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CHALLENGES "AT THE BORDER": AFRICA AND ASIA'S TRADE AND INVESTMENT POLICIES

INTRODUCTION

This chapter assesses the role that "at-the-border" policy regimes play in affecting the extent and nature of trade and investment flows between Africa and Asia, especially China and India. The analysis focuses on market access conditions, including tariffs and non-tariff barriers; export and investment incentives offered by governments; and bilateral, regional and multilateral agreements. If Africa is to take full advantage of trade and investment opportunities with Asia, reforms of such policies—by all parties—will be important. There are also valuable lessons that Africa can learn from Asia's experience in trade and investment policies over the past several decades.

The analysis begins with an examination of trade policy regimes in Africa and Asia. An assessment of tariffs that African exporters face in China and India, and that these Asian exporters face in Africa, is carried out at both the regional and country levels, as well as on a product-specific basis. The incidence of non-tariff barriers (NTBs) in African-Asian trade is also examined. Finally, the role of various export-incentive regimes operating in the two regions is assessed.

The discussion then turns to an examination of policy instruments used to influence foreign direct investment in Africa as well as in China and India. Various incentive schemes are appraised, as are the use of investment promotion agencies and public-private fora whose objectives are to facilitate FDI flows.

An appraisal of various trade and investment agreements and treaties involving African and Asian countries is then made. The analysis focuses on the impacts of existing bilateral, regional, and multilateral arrangements and discusses new arrangements being contemplated.

The chapter ends by drawing conclusions and discussing policy implications.

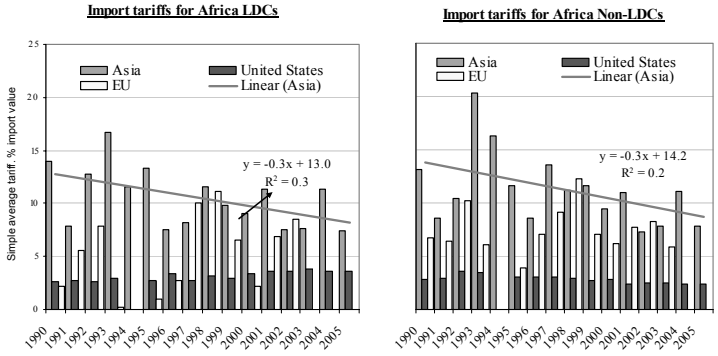
DOMESTIC TRADE AND INVESTMENT POLICY REGIMES

Improvement of market access in world trade for low-income countries has been at the top of the trade agenda in recent years, particularly in the context of the multilateral Doha Round, but also in bilateral and regional fora. This is certainly the case for African countries. Lowering multilateral tariff and non-tariff barriers in the North (the developed countries) on African products is estimated to have a substantial impact on increasing African exports.[1] African countries also face such barriers in the South, including in Asia's developing countries. On the other hand, some African countries also have high tariffs and non-tariff barriers, and these similarly restrict trade flows; indeed, in some cases, they impart a bias against exports from Africa. Barriers to foreign investment also exist, in both Asia and in Africa. This section discusses the relevance of formal trade and investment policies in Africa and Asia and how these policies affect mutual trade and investment relations.

Asia's Tariff Barriers against African Products: General Patterns

Overall Tariff Barriers. African exports face relatively high tariffs in Asia. Figure 3.1 shows the historical trends of unweighted average tariff rates against Africa's exports.[2] Although Asian tariffs for Africa are gradually declining, the trend is very weak, especially for exports from African least

Figure 3.1 Unweighted Average Tariffs on Exports of African LDCs and Non-LDCs: 1995–2005



Source: UNCTAD TRAINS database.
Note: Asia includes Bangladesh, China (include Hong Kong), India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Swaziland.

developed countries (LDCs). The overall tariff restrictiveness on African imports in Asian countries is in part a reflection of the lack or limited scope of Asian preferences granted to Africa compared to those granted by the United States and EU.

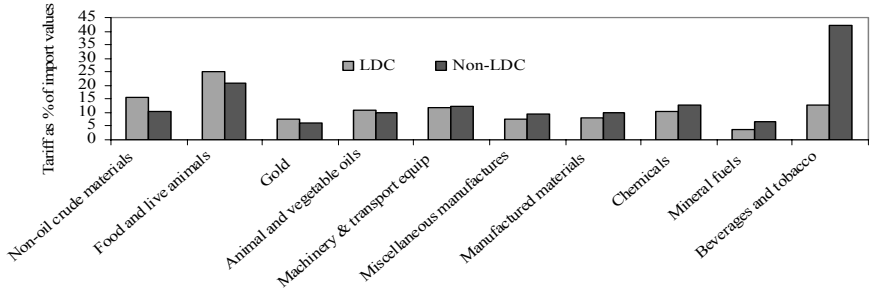
An analysis of the rate of tariffs on African exports by product group shows that, on average, the market barriers in Asia's markets for African products are high relative to the United States and EU (table 3.1). For some specific product groups, Asian tariff rates are *higher* for African *LDCs* than for non-LDCs (figure 3.2). Those product groups are: inedible crude materials and food and live animals, which account for two-thirds of total African LDCs' exports to Asia.

Table 3.1 Weighted Average Tariff Rates for African Exports by Destination

		Asia		EU[1]		U.S.	
		LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC
SITC 0	Food and live animals	12.7	9.5	0.0	2.5	0.0	0.1
1	Beverages and tobacco	2.5	9.3	0.0	66.5	43.3	10.5
2	Crude materials, inedible, except fuels	9.7	2.5	0.0	1.3	0.0	0.0
3	Mineral fuels, lubricants, and related materials	0.2	0.7	-	1.5	0.0	0.0
4	Animal and vegetable oils, fats, and waxes	3.5	19.0	0.0	5.3	0.0	0.0
5	Chemicals and related products, n.e.s.	14.3	7.2	0.0	5.8	0.0	0.3
6	Manufactured goods classified chiefly by material	2.3	2.1	0.0	6.5	0.1	0.1
7	Machinery and transport equipment	11.8	2.6	0.0	6.2	0.0	0.0
8	Miscellaneous manufactured articles	5.8	6.7	0.0	10.3	11.6	10.0
9	Gold	14.7	14.8	0.0	0.0	0.0	0.0

Data source: UNCTAD TRAINS database.
Note: Asia includes Bangladesh, China (include Hong Kong), India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Swaziland.

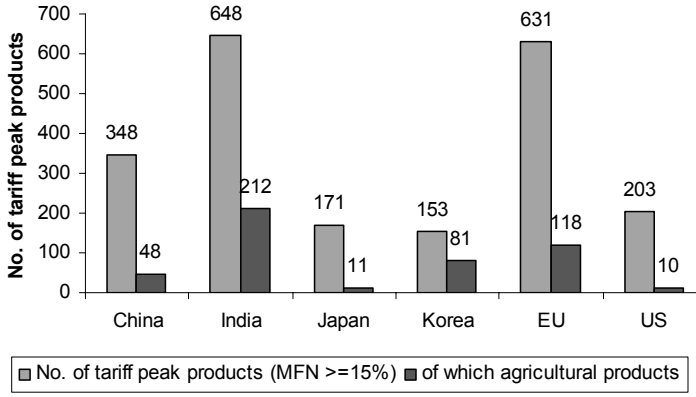
Figure 3.2 Weighted Average Tariff Rates of Asian Countries on Exports from African LDCs and Non-LDCs



Source: UNCTAD TRAINS database.
Note: The figures are based on 2005 data. Asia includes Bangladesh, China (include Hong Kong), India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa and Swaziland.

The prevalence of tariff peaks in China and India is at a comparable level to that the EU, but stronger than in other Asian countries, such as Japan and Korea (figure 3.3).[3] The tariff peaks in agriculture are particularly high in India.

Figure 3.3 Average Numbers of Tariff Peaks on Exports from Africa



Source: UNCTAD TRAINS.
Note: Based on the latest year of data availability. Asia includes Bangladesh, China (include Hong Kong), India, Indonesia, Japan, Korea, Lao PDR, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Swaziland.

