Africa and thus have not had the same enthusiasm for the EU-AFRICA or EU-ACP relationship that was defined by trade preferences and development assistance since the Lome Convention in 1975. The Lome Convention was transformed into the Cotonou Agreement in 2000. These changes in the composition of the EU began a debate for the radical transformation of the traditional trade and aid relationship between the EU and Africa towards one of reciprocity. The fact that the Cotonou Agreement required a waiver in the WTO to extend the Cotonou preferential trade arrangement with the ACP was arguably of much less importance than that of the change in the composition and attitude of the new members to the ACP. The EU thus begun a process of ‘negotiating’ African countries out of the Cotonou agreement towards reciprocal Economic Partnership Agreements (EPAs). The EU started the negotiations for the various Economic Partnership Agreements with African, Caribbean and Pacific (ACP) countries on 27 November 2002.

Since the 1 January 2008 those countries that have signed interim EPAs were to benefit from the new arrangements, while those that did not fell back onto their lesser GSP arrangements or EBAs (in the case of LDCs). The EU passed Regulation MAR No. 527/2013 which withdrew, with deferred effect, until the 1 October 2014, the market access regulation benefits to those countries that had not taken the necessary steps towards ratification of the EPAs (Ramdoo and Bilal, 2011). The effect of the regulation was to pressure African countries to enter into EPAs with the EU.

The European Centre for Development Policy Management (ECDPM) reported that as of 16 October 2014, EPAs have been concluded by the EU (28 countries) with 49 ACP countries, covering over 900 million people on 4 continents (ECDPM, 2014). According to the ECDPM, by October 2014, three regions in Africa had initialled the EPA (Southern African Development Community EPA region; the East African Community, and; the Economic Community of West African States region). In addition, the so-called Eastern and Southern Africa region (ESA) had been implementing the interim EPA on

a provisional basis (ECDPM, 2014). However, some reports indicate that the ECOWAS EPA is still under negotiation with 'The Gambia, Mauritania and Nigeria refusing to sign the agreement' (Dreyer, 2016). Negotiations with the remaining Sub-Saharan Countries in Africa are still continuing. At a recent ACP Council meeting held on the 28 April 2016, Ministers called on the EU 'to resume the stalled negotiations with regions of Central Africa, Eastern and Southern Africa (ESA) and the Pacific, at the Ministerial level' (ACP <http://www.acp.int>).

With the exception of ECOWAS and EAC, which are at a more advanced state of integration (they have a Customs Union), the other African RECs did not negotiate with all their members. COMESA, negotiated as Eastern and Southern Africa (ESA), with 11 members out of their 19 members. Egypt and Libya are non-ACP states, and therefore did not take part in EPA negotiations. The remaining COMESA states negotiated either; within the Southern African Development Community (Swaziland); EAC (Burundi, Kenya, Rwanda and Uganda) or; Central Africa (DR Congo) configurations. The SADC EPA group consisted of 7 countries out of the 15 members. Of these, the Southern African Customs Union (SACU), which is a customs union, negotiated as a group, when South Africa joined the negotiations in 2007. The others negotiated in Central Africa (DR Congo), EAC (Tanzania) and ESA (Madagascar, Malawi, Mauritius, Seychelles, Zambia and Zimbabwe).

While these EPAs have mostly focused on goods trade they have made provision through the so-called rendez-vez (RDV) clause to also negotiate disciplines on Services trade and Rules, including Investment and competition, and regulations, such as on SPS and TBT issues. As African countries try to unravel the current spaghetti bowl of their own regional integration process they will also need to assess how to incorporate the EPAs into the African regional integration process and not allow them to derail African regional integration by reducing tariffs to the EU before reducing tariffs to their own neighbours.

While the EPAs have been criticized by African countries for many different reasons, the main reason has been expressed by the South African Minister of Trade and Industry, Dr Rob Davies as follows: 'Our overriding concern remains that conclusion of the separate EPAs among different groupings of countries in Africa that do not correspond to existing regional arrangements will undermine Africa's wider integration efforts. If left unaddressed, such an outcome will haunt Africa's integration project for years to come' (ECDPM, 2014). African countries thus have a challenging task to evaluate the implications of the EPAs for their regional integration process in Africa. A range of issues arise including: the different goods liberalization both in terms of products and phase down periods, the different rules of origin that may

complicate regional integration, and; the different rules that may create different on policy issues, such as export taxes. Africa will have to evaluate how to unravel the complications that have been created by these EPAs and how to ensure that they do not allow these agreements to become stumbling blocks to regional integration in Africa but building blocks.

5 THE US AFRICAN GROWTH AND OPPORTUNITY ACT

The United States had been following the EU negotiations with the ACP countries with a great deal of interest as it began its own process of reviewing its trade arrangements with Africa, as the end of African Growth and Development Act (AGOA) III was approaching, in September 2015 (Pigman, 2016). The US put in place the AGOA, granting Sub-Saharan African countries unilateral trade preferences into its large market for over 6400 tariff lines, in 2000. This programme has now been renewed four times with the latest renewal (AGOA IV) signed by President Obama in June 2015. Learning from the EU the US introduced a slew of provisions in the new AGOA Extension and Enhancement Act of 2015, that demands reciprocity from AGOA beneficiaries, including on specific trade and investment related policy issues required by its lobbies. In addition, the US administration is required to actively encourage African countries to engage in a dialogue with the USTR with a view to transforming the existing one-way preferential trade system enjoyed by AGOA beneficiaries into a two-way reciprocal free trade agreement. It is also most likely that the template for the reciprocal free trade agreements will come from the newly agreed TPP negotiations where the US has already agreed on a slew of trade issues including tariffs, trade rules and regulations, that go well beyond that covered or contemplated in the WTO Doha Round. The implications of the AGOA Extension and Enhancement Act 2015 (accessed on US Congress website) for Sub-Saharan African countries are briefly assessed below.

The 2015 AGOA Bill raises at least three important policy questions. Is AGOA still a one-way preferential trade programme without cost? Does it still facilitate a cooperative trade and development relationship with the USA? For how long will the US still allow non-reciprocity in trade with sub-Saharan African countries? Three key trends or themes can be identified from a preliminary analysis of the 2015 AGOA Bill. These new trends are briefly discussed here.

First, a one-way non-reciprocal arrangement that was to facilitate the increased integration of African countries into global markets has now become a programme that the US seeks to be paid for. The case of South Africa clearly illustrates that interest groups in the US, such as the poultry industry (and pork and beef, amongst others) have seen AGOA renewal as an opportunity to seek

payment for a non-reciprocal US trade assistance programme (*see* Simon Barber, B/D, 7 May 2015).

Second, the 2015 Bill creates a system of structural attrition between the United States and sub-Saharan countries. It does this by leveraging a preferential tariff programme to gain increased access into Sub-Saharan markets. African countries will no doubt have to consider the cost of this attrition and uncertainty on their trade and investment with the US and many will look to the new emerging countries to support their development projects and programmes where the demands on reciprocity are not as sharp or aggressive.

Thirdly, the initial good intentions of AGOA which was to provide a non-reciprocal tariff preference into the US market for sub-Saharan countries, that would stimulate investment in these countries for export oriented industrialization has turned into a tool to leverage increased market access into sub-Saharan countries for US exports and investment.

In addition to the above concerns of African countries there are two other significant trends that African countries will need to assess to evaluate the value of AGOA to their economies. The first relates to the poor utilization of the existing preferences by African countries and the second relates to the risks of preference erosion and reciprocity. These issues are discussed in turn.

First, while some African countries have been able to use AGOA preferences to attract foreign investment and increase their production and exports of mainly clothing and textiles, most African countries have not been as successful. This is illustrated by the recent data on US-Africa trade. In 2014, the share of AGOA exports in total US imports was a mere 1% (a drop from 2% in 2013). There was a dramatic drop in oil exports from the continent to the US, since 2013. Even the largest volume of manufactured products exported to the US, such as motor vehicles, occupied only 0.39% of the US market for autos. In the case of fruit this was 0.02% and in the case of meat and fish, the figure was 0.01%. If one excluded the oil exporters (Nigeria, Angola, Chad, Gabon, Congo and Ivory Coast) South Africa was the largest exporter to the US in 2013 with its exports amounting to USD 8.1 billion, and of this USD 3.1 billion of its falling under AGOA including GSP. Only 7 other sub-Saharan countries exported more than USD 100 million to the US. These include: Kenya, Lesotho, Ghana, Mauritius, Namibia, Ethiopia, and Cameroon. Although these countries (mainly Kenya, Lesotho, and Mauritius) have succeeded in using AGOA to expand their clothing and textile exports to the US, AGOA beneficiaries still represent less than 1% of total US imports of apparel. The US Congressional Research Service states that: 'U.S. apparel imports totalled USD 82.7 billion in 2014, with USD 30.7 billion from China, USD 9.2 billion from Vietnam, and less than USD 1 billion total from AGOA beneficiaries' (Williams, 2015). The same study states that: 'U.S.