Table 3.2 Tariff Patterns of Asian Countries, Weighted Tariff, 2005

	China		Hong Kong		Japan		India		Korea		Indonesia		Malaysia		Singapore		Rest of Asia	
African countries / SITC group	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC
Food and live animals	13%	10%	0%	0%	1%	6%	32%	39%	10%	29%	5%	5%	0%	1%	0%	0%	10%	11%
Beverages and tobacco		10%	0%	0%	0%	6%	30%	33%	2%	15%	5%	5%	0%	0%		0%	10%	19%
Crude materials, inedible, except fuels	15%	3%	0%	0%	0%	0%	11%	10%	146%	2%	1%	0%	0%	0%	0%	0%	2%	1%
Mineral fuels, lubricants and related materials	0%	0%		0%	0%	0%	14%	15%	5%	5%		5%		2%	0%	0%	1%	1%
Animal and vegetable oils, fats and waxes		12%		0%	3%	2%		45%	3%	4%		8%		2%		0%	0%	19%
Chemicals and related products, n.e.s.	8%	7%	0%	0%	0%	0%	15%	15%	7%	7%	5%	5%	0%	7%	0%	0%	7%	5%
Manufactured goods classified chiefly by material	3%	4%	0%	0%	0%	1%	15%	17%	0%	3%	4%	3%	0%	2%	0%	0%	1%	1%
Machinery and transport equipment	2%	8%	0%	0%	0%	0%	15%	14%	0%	6%	7%	8%	1%	4%	0%	0%	11%	28%
Miscellaneous manufactured articles	11%	13%	0%	0%	0%	5%	15%	13%	0%	8%	11%	10%	2%	7%	0%	0%	14%	12%
Gold						0%	15%	15%	0%	4%								5%

Source: UNCTAD TRAINS database.

Note: Figures are rounded to the nondecimal level. Blank cells represent product groups with no imports from Africa so that weighted average tariff rates are null. Korea's tariff schedule was 2004's. Rest of Asia includes Bangladesh, Lao PDR, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Taiwan, Thailand, and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Swaziland. Africa LDCs are 33 countries published by UNCTAD in 2005.

* Shaded cells indicate product groups which have more than 10 percent average tariff rates.

There is a significant amount of heterogeneity among African products in terms of the tariff barriers they face in Asian markets. Table 3.2 shows the pattern of protection in Asian markets against African exports. There are three discernible characteristics for China and India.

- Among Asian countries, the tariff levels of China and India on African products remain high. Tariff rates on agricultural products are high in both China and India.
- The prevalence of high tariff rates in India is broadly based.[4] For exports from both LDCs and non-LDCs in Africa, India's weighted average tariff rates are beyond 10 percent in every product category.
- China has zero tariffs for its most highly demanded raw materials, including crude petroleum and ores, but has moderate-to-high tariffs on other imports, especially on inedible crude materials (i.e., cotton) from LDCs.

Table 3.3 Share of African Exports to Asia by Commodity Group and by Country of Destination, Excluding Petroleum Exports

African countries / SITC group	China		Hong Kong		Japan		India		Korea, R		Indonesia		Malaysia		Singapore		Rest of Asia	
	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC	LDC	Non-LDC
Food and live animals	2%	1%	39%	24%	52%	8%	33%	6%	3%	4%	5%	3%	6%	25%	81%	17%	6%	11%
Beverages and tobacco	0%	3%	0%	2%	3%	0%	0%	0%	1%	0%	2%	10%	3%	1%	0%	1%	1%	1%
Crude materials, inedible, except fuels	83%	50%	46%	9%	22%	18%	32%	13%	34%	15%	86%	44%	26%	28%	5%	5%	63%	17%
Animal and vegetable oils, fats and waxes	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Chemicals and related products, n.e.s.	0%	5%	0%	3%	0%	2%	23%	8%	0%	3%	7%	8%	5%	4%	1%	18%	0%	7%
Manufactured goods classified chiefly by material	15%	38%	13%	43%	21%	53%	6%	6%	38%	70%	0%	27%	53%	37%	10%	35%	29%	59%
Machinery and transport equipment	0%	3%	1%	17%	0%	18%	6%	3%	7%	6%	0%	5%	7%	3%	2%	17%	0%	4%
Miscellaneous manufactured articles	0%	0%	1%	1%	1%	0%	0%	0%	16%	1%	0%	2%	1%	1%	0%	6%	0%	1%
Gold	0%	0%	0%	0%	0%	0%	0%	63%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: UNCTAD TRAINS database.

*Note:*Korea's tariff schedule was 2004's. Rest of Asia includes Bangladesh, Lao PDR, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Philippines, Sri Lanka, Taiwan, Thailand, and Vietnam. Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, and Swaziland. Africa LDCs are 33 countries published by UNCTAD in 2005.

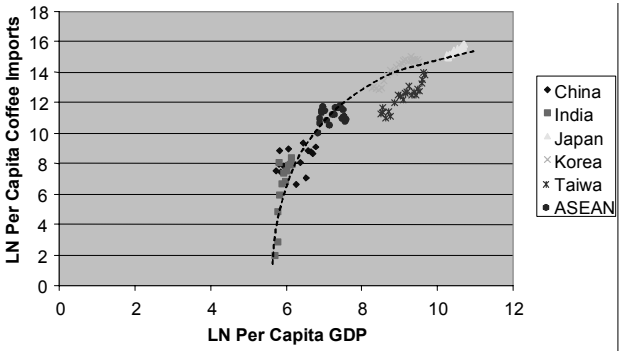
* Shaded cells indicate product groups which have more than 10 percent average tariff rates (Table 3-2) and more than 10 percent shares in total imports to respective country.

High Asian tariff rates on some African products appear to discourage their export to Asian countries. Contrasting table 3.2 with table 3.3, which shows percentage shares of each product group in total African exports to specific Asian countries, it is clear that high tariffs are associated with low trading volumes in most product categories.

High Indian and relatively high Chinese tariffs on agricultural products are of particular concern as higher tariff rates tend to be applied to the products in which African countries have growth potential. African countries have been traditionally strong in agricultural products and are experiencing high growth in exporting to Asian countries, including China and India (see chapter 2). However, China is a relatively liberalized market, with zero or close to zero tariffs on 45 percent of its imports. China also has plans to further lower its tariffs and bring about lower dispersion in the structure of tariffs by the end of 2007.[5]

In the case of coffee, India imposes a 100 percent tariff on unroasted coffee beans, while China imposes a tariff of 15 percent on roasted coffee.

Figure 3.4 Growth in Income and Coffee Imports of Asian Countries



Source: World Bank 2004.

Although the absolute level of coffee imports of China and India is not comparable to that of more advanced Asian countries, such as Japan, the rise of incomes in China and India has stimulated a much higher growth rate in overall coffee imports from the world (figure 3.4).

Product-Specific Analysis of Chinese and Indian Tariffs on African Products. Detailed product-specific analysis of some of the highest tariffs, specifically those on food, inedible crude materials, and chemicals, shows that although they are applied to a small number of products, in fact they drive up the average tariff rates for African exports (Table 3.4). For China, the high tariff on

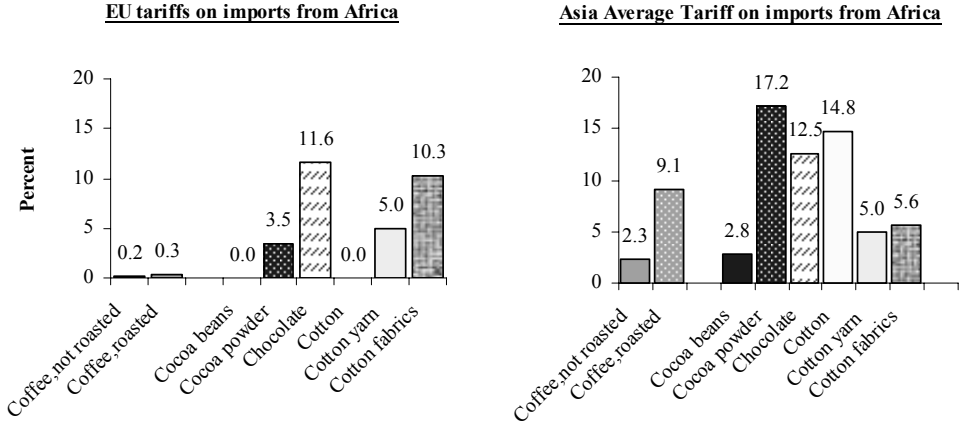
Table 3.4 Tariffs and Product Shares of African Exports to China and India in Selective Product Groups

		China				India			
		LDC		Non-LDC		LDC		Non-LDC	
SITC code		Tariff	% of category export value	Tariff	% of category export value	Tariff	% of category export value	Tariff	% of category export value
0	***Food and live animals***								
05773	Cashew nuts					30	87%	30	79%
0721	Cocoa beans,whole or broken,raw or roasted							30	5.1%
0741	Tea							100	3.6%
2	***Crude materials, inedibles, except fuel***								
263	Cotton	27.0	***54%***	27.0	***10%***	10.0	***33%***	10.0	***5%***
282	Waste and scrap metal of iron or steel					20.0	***26%***	20.0	***24%***
5	***Chemicals***								
52224	Phosphorus pentoxide and phosp.acids,meta/ortho/p.					15.0	***92%***	15.0	***67%***

Source: UNCTAD TRAINS database.

Note: Africa non-LDCs include Botswana, Cameroon, Congo Republic, Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa and Swaziland. Africa LDCs are 33 countries published by UNCTAD in 2005.

Figure 3.5 Tariff Escalation on Major African Agricultural Products



Source: UNCTAD TRAINS database.
Note: The average tariff is weighted effectively applied tariff.

crude materials is a result of the high tariff on cotton. For India, the high tariffs on food, crude materials and chemicals are the result of high tariffs on cashew nuts, cotton, scrap metals, and phosphorus pentoxide and acids.

Tariff Escalation in Asia on Key African Exports. Asia's tariff structure consists of many peaks and escalations. When higher tariffs are imposed on more processed products to retain higher value-added activities in the domestic market, and raw materials not locally available face lower tariffs, this allows the domestic industry to access cheap inputs from other countries. The cascading pattern of tariff rates along the level of processing is called "tariff escalation." Figure 3.5 shows the tariff escalation in EU and Asian markets. The reverse escalation tariff on cotton and cotton products in Asia is due to an exceptionally high tariff on cotton imposed by China. Tariff escalation is quite visible in Asian markets on some of the leading exports from Africa (table 3.5).

Tariff escalation discourages processing activities in Africa for the products exported to Asia. A poignant example is an Indian-owned cashew firm in Tanzania seeking to export roasted, rather than simply raw, nuts to India. It does not do so because India imposes higher tariffs on processed nuts than on raw nuts (box 3.1).

Table 3.5 Tariff Escalation in Asian Countries

		Africa Imports			
		China	India	Japan	Asia Average
211	Raw hides	6.5	0.1	0	0.8
611	Leather	8.8	14.7	0.7	4.6
612	Manufactures leather	14.6	15.0	1.9	7.9
222	Oil seeds	5.0	30.0	0.4	2.0
423	Vegetable oils	10.0	45.0	—	27.7
07111	Coffee, not roasted	8.0	100.0	0	2.3
07112	Coffee, roasted	15	30.0	9.1	9.1
0721	Cocoa beans, raw	8.0	30.0	0	2.8
0722	Cocoa powder	15.0	—	—	0.2
333	Petroleum oils, crude	0	—	—	0.2
334	Petroleum products, refined	7.4	15.0	2.1	0.3
66722	Diamonds, sorted	3.0	—	0	2.2
66729	Diamonds, cut	8.0	15.0	0	6.0
6673	Other precious and semiprecious stones	7.3	15.0	0	9.0
897	Jewelry	26.8	15.0	0.9	15.7
263	Cotton	27.0	10.0	0	14.8
6513	Cotton yarn	5.0	15.0	—	5.0
652	Cotton fabrics, woven	10.0	15.0	1.0	5.6
84512	Jerseys, etc., of cotton	14.0	—	5.7	6.8
8462	Undergarments, knitted	14.1	15.0	6.9	5.2

Source: UNCTAD TRAINS database.

Notes: Darker shades represent higher level of processing.
"—" signifies data not available.

Box 3.1 The South's Escalating Tariffs Against African Exports: The Case of an Indian Cashew Processing Business in Tanzania Trying to Export to India

This cashew processing company was established in Tanzania in 1947 by an Indian family. The fourth generation of this family still owns and manages the firm, but today it is part of a large group company (owned by the same Indian family) involved in various lines of the agricultural processing business, including rice mills, seed oil mills, chickpea mills, and maize mills. It recently purchased new machinery from India and is embarking on a new line in its export business: sale of organic cashews, with plans for this line to account for 35 percent of production.

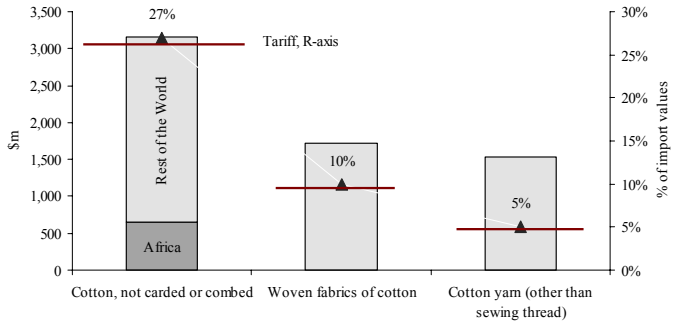
Trade policies constitute some of the most significant challenges facing the firm today, both in Africa and overseas. In Tanzania, the company faces burdensome trade regulations that inhibit its ability to export efficiently. This includes not only burdensome paperwork in customs, but also export taxes, which the company is lobbying to reduce. With respect to its sales outside of Africa, the firm exports 70 percent of its cashews to the United States, Canada, Japan and the EU. Ironically only 10 percent of its cashew exports enter the Indian market, the largest cashew market in the world. In large part this is due to India's escalating tariff on processed cashews: while India's imports of raw cashews face a zero tariff, processed cashews face an Indian tariff of 37 percent. This escalation has the effect of providing strong protection for India's domestic cashew firms.

Source: World Bank staff.

Tariff Barriers or Supply Constraint? One important caveat to the discussion of tariff barriers on African products is the issue of whether there is a supply constraint in Africa. Unless African countries are able to produce such products and identify where demand exists, removal of tariff barriers will not be effective.

African producers do not effectively capture the benefit of low tariffs for some products in Asian markets due to a lack of production capacity. For example, although the tariff on cotton is high in China, the tariff on cotton yarns is relatively low. Despite this potential opportunity, African countries have not been able to take advantage of low tariffs on cotton products (figure 3.6). The cotton-growing African countries export almost exclusively to China, where the tariffs are excessively high. On the other hand, as illustrated in chapter 2, Africa imports large quantities of cotton yarns, cotton fabrics, apparel, and footwear from China.

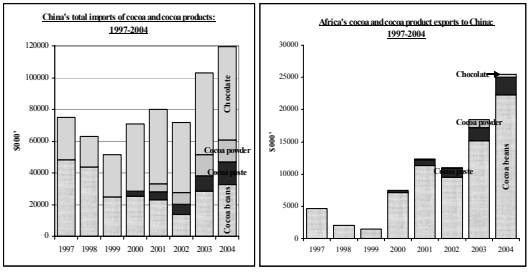
Figure 3.6 Total Cotton Product Imports and Tariff Rates in China



Source: UNCTAD TRAINS database.

Another example is cocoa beans. Figure 3.7 illustrates how Chinese consumers are increasingly importing processed products of cocoa beans, such as cocoa powder, cocoa paste, and chocolate, while their imports of raw cocoa beans have diminished slightly. However, Africa's exports of cocoa beans to China are increasing and dominate over its exports of cocoa powder and chocolate.[6] China imposes only a 9 percent tariff on finished chocolate, which is not very different from the duty applied to cocoa beans at 8 percent. But even with a relatively low tariff on chocolate, at present there is little chance for Africa to penetrate the Chinese chocolate market given its constrained supply capacity to produce high-quality chocolate.

Figure 3.7 Chinese Imports and African Exports of Cocoa and Processed Products

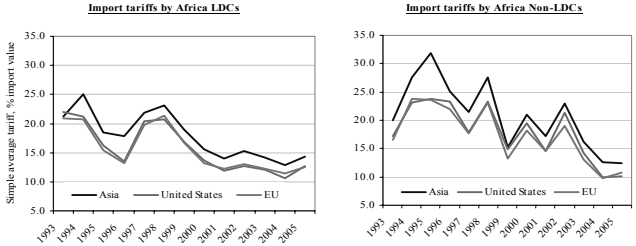


Source: UN COMTRADE.

African Tariff Barriers against Asian Products

African tariffs have been lowered significantly in recent times. However, Asian products still face relatively high tariff barriers in Africa. Figure 3.8 presents the trend of the simple average tariff in African markets against the continent's major trade partners. Three patterns are visible. First, African countries, especially non-LDCs, have liberalized their import policies rather quickly. This contrasts against the weak liberalizing trend in Asian markets. Second, Asian exports to African markets are facing higher tariffs than those of the EU and United States, partly because of high tariffs imposed on cheap Asian manufacturing goods such as textiles, apparels and footwear. Third, Africa's markets on average have higher tariffs against Asian imports than Asian markets have against African imports. This reflects the pattern that Africa mostly imports manufactured goods, which typically have higher tariffs, while Asia imports mostly natural resources and resource-based materials, which typically have lower tariffs.

Figure 3.8 Average Tariff Rates of African Countries, Unweighted Simple Average



Source: UNCTAD TRAINS.

Note: Asia includes Afghanistan, Bangladesh, Bhutan, Cambodia, China (including Hong Kong and Macao), Indonesia, India, Japan, Lao PDR, Myanmar, Vietnam, Thailand, Korea Dem. Rep., Rep. of Korea, Maldives, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, and Taiwan. Africa non-LDC includes Botswana, Cameroon, Congo Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, Swaziland.

The overall tariff structure in Africa has some elements of anti-export bias. Table 3.6 shows that African countries overall have average high tariff rates on many product groups except for machinery and transport equipment and mineral fuels. The low average tariff rates on machinery and transport equipment reflects Africa's high demand for these goods to support its manufacturing sectors. High tariffs on intermediate products, such as textile yarns and cotton, and manmade or knitted fabrics, however, create disincentives for African apparel exports due to high input prices. This is an element of the African tariff structure that is biased against manufacturing exports. In addition, these high tariffs generate inefficiency in the domestic textile industry.