preferential imports were less than USD 1 million for over half of the 40 AGOA beneficiary countries in 2014’.

The second concern of African countries relates to the risks of preference erosion and the threat of reciprocity. The current debate in the US Congress over the TPP and TTIP, if successful, will lead to more than two thirds of world trade being captured in these new trading blocs and the consequent erosion of preferential access into the US market for current beneficiaries of AGOA, such as South Africa, and other Sub-Saharan African countries. In addition, the clear trajectory of the 2015 AGOA Bill is to transition all the AGOA beneficiary countries from the non-reciprocal trade preferences that AGOA currently provides towards reciprocal arrangements, similar to the EU EPAs. The ten-year extension of AGOA benefits proposed in the 2015 Bill is thus uncertain.

The US needs to be lobbied to support the building of industrial capacity and infrastructure in Sub-Saharan African countries that will enable the beneficiaries of AGOA to utilize the opportunities it provides to access the US market. African countries need to campaign in Washington for the current ten-year extension of AGOA (AGO A IV) preferences to be fully implemented until 2025 – creating more certainty for investors in Africa that are keen to use the AGOA preferences to export into the US market.

6 CHINA’S RISE: OPPORTUNITIES AND CHALLENGES FOR AFRICA

China’s trade and economic relationship has evolved considerably since the founding of the People’s Republic of China in 1949. In 1964 China provided 53% of the loans received by Africa and in the 1970s it financed the Tazara Railway line from Zambia’s copper belt to the port of Dar-es-Salaam in Tanzania. However, since the formation of the Forum on China–Africa Cooperation (FOCAC) in 2000, this relationship has expanded rapidly. FOCAC has met every three years at Ministerial and Presidential levels and made a large number of commitments to enhance its support to Africa in a number of areas, including opening its market up to 95% for LDCs, the provision of concessional loans and grants, support for infrastructure, and generous debt relief (UNCTAD, 2010). Fifteen years after its inception, the sixth Forum on China Africa Co-operation (FOCAC) was held in Johannesburg on 4–5 December 2015, under the theme, ‘Africa-China Progressing Together: Win-Win Cooperation for Common Development’. Chinese President Xi Jinping announced a big package that covers the areas of industrialization, agricultural modernization, infrastructure, financial services, green development, trade and investment facilitation, poverty reduction and public welfare, public health, people-to-people exchanges, and peace and security. The package included: ‘60 billion

U.S. dollars of funding support, including 5 billion dollars of free aid and interest-free loans, 35 billion dollars of preferential loans and export credit on more favourable terms, 5 billion dollars of additional capital for the China–Africa Development Fund and the Special Loan for the Development of African SMEs each, and a China–Africa production capacity cooperation fund with the initial capital of 10 billion dollars’.

China had been growing consistently since the 1990s at over 10% per annum, importing commodities and processing these for its own vast population and increasingly exporting its manufactured products. By 2009 China had become the factory of the world and the world’s largest exporter! The global shift in trade patterns as a consequence of China’s new role in the World economy resulted in it becoming the largest export destination for almost all the major economies in the world, including the US, the EU, Japan and even the major developing countries, including Brazil, India, and South Africa. By 2010 China also became Africa’s largest export destination. China also became a significant investor in natural resources and manufacturing in many countries, including in Africa. In sharp contrast, the EU and the US witnessed a decline in their share of global trade. In addition both the EU, which remains the main destination for Africa’s exports, and the US, have declined as an export destination for Africa. In 2005, 52% of Africa’s exports went to Europe. This percentage was reduced to 36% in 2014, while over 27% of Africa’s exports went to Asia in 2014 (mainly China) (WTO, 2015). Similarly, only about 7% of Africa’s total exports went to North America in 2014.