Table 3.6 Average Tariff on Imports into Africa, Import Values Weighted

Africa's Tariff Rates on Imports	Africa LDC			Africa Non-LDC		
Africa's Tariff Rates on Imports	**Africa LDC**			**Africa Non-LDC**		
Product Group	**Imports from Asia**	**Imports from EU**	**Imports from United States**	**Imports from Asia**	**Imports from EU**	**Imports from United States**
Food and Live Animals	16.0	12.9	11.2	22.0	20.5	8.2
Beverages and Tobacco	41.2	26.2	9.6	24.6	24.2	12.4
Crude Materials, Inedible, Except Fuels	12.0	17.7	23.1	2.3	10.9	6.3
Mineral Fuels, Lubricants, and Related Materials	1.3	7.6	8.6	3.4	11.8	4.3
Animal and Vegetable Oils, Fats, and Waxes	13.3	12.3	17.6	8.2	12.2	7.4
Chemicals and Related Products, n.e.s.	7.2	5.7	5.6	6.0	4.8	3.8
Manufactured Goods Classified Chiefly by Material	16.9	13.3	12.6	13.0	8.5	9.0
Of which	9.6	8.3	4.1	6.0	4.8	9.9
Textile Yarn	18.3	19.3	21.7	16.0	13.4	19.2
Cotton Fabrics, Woven	16.8	10.1	19.8	19.9	12.1	20.2
Fabrics, Woven, of Manmade Fibers	21.9	10.8	20.2	11.5	5.4	9.5
Textile Fabrics, Woven, Other than Cotton/Manmade Fiber	21.0	12.8	20.0	16.2	9.5	18.9
Knitted or Crocheted Fabrics	20.6	21.0	21.2	19.1	17.1	18.7
Tulle, Lace, Embroidery, Ribbons, & Other Small Wares	12.0	11.3	11.7	14.0	9.1	12.2
Special textile fabrics and related products	7.2	8.6	5.7	7.4	6.2	4.4
Machinery and Transport Equipment	7.2	8.6	5.7	7.4	6.2	4.4
Miscellaneous Manufactured Articles	21.4	11.6	10.7	19.0	7.1	3.1

Source: UNCTAD TRAINS.
Note: Asia includes Afghanistan, Bangladesh, Bhutan, Cambodia, China (including Hong Kong and Macao), Indonesia, India, Japan, Lao PDR, Myanmar, Vietnam, Thailand, Korea Dem. Rep., Rep. of Korea, Maldives, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, Sri Lanka, and Taiwan. Africa non-LDC includes Botswana, Cameroon, Congo Rep., Cote d'Ivoire, Gabon, Ghana, Kenya, Mauritius, Namibia, Nigeria, Seychelles, South Africa, Swaziland.

Table 3.7 Average Tariff Rates of African Countries on Imports from China and India

Africa's Tariff Rates on Imports	CHINA											
Product Group	South Africa	Nigeria	Angola	Tanzania	Kenya	Senegal	Ghana	Ethiopia	Mauritius	Uganda	Cote d'Ivoire	Africa Average
Food and live animals	11.1	18.2	5.9	71.1	40.7	14.6	14.3	34.2	17.2	43.7	10.2	14.4
Beverages and tobacco	41.3	5.3	30.0	25.0	25.0	5.8	20.0	20.0	64.8	25.0		33.0
Crude materials,inedible,except fuels	1.8	9.3	2.8	6.7	8.5	10.0	14.5	7.9	2.6	12.3	8.1	3.4
Mineral fuels,lubricants and related materials	0.3	6.3		2.7	3.7	6.8	46.7	9.9	2.7	0.2	5.2	0.5
Animal and vegetable oils,fats and waxes	9.4	10.4		25.0	18.6	16.6	20.0		0.0	19.9		17.7
Chemicals and related products,n.e.s.	2.7	10.5	5.2	2.6	2.7	9.2	11.5	11.7	6.5	6.8	5.7	6.6
Manufactured goods classified chiefly by material	13.7	17.9	10.4	15.2	18.0	18.9	13.5	23.2	4.5	18.3	19.0	16.0
Machinery and transport equipment	3.5	11.0	3.9	6.3	7.4	13.6	9.8	14.5	8.7	14.5	15.2	7.6
Miscellaneous manufactured articles	24.8	17.5	12.0	20.3	11.5	19.3	16.7	37.9	10.3	22.9	18.9	22.8
	INDIA											
	South Africa	Nigeria	Angola	Tanzania	Kenya	Senegal	Ghana	Ethiopia	Mauritius	Uganda	Cote d'Ivoire	Africa Average
Food and live animals	1.9	49.7	10.1	11.3	37.7	12.3	15.0	7.6	2.7	16.0	10.4	20.8
Beverages and tobacco	22.0	12.0	30.0	25.7	25.0	5.9	20.0	30.0	54.2	25.0		35.3
Crude materials,inedible,except fuels	4.1	5.4	22.8	24.2	3.8	5.0	10.8	5.5	0.3	40.0	5.0	5.3
Mineral fuels,lubricants and related materials	4.8	6.2	20.0	0.1	5.9	5.0	87.2	1.7	7.3	8.5	5.0	5.0
Animal and vegetable oils,fats and waxes	8.4	11.7	2.0	1.1	0.7	5.0	17.9	21.5	3.1	18.1	7.5	7.3
Chemicals and related products,n.e.s.	2.1	14.6	4.0	5.3	6.1	3.3	7.7	12.1	2.6	8.4	3.5	6.8
Manufactured goods classified chiefly by material	9.4	16.8	6.1	17.2	13.6	11.9	12.8	10.3	2.6	15.5	17.5	12.2
Machinery and transport equipment	9.7	5.9	3.1	4.7	5.0	7.3	4.1	11.8	4.8	5.0	9.0	7.2
Miscellaneous manufactured articles	20.8	12.3	12.6	11.9	17.1	17.8	12.2	20.2	6.4	16.6	15.3	16.4

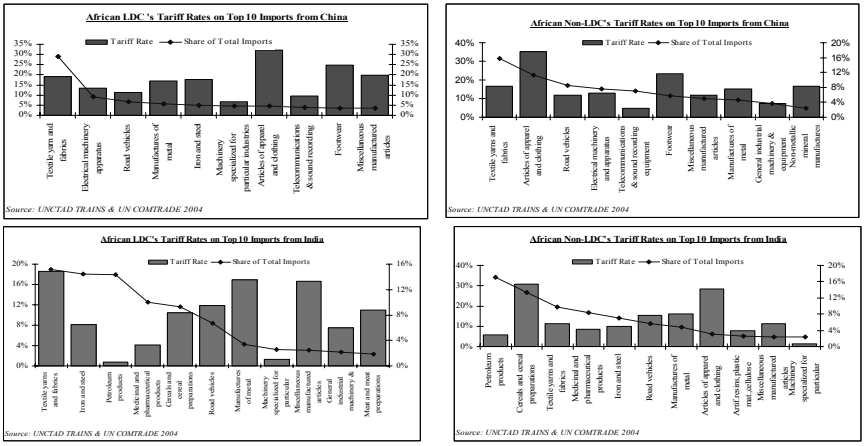
Source: UNCTAD TRAINS.

Among African countries, South Africa has very low tariffs on crude materials, crude oil, chemicals, and machinery and transportation equipment, but has relatively high tariffs on food, beverages and tobacco, and manufactured materials and articles (table 3.7). This is a case where local production is protected in sectors that produce finished or semi finished products, while imports of machinery to support local industrial development are more liberalized. A few African agricultural-based economies have extremely high tariffs against Chinese food imports, including Tanzania, Kenya, Ethiopia and Uganda at an average rate of above 30 percent.

Figure 3.9 presents tariff schedules of Africa's top 10 items imported from China and India. Textiles and yarn, apparel, and footwear are among the largest imports. They also have the highest tariffs. Other large imports from China and India include manufactured goods such as electronics, machinery and transportation equipment. These items in general have relatively low tariffs.

Chinese exports to African markets on average face higher tariffs than do Indian exports (figure 3.10). Among leading African imports from China and India, coal is the only product for which India on average faces higher tariff rates than does China. For other product groups, such as nonmetal manufacturing and electronic machinery, Chinese products face much higher average tariff rates in Africa.