Although China did not colonize any African country and remains a developing country, its long-standing involvement with the Continent has taken a new turn given its new capacity and role in world trade in the new millennium making it increasingly active in trade concessions, loans, grants, and private sector investment (Ismail, 2011). The main driver of global growth in the new millennium was the increased demand from the new emerging economies in the South, led by China and India. Increasing demand from China and India led to growth of exports from commodity producing economies of the South including Brazil and South Africa and a large number of African and Latin American countries.

China’s rise has created both opportunities and challenges for African countries. The rise of China has thus created an opportunity for Africa to diversify its exports. The dramatic changes in China’s rise, has created huge opportunities for Africa to export its commodities at higher prices into the Chinese market, propelling its growth rates. However, China’s rise has also created the challenge for Africa of managing the impact of the increasing competitiveness of China’s labour intensive manufactured products on its own nascent labour intensive manufacturing sectors, in clothing and textiles, leather and footwear, electronics, furniture,

etc. In the first decade of China's entry into the WTO, African countries were increasingly under siege as China's exports of manufactures caused many factory closures and de-industrialization of several African countries. Interestingly, as China's own wage levels have begun to rise they have begun to sub-contract out the labour intensive parts of production to lower wage regions, mainly in South and South East Asia. More recently, African countries, such as Ethiopia, have begun to tap into this opportunity, and have succeeded in attracting Chinese investors to build industrial capacity and manufacture in the low value sectors of clothing and textiles, electronics and footwear (Davies, 2016; Zalk, 2016). Unlike the private sector investors in the US and the EU, the Chinese State Owned Enterprises have taken a longer view of their investments in Africa and have begun to invest in Infrastructure, such as energy, road and rail transport, port development and logistics.

Africa has about 10% of global oil reserves, about one third of cobalt reserves, and an abundance of base metals. South Africa alone has about 40% of the world's gold. China has begun to source about half its imports of alumina, copper, iron ore and oil from Africa (Financial Times, 2011). The continent also has about 60% of the world's uncultivated arable land (McKinsey, 2010). The rise of commodity prices has also been accompanied by the rapid expansion of telecommunications (over 80 million mobile users in Nigeria and 20 million mobile users in Kenya in 2010) and banking and other services in Africa. Africa is thus an exciting opportunity for China to not only source its natural resources but to also take advantage of the opportunity to benefit its natural resources, build Africa's capacity to serve its new and rising middle class and raise living standards. China's rise provides Africa with a range of new opportunities. China has tended to be more holistic in its approach to promoting its own exports and securing raw materials by providing alternative financing modalities, supporting direct investment in infrastructure, manufacturing production and offering development aid to reduce poverty in Africa (AfDB, 2011). On Africa's part, as its abundant resources have become more valued and the size of its middle class grows, becoming attractive for exporters and investors, it can leverage these strengths to negotiate a more mutually beneficial relationship with China.

7 AFRICAN ECONOMIC INTEGRATION

While Africa has made considerable progress in building an ambitious programme of action to integrate the Continent, there are competing paradigms for African economic integration. In this section the process of African integration, particularly in the past few years will be briefly outlined. The discussion will then shift to setting out the World Bank narrative for African economic integration and contrast

this with the narrative proposed by the African Union (AU)/United Nations Conference on Trade And Development (UNCTAD) and the United Nations Economic Commission for Africa (UNECA) before making some policy recommendations in the concluding section.