Figure 3.9 African LDCs and Non-LDCs Tariff Rates on Top 10 Imports from China and India

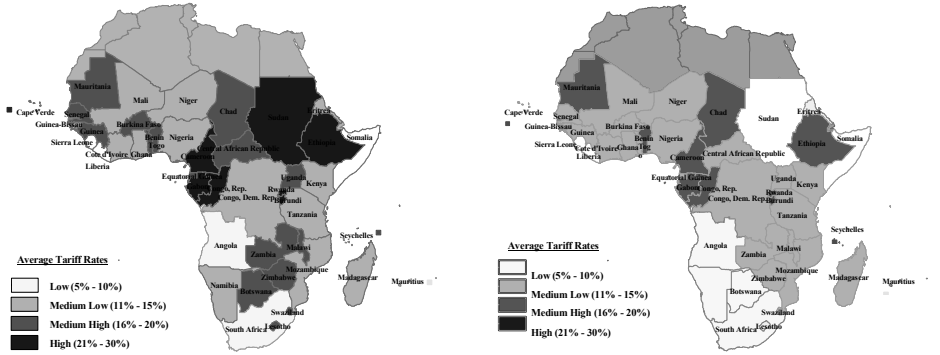


Source: UNCTAD TRAINS.

Non-Tariff Barriers in Asia and Africa

Tariffs were the focus of eight rounds of multilateral trade negotiations to reduce market barriers, resulting in continued tariff reduction worldwide. However, in place of tariff barriers, non-tariff barriers (NTBs) have become increasingly common as regulatory instruments to ensure that imports meet the standards of domestic markets. Stringent environmental and technical standards are typical formal NTBs used by industrialized countries and increasingly used by developing countries as well. Delays in customs, cumbersome administrative

Figure 3.10 Average Tariff Rates of African Countries on Chinese and Indian Imports



Source: UNCTAD TRAINS.

procedures, and bribery are typical informal NTBs, and more present in developing than in developed countries (although they are not nonexistent in the latter). Another example of NTBs, perhaps unintentional, is the burden-of-proof requirement for "country of origin" in preferential tariffs.

Both African and Asian countries have significant numbers of NTBs, as shown in table 3.8[7] The Uruguay Round made most quantity-control measures illegal, especially for agricultural products. Consequently, over the ten-year period between 1994 and 2004, there has been a big decline in applying quotas. However, technical measures have increased significantly among all regions. Africa had the lowest percent of technical measures in 1994 at 20 percent, but such measures have increased to 60 percent, the highest among all regions. Developed countries and Asia have also doubled their technical measures up to 50 percent. Most technical measures are applied to agricultural products.

Table 3.8 Types of NTBs Applied by Region as Percent of the Number of Tariff Product Lines

		1994				2004			
TCM Code	TCM Description	World	Developed	Africa	Aisa	World	Developed	Africa	Aisa
3	**PRICE CONTROL MEASURES**	7.1	9.4	15.3	6.9	1.8	2.9	0.5	2.2
4	**FINANCE MEASURES**	2.0	0.1	0.0	0.0	1.5	0.3	3.8	0.0
5	**AUTOMATIC LICENSING MEASURES**	2.8	5.3	0.0	3.7	1.7	7.4	0.7	3.0
6	**QUANTITY CONTROL MEASURES**	49.2	45.8	62.5	55.6	34.8	34.7	32.0	43.6
7	**MONOPOLISTIC MEASURES**	1.3	1.1	2.5	1.9	1.5	0.7	2.6	2.6
8	**TECHNICAL MEASURES**	31.9	21.9	19.7	23.5	58.5	50.0	60.4	48.4

Source: Methodologies, Classifications, Quantification and Development Impacts of Non-Tariff Barriers, Note by the UNCTAD secretariat, TD/B/COM.1/EM.27/2, 23 June 2005.

Although technical measures aim at controlling the quality and safety of imported products, they effectively constrain trade partners' capacity to export. Not surprisingly, LDCs carry a higher than average burden of NTBs because they export mainly agricultural products. One study estimates that 40 percent of LDCs' exports are subject to NTBs, while only 15 percent of developed and transition economies' exports are subject to NTBs.[8] African countries overall carry a higher NTB burden than any other continent because the majority of LDCs are in Africa. Evidence from the WBAATI Business Case Studies of Chinese and Indian firms operating in Africa reveals that NTB-related constraints do significantly affect their business strategies. For example, a Chinese automotive firm in South Africa notes that South Africa requires costly

inspections for foreign automobile makers entering the market in order to ensure compliance with national standards (which are on par with the EU's). For this company, it took one year of testing to complete the procedures for certification. The complicated procedures required to pass inspections increased the cost of selling the company's product in South Africa.

NTBs are also present in African industries where protection of domestic businesses from import surges is sought. Such is the case in the South African textile and apparel sector, which has been buffeted by Chinese imports since the elimination of the Multi-Fiber Aggreement on January 1, 2005 (see below). On September 1, 2006, South Africa announced that it will impose quotas on textile and clothing imports from China for a period of two years starting October 2006.

How much do NTBs compare to tariff barriers in restricting African-Asian trade? Table 3.9 compares marginal impacts of tariff barriers and NTBs on overall trade based on a Trade Restrictiveness Index (TRI).[9] For manufactured goods, the EU, United States, China, and India have moderate NTBs from 4 to 7 percent. The NTBs of manufacturing goods for African countries, however, vary widely, ranging from 18 to 28 percent for five countries and 0 to 3 percent for others.

Table 3.9 Market Protection: Trade Restrictiveness Index (TRI)

	Overall TRI	Marginal TRI of NTB	Overall TRI tariff only	TRI for manufactured goods	Marginal TRI of NTB on Manufactured goods	TRI for manufactured goods, tariff only	TRI for Agricultural products	Marginal TRI of NTB on Agricultural products	TRI on agricultural goods, tariff only
Burkina Faso	13%	3%	10%	10%	0.1%	9%	38%	24%	15%
Cameroon	18%	1%	16%	17%	1%	15%	24%	3%	21%
Central Afr. Rep.	20%	3%	17%	18%	2%	16%	28%	5%	23%
Chad	16%	1%	16%	15%	1%	15%	23%	0%	23%
Cote d'Ivoire	37%	26%	11%	33%	22.9%	10%	51%	38%	13%
Equatorial Guinea	16%	0.3%	16%	15%	0%	14%	24%	0%	24%
Ethiopia	17%	1%	16%	17%	1%	16%	14%	0%	14%
Gabon	17%	0.2%	17%	16%	0%	16%	21%	0%	21%
Ghana	15%	4%	12%	12%	1%	11%	31%	17.5%	14%
Kenya	10%	1%	9%	7%	0%	6%	31%	6%	25%
Madagascar	13%	1%	13%	13%	1%	12%	18%	0%	18%
Malawi	13%	2%	12%	12%	0%	11%	26%	11.9%	14%
Mali	13%	3%	10%	10%	1%	9%	28%	14%	14%
Mauritius	21%	6%	15%	17%	3%	15%	38%	24%	14%
Mozambique	13%	3%	10%	9%	0%	9%	29%	15%	14%
Nigeria	47%	24%	23%	42%	21%	21%	76%	41%	34%
Rwanda	11%	1%	10%	11%	1%	10%	14%	0%	14%
Senegal	36%	27%	9%	26%	18%	8%	63%	51%	12%
South Africa	7%	1%	6%	7%	1%	6%	12%	6%	6%
Sudan	47%	28%	19%	47%	28%	19%	49%	28.6%	20%
Tanzania	38%	28%	10%	31%	23%	8%	83%	59%	23%
Uganda	7%	0.1%	6%	6%	0.0%	6%	11%	1%	10%
Zambia	11%	1%	10%	9%	0.0%	9%	29%	12%	17%
Zimbabwe	18%	5%	14%	12%	1%	12%	47%	23%	24%
SSA simple average	20%	7%	13%	17%	5%	12%	34%	16%	18%
EU	12%	8%	4%	8%	5%	3%	38%	32%	6%
US	8%	5%	3%	7%	4%	2%	22%	17%	5%
China	12%	6%	6%	12%	6%	6%	25%	8%	17%
India	24%	9%	16%	20%	7%	13%	65%	22%	44%

Source: Kee, H.L, A. Nicita, and M. Olarreaga (2006) "Estimating Trade Restrictiveness," World Bank Working Paper 3840.

For agricultural products, both the EU and the United States have relatively low tariffs, but have high TRIs at 32 and 17 percent, respectively, indicating serious erosion on the effectiveness of the agriculture product preferences embodied in the EUs' Everything But Arms (EBA) initiative and the United States African Growth and Opportunity Act (AGOA)[10] (see below). India has both extremely high tariffs and NTBs on agricultural products, while China has relatively high tariff, but less extensive NTBs. For African countries, the NTBs are very high for some countries, such as Tanzania, Senegal, Nigeria, and Cote d'Ivoire, but very low or nonexistent for many others, such as Chad, Ethiopia, Rwanda, and Madagascar.

NTBs, especially technical standards, can pose triple challenges to LDCs, most of which are in Africa. First, LDCs lack the capacity to regulate based on technical standards, which means that their markets are less protected by NTBs than countries with such capacity. Second, LDCs have less capacity to comply with NTBs imposed by other countries. This means that the actual barriers imposed by NTBs are effectively more binding for LDCs, where the capacity is weaker than for other countries where the capacity is high. Third, a disproportionately large part of LDCs' exports face NTBs due to their concentration on agricultural exports, where the majority of the NTBs lie. For African LDCs, the cost of NTBs can be extremely high relative to their small size of their economies.