African countries have been trying to integrate since the 1980 Lagos Plan of Action. While some regions in Africa have been making significant progress, in developing their regional integration process: viz, Southern African Development Community (SADC), East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), they have tended to follow political impulses rather than economic imperatives and created a complex set of overruling regional configurations – resulting in a so-called ‘spaghetti bowl’ of overlapping integration. It is for this reason that African leaders decided to intervene to bring some consistency, integrity and seriousness of purpose to the African integration agenda. On the 12th of June 2011, the Heads of Government of SADC, COMESA and the East African Community convened at a Tripartite Summit, in Sandton, Johannesburg to discuss the need for a ‘grand free trade area’ between the regional communities (Davies, 2011). The T-FTA (Tripartite Free Trade Agreement) was launched on 10 June 2015 following the launch of negotiations in 2011. The T-FTA will form the basis for an Africa-wide FTA. Tripartite initiative has three pillars: market access, cross-border infrastructure and regional industrial development. The T-FTA will combine markets of 26 countries with a population of nearly 625 million and a combined GDP of USD 1.6 trillion. The launch signifies the conclusion of negotiations on the legal text; work towards a functional FTA will continue as part of the built-in agenda. 3 annexes are still being negotiated as part of built in agenda namely Annex 1 on Tariff Commitment Schedules, Annex 2 on Trade Remedies and Annex 4 on Rules of Origin (RoO). The 2nd Phase of negotiations that began in March in 2016 covers trade in services negotiations and cooperation on IPR, investment, and competition policy.

In parallel with the process of the T-FTA negotiations, the AU Assembly launched the Continental Free Trade Area (CFTA) negotiations during the 25th Ordinary Summit of Head of States and Governments on the 15th of June in Johannesburg, South Africa. The Summit also adopted the Objectives and Guiding Principles for the CFTA negotiations, the Terms of Reference for the CFTA Negotiating Forum (CFTA-NF); and Indicative Roadmap/Provisional Schedule for the Establishment of the CFTA. The first phase of the negotiations includes goods and services. The indicative date for completion of Phase I is 2017. The benefits include access to a larger market of over 1 billion people and a combined GDP of over USD 2 trillion. The negotiations will follow a development

integration model and will be complemented by cooperation on industrial and infrastructure development. The CFTA will build on the TFTA.

There are many challenges that confront Africa in the long road to its chosen path of development integration. However, some indicators of its own successes are useful to recognize. Africa can boast to have the oldest existing Customs Union in the World with the Southern African Customs Union (SACU) being established in 1910 and the roots of the East African Community can be traced back to 1919 (Lamy, 2010). Carlos Lopes, the Executive Secretary of the United Nations Economic Commission for Africa, also points out that; ‘Africa has a long history of some countries sharing single currencies. For example, the West African Economic and Monetary Union (UEMOA) has 8 countries using the CFA franc, previously pegged to the French franc and now to the euro. There is also the Economic and Monetary Community of Central Africa (CEMAC) with an additional 6 countries using the CFA franc. Lesotho, Namibia and Swaziland are pegged at par to the South African Rand, which effectively means that they share the same monetary policy’ (Lopez, 2016). African countries have also made considerable progress in increasing intra-regional trade, rising from a mere 10% in 1995 to 18% in 2014 (WTO, 2015). This increase is still low compared to other regions. Intra-regional trade accounts for 70% of the EUs total trade. For North America, intra-regional accounted for 50% of its exports and in Asia just over half its exports were within Asia (52%) in 2014 (WTO, 2015).

The World Bank in a recent paper, uses the Global Value Chains (GVCs) narrative as its analytical framework and argues that while Africa has indeed made significant progress in increasing growth, Africa’s main strategy to advance its objective of reducing poverty should be to; increase its role in GVCs by focusing on the production of intermediate goods; focus on the services sector (developing a Services Hub in Southern Africa), and; liberalize its tariff regime, not only to its African neighbours but also to all other third countries. The authors argue that their ‘practical vision for a ‘Factory Southern Africa’ hinges not around factories at all, but around services’ (WB, 2015) with Mauritius and Dubai as their examples of successful countries that have attracted MNCs to locate their regional headquarters by adopting competitive market policies (WB, 2015; vii). The WB paper argues that the SACU region needs to consider ‘how to link RVCs to GVCs, rather than how to replace MNC activities in the region’. The argument is that African countries should not seek to divert trade from more efficient third country suppliers (MNCs) in favour of relatively uncompetitive African producers of intermediate goods. The paper thus argues that African countries should not only be opening their markets to their neighbours in Africa but also opening their markets to all other countries as well in a so-called ‘open-regionalism’ approach.

This approach to development policy saw a large number of African countries implementing SAPs that required countries to liberalize trade, deregulate their financial markets, privatize state owned enterprises, and reduce social expenditure (UNCTAD, 2006). The WB itself in a critique of this policy and its own programmes in Africa admitted that the SAPs had gone too far resulting in de-industrialization in a number of African countries. In an unprecedented critique of WB trade policies on Africa in the 1980s and 1990s, the WB stated that 'Bank trade advice and support during the 1980s and 1990s was too narrow in focus ... and was too optimistic about the benefits of trade liberalization for growth in the short run' (WB, 2006; xvi). The report went on to state that 'the speed of import liberalization increased competitive pressures in countries that were unable to generate dynamic and sustained manufacturing growth' and thus 'many African countries experienced an erosion of competitiveness in their export baskets, contributing to increased marginalization in global trade' (WB, 2006; xvi).

This approach to regional integration has long been critiqued by several studies (Davies, 1996; UNCTAD, 2006 and 2013). Davies argued that the WB approach to regional integration followed the linear approach to regional integration enunciated by David Viner in the 1950s (Viner, 1950). Viner who was a disciple of the comparative approach of trade theorized by David Ricardo, argued that adopting an approach to trade integration that was 'trade creating' and not 'trade diverting' would offer greater welfare gains from trade liberalization. He suggested a linear and sequential approach that would first see countries adopting free trade areas, then customs unions, and then common markets. The comparative advantage theory of David Ricardo has been critiqued on conceptual and theoretical grounds (Stiglitz and Charlton, 2005) ethical grounds (Reinert, 2008) and historical grounds (Ha-joon Chang, 2002) and will not be discussed further here.

In his overview of regional integration processes around the world Pascal Lamy observes, that 'the regional integration landscape today is extremely diverse' and does not follow the linear approach of Viner (Lamy, 2010). The linear approach has been critiqued by Davies as being inadequate and not appropriate for the development conditions of African countries (Davies, 2006). Instead Davies has proposed a 'development integration' approach which argues, that 'development integration stressed the need for both macro and micro co-ordination in a multi-sectoral programme embracing production, infrastructure and trade'. In addition, Davies argued that to compensate the least developed countries in a regional integration project that ensured a more equitable balance of the benefits of regional integration trade integration would need to be complemented by regional industrial development.

UNCTAD has also been a proponent of this approach and in its 2013 report argued that Africa countries should adopt an approach to regional integration

referred to as ‘developmental regionalism’ (UNCTAD, 2013). Developmental regionalism is defined as ‘cooperation among countries in a broader range of areas than just trade and trade facilitation, to include – for example – investment, research and development, as well as policies aimed at accelerating regional industrial development and regional infrastructure provision, such as the building of better networks of roads and railway’.

The Maputo Development Corridor, linking Gauteng Province in South Africa to the port of Maputo in Mozambique, has been hailed as a successful, true transport corridor that has unlocked landlocked provinces in one of the most highly industrialized and productive regions of Southern Africa (UNCTAD, TDR, 2013). Another successful example is the Greater Mekong Sub-region Project in South-East Asia, which is promoting economic linkages and boosting development among six countries sharing the Mekong River (Cambodia, China, the Lao People’s Democratic Republic, Myanmar, Thailand and Viet Nam), with assistance from the Asian Development Bank (UNCTAD, TDR, 2013).

More recently the UNECA in its latest report argued that trade policy which exposes infant industries to competition can lead to de-industrialization (UNECA, 2015). Thus this report explores how trade can serve as an instrument of accelerated industrialization and structural transformation in Africa. The report finds that over 50% of imports and 80% of exports of African countries are intermediate products. However, African countries are mere exporters of raw materials and other intermediate products embodying limited value addition. In 2011 almost 50% of world trade took place within global value chains (up from 36% in 1995) (WTO, 2015). While African countries too are increasingly connected to GVCs they are mainly suppliers of raw materials and other low value manufactures and operate at the lowest rung of the ladder in GVCs (UNECA, 2015). Thus the UNECA report argues that industrial development must be at the core of trade policy if African countries are to gain from global value chains. In sharp contrast to the World Bank’s call for ‘open regionalism’ the UNECA study argues that the current situation where African countries are more open and accessible to the rest of the world than to themselves is inimical to regional trade and creation and effectiveness of regional value chains. RTAs in their view can be viable building blocks of the multilateral trading system. Thus the UNECA argues that boosting intra-African trade can be achieved rapidly through the formation of an African mega-regional trade agreement such as the CFTA (UNECA, 2015). However, the report argues that there is evidence to support the view that a CFTA should be put in place before other trade agreements are fully implemented by African countries or by the rest of the world. Thus, African countries are advised to carefully consider their approach to regional integration and adopt a more pragmatic ‘development integration approach’ rather than the more ideological ‘open-

regionalism' approach propagated by the World Bank. This is discussed further below.