Domestic Export Incentive Schemes in Africa and in Asia

While the preceding subsections dealt with formal trade policies in the form of tariff and non-tariff barriers that restrict trade flows, many developing countries have a number of domestic incentives, fiscal or nonfiscal, granted to exporters for the purpose of promoting exports by domestic producers. Box 3.2 describes such incentives provided by the Indian government. These incentives can be generally categorized as: (i) duty relief on imported inputs, such as duty drawback and duty exemption systems; (ii) domestic fiscal incentives, such as VAT exemptions; (iii) export processing zones (EPZs) and bonded factories or warehouses, and (iv) trade finance. Clearly, incentive schemes for export promotion are quite diverse and complicated. They are often used to attract foreign investors to produce export products in export processing zones (EPZs) or as tools for trade facilitation. Trade finance is discussed in chapter 5.

The effectiveness of export incentive schemes is widely debated; it also varies among different schemes. Because many fiscal incentive schemes are cumbersome, efficient domestic institutions for fiscal administration are a

prerequisite for their effective management. In particular, duty drawbacks are information-intensive and usually utilize cumbersome procedures, causing unintended inefficiency in administration and adding extra barriers for the private sector. Duty suspension can be more effective for helping domestic producers to access imported inputs for the production of exports. However, again, without proper administrative capacity, there is the leakage of goods (without being used for exports) into the economy.

Box 3.2 Export Incentives in India

In order to promote exports and to obtain foreign exchange, the Government of India has designed several schemes to grant export incentives and other benefits.

a) Free Trade Zones: Several Free Trade Zones have been established in India at various places. No excise duties are payable on goods manufactured in these free trade zones, provided the goods are for exports. Goods brought into these zones from other parts of India are also exempted payments of any excise duties. Similarly, no customs duties are payable on imported raw materials and components used to manufacture goods for exports. Since selling the entire stock of goods made in these free trade zones outside of India may not be always possible, the companies are allowed to sell 25 percent of their production in India. Excise duties are payable on such domestic sales at 50 percent of basic plus additional customs duties or normal excise duties payable if they were produced elsewhere in India, whichever is higher.

b) 100 Percent Export Oriented Units (EOU): Companies can import raw materials without payment of any customs duties provided they export their products. The same rules apply to 25 percent of outputs allowed for sale in the domestic markets.

c) Electronic Hardware Technology Parks/Software Technology Parks: This scheme is similar to the Free Trade Zone scheme except that it is restricted to units in the electronics, computer hardware, and software sectors.

d) Advance License/Duty Exemption Entitlement Scheme (DEEC): Under this scheme, raw materials and other components to be used in goods to be exported against advance license can be imported with the exemption of customs duties. Such licenses are transferable at a price in the open market. The exporter sometimes uses components manufactured in the domestic market. In such cases, the domestic manufacturer can advance an intermediate license for the raw materials required to manufacture and supply intermediate products to the exporter.

e) Export Promotion Capital Goods Scheme (EPCG): In this scheme, under certain export obligations, a domestic manufacturer can import machinery and plant with the exemption of customs duties or at a concessional rate of customs duties.

f) Manufacturing under Bond: Under this scheme, if the manufacturer furnishes a bond of adequate amount and undertakes to export his production, he is allowed to import goods without payment of any customs duties. Similarly, he can obtain goods from the domestic market without excise duties. Production has to be under the supervision of the customs or excise authority.

(cont.)

g) Duty Drawback: Drawback means the rebate of duties chargeable on any imported materials or excisable materials used in manufacturing export goods in India. An exporter is entitled to claim drawbacks or refunds of excise and customs duties paid by his suppliers. Drawbacks on materials used for manufacturing export products can be claimed by the final exporters.

Besides efficiency in incentive scheme management, another important question is whether incentive schemes effectively promote participation of exporters in the most appropriate sectors—that is, sectors in which countries have comparative advantages in exporting. Analysis of the WBAATI survey data suggests that export incentive schemes do not generate high participation among the sectors where the African countries in question have comparative advantages, such as textiles, agricultural products, and food industries. Instead, the participation of export incentive schemes is high among the firms producing machinery and nondurable sectors, where those countries lack comparative advantages.

Almost all governments recognize the difficulties that exporters face in entering foreign markets. Different countries choose different combinations of means to encourage exporters to overcome such difficulties. Some used to directly subsidize export activities (direct income tax incentives), but this is no longer allowed under the WTO. The effectiveness of domestic export incentive schemes has been rather mixed, however. In many cases, the proper domestic investment climate needs to be in place for the effective management of the schemes (chapter 4).[11]

Investment Incentive Schemes for Foreign Investors and Other FDI-Related Policies

Many countries compete to attract FDI in the hope that, in addition to capital, it will bring new technology, marketing techniques, and management skills. It is also expected to create jobs and contribute to the overall competitiveness of the country. The increase in global FDI flows has given more countries an opportunity to participate in global production chains, but the mobility of multinational corporations has also intensified the competition for FDI; see chapter 6.

Attracting foreign direct investment is at the top of the agenda for most developing countries. While there are many tools that governments can use to attract FDI, such as tax incentives, Economic Processing Zones (EPZ), Investment Promotion Agencies (IPA), and Investment Climate Assessments (ICAs), these tools are only effective within a general good-policy framework.

Investment climate improvements in many developing countries with liberalized foreign ownership rules do tend to provide strong incentives for foreign investors to invest. While governments are continuously advised to focus their efforts on improving the investment climate, they also employ the above-mentioned tools, used either as policy instruments in general or to attract prioritized investment projects.[12]

Tax Incentives. In using tax instruments to attract foreign investors, many governments rely on targeted approaches that include reduction of corporate income tax rates, temporary rebates for certain types of investment, and fast-write-off investment expenditures through tax allowances or credits. Such schemes tend to change the FDI composition by attracting certain types of investment rather than raising the level of total FDI. Although a few governments, such as Singapore's, have succeeded with targeted tax incentive schemes, many more have failed. Experience has shown that a nontargeted approach that lowers the effective corporate tax rate for all firms could be more effective than a targeted one. Small economies such as Hong Kong (China), Lebanon, and Mauritius have chosen this option. This approach, however, can be costly by reducing tax revenues in the short run. In long run, the tax base could be broadened, compensating for the initial reduction.[13]

The degree of attractions offered by fiscal incentives to investors varies depending on a firm's activities and its motivations for investing. For example, tax incentives have been proved to be attractive to mobile firms and firms operating in multiple markets—such as banks, insurance companies, and Internet-related businesses. These firms can better exploit different tax regimes across countries, which may explain the success of tax havens in attracting subsidiaries of global companies. For firms searching to explore strategic resources such as crude petroleum or ores, tax incentives could matter little. Over the past decade a series of studies have shown that tax incentives are not the most influential factor for multinationals in selecting investment locations and are poor instruments for compensating the negative factors of a country's investment climate.

The costs of tax incentives are multidimensional, including the loss of government revenue in the short run and the creation of incentives for companies to search for short-term profits, especially in countries where basic fundamentals are not yet in place. In addition, targeted tax incentives incur administrative costs and burden administrative capacity in host economies. This might explain why, so far, tax incentives have not been widely successful in attracting FDI to

developing countries. Experience suggests that tax incentives do not rank high among the determinants of FDI and that in many instances incentives can be a waste of resources.[14] Harmonization of tax systems within regions has been used by states, such as those belonging to the EU or the Monetary Union of West African States, to avoid costly bidding wars among countries to attract FDI through tax incentives.

Economic Processing Zones as An Investment Incentive. Export Processing Zones (EPZs) are sub-business environments created by governments to attract FDI specifically for the purpose of exporting manufactured goods, and generating local employment and economic development. In a world where an increasing number of governments compete hard to attract foreign investment, EPZs have become a global phenomenon. It is estimated that today there are more than 3,000 EPZs in 116 countries, accounting for more than 40 million direct jobs and more than $170 billion in exports (table 3.10). Developing and transition countries have established nearly 1,000 zones, clustered mainly in Asia and the Americas, with China accounting for about 19 percent of those zones. Sub-Saharan Africa is the region with the least number of EPZs.

Table 3.10 Export Processing Zones in Developing and Transition Countries in 2004

	# of Zones	Direct Employment creation in EPZ s 2004		Zone Exports (US$ millions)
Asia/Pacific	**479**	**Asia**	**36,824,231**	**84,500**
of which **China**	**173**	**China**	**30,000,000**	
		Pacific	**13,590**	
		Indian Ocean	**127,509**	
Americas	198	C.America & Mexico	2,241,821	44,000
		South America	311,143	
		Caribbean	226,130	
Central/East Europe & Central Asia	98	Transition economies	245,619	14,450
Middle East and North Africa	77	Middle East	691,397	28,700
		North Africa	440,515	
Sub-Saharan Africa	**63**		**431,348**	**2,400**

Source: ILO (2003).
Note: Excludes single factory zone programs and sponsoring countries.