8 CONCLUSION AND POLICY RECOMMENDATIONS

The past decade and a half of the new millennium has ushered in dramatic changes to the architecture of world trade creating both opportunities and challenges for Africa's development. Africa itself needs to adapt to these changes and develop its own vision and strategy to integrate the continent and develop its industrial capacity and increase the welfare of its people. Towards this end Africa will need to develop innovative trade and investment partnerships with its main external trading partners, both the traditional partners, such as the EU and the US and the emerging countries in the South, such as China.

In addition, it is argued here that the abandonment of the Doha Round of negotiations and a shift by the US to 'new pathways' in the WTO will tend to marginalize the African members of the WTO from the multilateral negotiations and reduce their bargaining power that they enjoyed in the single undertaking approach of the Doha round. Many issues that impact negatively on Africa's economic development such as trade distorting agriculture subsidies, largely practiced by the EU and US, can only be addressed multilaterally and not in bilateral agreements. In addition, the shift to single issue approaches, such as on Trade Facilitation, tends to result in imbalanced trade agreements, as the issues that are addressed are mainly of interest to the developed countries.

The shift by the EU to abandon the Cotonou unilateral preferences in favour of free trade agreements will have significant negative impacts on Sub-Saharan African Countries, including that of reducing tariffs between the EU and its African partners faster than African countries can negotiate free trade between themselves. The extension of AGOA by President Obama is a very useful opportunity to attract investment into African countries, in a similar manner as countries such as Lesotho have done in the clothing sector. This opportunity, it is argued here, should be more effectively utilized by African countries that have, until now, failed to benefit significantly from AGOA. However, the threat of AGOA being transformed into reciprocal free trade agreements, well before the end of the 10-year extension is very significant. African countries, it is argued will need to ensure that they utilize these benefits as effectively as possible over the next 9 and half years. In addition, African countries should campaign in Washington for the full implementation of AGOA VI preferences and urge the US to provide support to build their industrial capacity and infrastructure development.

China's rise presents both new opportunities and challenges for African countries. It is argued that while the rise of China as a manufacturing hub and

factory of the world has created significant challenges for Africa's competitiveness in labour intensive production, the increased demand for Africa's commodities has raised commodity prices and offered a massive market for these commodities in China. In addition, China's increasing interest in outward investment and capacity to invest in longer-term infrastructure projects that are so vitally required by African countries has reduced their reliance on their traditional donors in the OECD countries and the World Bank. As China's labour costs have risen it has begun to move up the value-chain of production and has sub-contracted its lower cost production to the South and South-East Asian region. African countries too can benefit from this development and position themselves to become the next destination in the 'wild-geese' approach to industrialization. Some countries such as Ethiopia have already begun to attract Chinese investment into Special Economic Zones (Davies, 2016).

This article has argued that the new trade narrative based on Global Value Chains (GVCs) is a return to the Washington Consensus. The narrative of the Washington consensus drove the agenda of World Bank and OECD policy makers on Africa in 1980s resulting in processes of de-industrialization, low growth and increased poverty (World Bank, 2006). This article argues that African countries have themselves embarked upon a process of regional integration, based on an approach of development integration that is far more appropriate and responsive to Africa's current development requirements. African countries have in the past few years been putting in place the building blocks of a development integration approach to regional integration that requires a combination of trade liberalization, industrial development and infrastructure development. Advancing a development integration process such as envisaged in the T-FTA and CFTA will require even more intensive leadership and steady determination by African Union leaders. The experience of the EU suggests, that this process could span two or three generations. The World Bank and other donors and trading partners from the north and south, such as the EU, the US and China, should be supporting this development integration approach rather than returning to the failed Washington consensus approach to trade liberalization and regional integration.

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