EPZs have been used to relieve investors of costly hiring and firing provisions in national labor laws and sometimes excessively generous pension requirements. EPZs have been effective in attracting FDI flows, especially in Asia. For example, in the Philippines, the share of FDI inflows going to the country's EPZs increased from 30 percent in 1997 to more than 81 percent in 2000, and in Bangladesh, $103 million of the $328 million of FDI inflows were registered in EPZs. In Malaysia, EPZs have been instrumental in building and developing the electronic sector, started in the early 1970s despite the fact that

the country had no particular skills in electronic production. The Chinese Special Economic Zones are often mentioned as a successful case of EPZs (see box 3.3).

Box 3.3 Special Economic Zones in China

The biggest success story of economic zones is China. From a largely underdeveloped, centrally planned economy with poor infrastructure in 1980, China has successfully improved its investment climate to become a primary exporter of manufactured goods—approximately 75 percent of the world's toys and more than 13 percent of the world's clothing supply are manufactured in China. Such a transformation has been achieved mainly through the development of an investor-friendly investment climate in small pockets areas of the country through Special Economic Zones (SEZs). The SEZs can be seen as transitional regimes to better policies through out the economy.

Chinese SEZs offer an investment structure, labor regulations, management practices, and wage rate policies different from the rest of the economy, with an exclusive package of preferential policies encompassing a much broader array of economic activities than traditional EPZs. In only eight years, from 1980 to 1988, China established the SEZs along its coastline locations, including Shenzhen, Zhuhai, Shantou, and Xiamen cities, and designated the entire province of Hainan a special economic zone, aimed explicitly at attracting foreign investment, especially from nearby Hong Kong. Shenzhen has by far been the outstanding success story. Twenty-three years of growth have transformed Shenzhen from a small, sleepy fishing village into a thriving metropolis. Today, Shenzhen is an export-oriented economy with an export value in 2003 of $48 billion or 14 percent of the country's exports, some $30 billion in FDI, and 3 million direct employments. Shenzhen's per capita income has increased by more than twenty-fold. Shenzhen accounts for one-seventh of China's trade volume, with container throughput ranked fourth worldwide.[15] Shenzhen SEZ has become a model for Chinese economic transformation.

The SEZs in China have facilitated the creation of modern cities and the neighboring areas with well-equipped infrastructures. They have also accumulated sound economic strength and experiences in doing business with international investors, creating "economic laboratories" in market practices to attract FDI. The SEZs have accomplished the tasks entrusted to them by the central government to pilot market-oriented reforms, opening to the outside world over the past two decades, and building up a good investment environment useful for their future development. Now, SEZs could consider how to further deepen reforms and expand the opening-up into inland regions, which in fact, have benefited little from a decade of economic growth.

The Chinese government has already undertaken steps to redefine the role of SEZs in the national economy. In 1994, SEZs had "exercised tight controls on approval of foreign investment in labor-intensive and real estate projects and encouraged (or ordered) labor-intensive enterprises to be relocated to outside SEZs" (OECD 1999). In 1997, Foreign Funded Enterprises (FFEs) were granted "national treatment in Shenzhen including selling to domestic markets, establishing insurance businesses and travel agents, and conducting wholesale and retail business" (OECD

(cont.)

1999). These measures are designed to adjust gradually and withdraw the special and preferential treatment granted to SEZs, a necessary step toward achieving balanced regional development while SEZs continue to serve as vehicles in the reform and opening-up process.

In summary, SEZs have proven to give developing countries a window of opportunity for attracting foreign investment by creating pocket areas of experimentation for policy reform that can offset some aspects of an adverse investment climate. The economic impact of free zones has been far-reaching, transforming in some cases entire regions and economies. In an overview of the key investment-related policies that make economic zones successful, ensuring adequate autonomy of the zone authority, and streamlining procedures for business registration, site location, and a rational tax incentive framework are a few key investment policies that would differentiate a successful zone from others. That said, governments need to ensure that their benefits spread to the surrounding economy, including domestic investors; that zones do not absorb too much government technical and managerial expertise while becoming a breeding ground for developing new government skills and processes; and, most importantly, that zones become a catalyst for reforms nationwide.

Source: FIAS, forthcoming.

EPZs, however, tend not to be successful in attracting additional FDI where the basic legal or regulatory framework is inadequate, or where distorted economic incentives in other areas of the economy—such as private property laws—exist. This may partially explain why EPZs' success in Africa has been very limited. In many ways, the poor performance of most African zones—with the prominent exceptions of Mauritius, Madagascar, and Kenya, as shown in box 3.4—mirrors their overall unsatisfactory development records.

There are intrinsic factors in the EPZs that explain their successes or failures. Experience suggests that the failure or success of a zone is linked to its policy and incentive framework and the way in which it is located, developed, and managed. The main reasons behind the poor performance of some zones have been uncompetitive and restrictive policy frameworks. There is potential for African countries to benefit from the EPZ approach. However, a coordinated package of incentives, infrastructure, and services is essential to effectively attract and keep FDI in a country.

EPZs in Asia as well as in Africa continue to be mostly government-run (see table 3.11), usually by central government free-zone authorities (e.g. South Korea, Singapore, and Bangladesh), state government corporations (Malaysia, India), or ministerial departments (Taiwan). There is a growing trend toward private zone development, particularly among the Asian and African countries, such as Ghana and Kenya.[16]

Box 3.4 Four EPZs in Madagascar, Mauritius, Senegal, and Tanzania

Madagascar started to develop an Export Processing Zone in 1989 to attract foreign direct investment. EPZ status can be given to companies anywhere in Madagascar. The number of EPZ firms has been growing steadily, from 66 in 1991 to 307 in 2001. The majority of them are engaged in the garment industry, exporting to the EU and United States under a preferential tariff arrangement. EPZ firms provide about half of all of the secondary sector's employment, although the secondary sector remains small, and account for 50 percent of the country's exports. Although Malagasy EPZs are regarded as a successful story in their own right, from a broader sense, however, they have been criticized for operating largely outside of the national economy, thus contributing insignificantly to overall economic performance.

Mauritian EPZs, established in 1971, were geared toward separating the EPZ activities from the rest of the economy by reducing the cost of doing business through tax and duty exemptions, concessionary access to finance, fast-track approvals for all administrative procedures, and preferential market agreements and marketing support. The EPZ productions accelerated from 1984 and performed extremely well until mid 1990s. However, Mauritian EPZs have been overly dependent on the textile and garment sector, which represented 77 percent of total EPZ exports and 83 percent of total EPZ employment. A Textile Emergency Support Team (TEST) was set up to address the issues related to the increasing number of closures of EPZs due to the changed dynamics in the international textile and garment markets. The government is also moving toward integrating the EPZ and non-EPZ economies to increase the economic impact of EPZ models.

Currently, Senegal has three EPZ benefits: the Dakar Free Industrial Zone (DFIZ, since 1974), the Free Trade Points (Points Francs, since 1986), and Free Export Enterprises (EFE, since 1996). While the DFIZ and Points Francs have similar benefits, the EFE provides fewer advantages. Altogether there are 197 EPZ firms, 171 of them are under EFE. The recent successes of the Senegalese EPZ program can be attributed largely to the opportunities provided by AGOA. The Senegalese EPZ programs offer a number of features that have enabled Senegal to take advantage of existing market opportunities, including provision of EPZ status to both goods and services exporters, with access to both fiscal and nonfiscal incentives; enabling a framework to allow for private sector development and management of zones; equal treatment accorded to domestic and foreign investors; and streamlined customs procedures largely in line with Kyoto Convention standards and guidelines.

Tanzania has three EPZs with two in Zanzibar and one on the Tanzania mainland. A Free Economic Zone was established in 1992 on Zanzibar, focusing on the development of a manufacturing base in this largely spice and seaweed exports-dependent island region. In 1998, the Zanzibari government introduced a separate "Freeport" regime, essentially a free trade zone regime, to enhance its role as a transport hub on the Indian Ocean. The two zone regimes in Zanzibar, however, have had limited impact on economic development. One of the most significant issues seems to be the lack of an adequately trained workforce for industrial development. In the case of the Freeport, while the legal and institutional environment appears to be

(cont.)

favorable, the lack of adequate port infrastructure has and will likely continue to inhibit its growth. The mainland government introduced an EPZ program in 2002, to promote export-oriented industrial investment. So far the mainland EPZ has two garment manufacturers and one used-appliances refurbishing business. Garment exports are largely destined for the US market under AGOA status. The economic impact of this EPZ remains to be seen.

In summary, based on the experiences of African EPZs, several lessons could be drawn. First, an over-reliance on a particular set of exports (e.g., garments and textiles) can be unsustainable when market conditions change to a competitors' advantage. Such has been the impact of the repeal of the Multi-Fiber Arrangement on Mauritius' EPZs. The MFA governed world trade in textiles and garments, imposing quotas on the amount developing countries could export to developed countries (see below). By the same token, given the recent erosion of AGOA and EBA's benefits due to the recent repeal of MFA, other African EPZs based on the preferential tariff must restructure themselves to meet the new challenge. Second, good policy and institutional framework must be supported by adequate infrastructure and a trained labor force, as illustrated by Zanzibar EPZs. Third, in order to maximize the economic impact of the EPZs, they should be integrated with the rest of economy to create backward linkage, which has been under consideration in Mauritius.

Source: FIAS, forthcoming.

Role of Investment Promotion Agencies

The number of investment promotion agencies (IPAs) of national and local governments has grown at least five-fold over the past decade, seeking to attract foreign investment around the world.[17] Forty of the 47 countries in Sub-Saharan Africa have national investment promotion agencies; South Africa has over a dozen subnational IPAs. Many other countries, including Kenya, Ghana, and Mauritius, have established other investment promotion intermediaries such as free-zone development bodies and sectoral agencies. Asia is also a focal point

Table 3.11 Private and Public Sector Zones in Developing and Transition Economies

Region	Public Zones	Private Zones	Mixed Zones	Total
Americas	53	142	3	198
Asia/Pacific	261	203	15	479
Sub-Saharan Africa	25	38	0	63
Middle East & North Africa	49	28	0	77
Central/Eastern Europe & Central Asia	40	58	0	98
Total	**428**	**469**	**18**	**915**

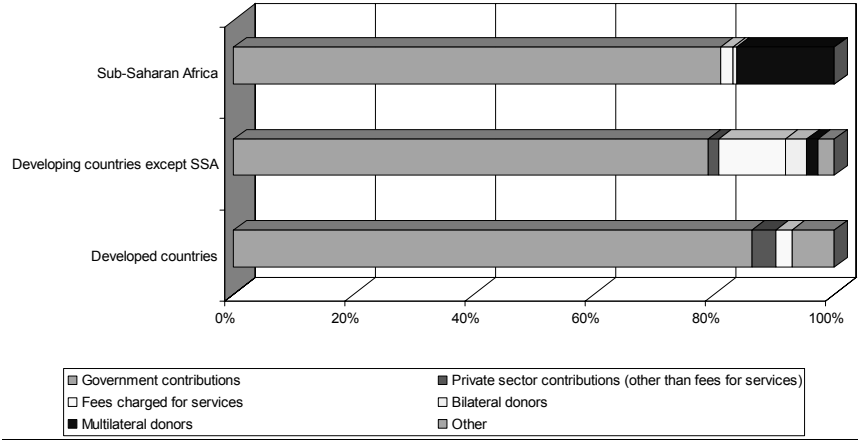
Source: ILO (2003).
Note: Excludes single factory programs.

for IPA activities. China alone has 31 IPAs, mostly at the provincial level, and hundreds more intermediaries, including economic and technology development zones and municipal promotion offices. India is the host to a similar number of state-based IPAs, where government promotional efforts are also largely devolved at the subnational level.[18]

The nature of investment promotion activities suggests that quasi-government agencies may be best positioned to fulfill the IPA function.[19] Sub-Saharan African IPAs operate within the public sphere but tend to be more autonomous than agencies in other parts of the world. No African IPA is fully private or has joint public-private status. In addition, African IPAs tend to be more reliant on funding from multilateral donors than agencies in other developing countries (figure 3.11).

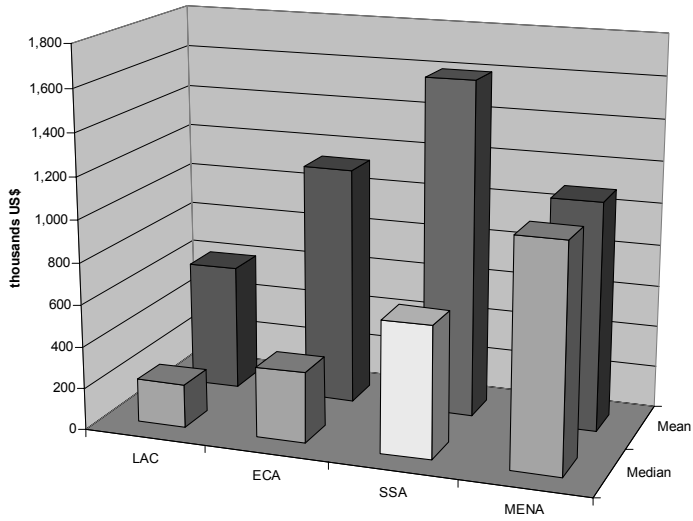
Recent cross-country analysis suggests that, for each 10 percent increase in IPA promotion budgets, the level of FDI inflows increased by 2.5 percent.[20] African IPAs on average have sufficient funding. The median IPA budget of $626,000 in Africa is twice as high as the median IPA budget in a low-income country and 28 percent higher than a median IPA budget in an upper-middle-income country (figure 3.12). However, the range of budgets in Africa is wide, evidenced by much higher mean budgets.

Figure 3.11 Sources of IPA Financing by Region, 2004



Source: Javorcik 2006.

Figure 3.12 IPA Budget by Country Grouping, 2004



Source: Javorcik 2006.
Note: LAC is Latin America and Caribbean, ECA is Eastern Europe and the Former Soviet Union, SSA is Sub-Saharan Africa, and MENA is Middle East and North Africa.

Beyond the scope of the standard services associated with attracting investors, new activities are being undertaken by IPAs to provide post-investment services. These services are important because they attract new investors and investments through the linkage of existing satisfied investors and encourage the reinvesting of FDI interests. Asian IPAs have been directing their attention toward how to secure and expand existing FDI by improving investor aftercare. By comparison, SSA agencies tend to devote a lower share of resources to investor servicing but more to investment generation. On average, 46 percent of the budget in SSA IPAs is spent on investment generation but only 20 percent on investor servicing. For comparison, the corresponding figures for other developing countries are 33 and 31 percent, respectively.[21]

Experience indicates that assigning IPAs as one-stop-shops is not the best option. The one-stop IPAs have seldom met with success, as regulatory authorities are usually unwilling to fully relinquish their reviewing or approval authority. As a result, what is intended to be "one stop" often turns into an additional complication in the investment process. A far better solution has proven to focus on simplifying the process itself, which argues for IPAs' policy advocacy. Managers of foreign companies can provide first-hand accounts on the

investment environment and how it affects their businesses, and IPA staff can channel this feedback to relevant government bodies as part of their policy advocacy efforts.

Another aspect of IPA services that is receiving increasing attention is maximizing the beneficial impact of FDI in the host economy. For example, more than half of 123 IPAs surveyed worldwide, including 16 of 35 African IPAs, are providing some form of linkage program between foreign investors and SMEs.[22] The African linkage efforts tend to focus on agribusiness activities, such as the Oil Palm Outgrower Scheme shepherded by Ghana's Investment Promotion Centre with Unilever Corp. Likewise, in Mozambique, the Investment Promotion Centre operates a linkage program that provides megaprojects such as the Mozal Aluminum Smelter and Sasol gas pipeline with prequalified lists of some 300 local service providers and suppliers.

Public-Private Responses for Investment Climate Reforms in Africa

Several African countries have established Presidential Investors' Advisory Councils, including Ghana, Tanzania, and Senegal in 2002, and Mali and Uganda in 2004 (box 3.5). The objectives of the councils are to provide a direct channel of dialogue for action between investors and political leaders and to blend the perspective of foreign investors with the knowledge of local business

Box 3.5 Presidential Investors' Advisory Councils in Africa

Presidential Investors' Advisory Councils in Africa are small, high-level fora, comprised of business leaders drawn from the top echelons of (i) international business (both invested and not invested in the country); (ii) local business leaders; and (iii) key ministers. A small sampling of council members from various countries on the continent includes Unilever, Microsoft, Diageo, Monsanto, Lafarge, Coca Cola, AngloGold, and Barclays. The councils are chaired by the country president and supported by local secretariats. Local working groups, chaired by private sector representatives, are arranged around the core issues identified within council meetings. The working groups are then charged with implementing council actions and acting as drivers of the reform process.

The councils have widely been regarded as a means to accelerate economic growth. Governments have come to rely on them for expert advice and to help improve the country's image as an investment destination. To date, councils have focused on a variety of sectors, such as agribusiness, tourism, technology, manufacturing, and mining. They also have concentrated on several cross-cutting issues, including labor policies, land access, taxation, administrative barriers, and infrastructure.

Source: World Bank staff.

leaders to create conditions for accelerated growth and investment. The councils aim to identify big-ticket items for policy reforms, and prioritize and take action on issues to remove obstacles to investment. They also act as watchdogs for government action on private sector development, while enabling governments to learn from global corporate experience.

Some of the main achievements of these councils have been the creation of productive and constructive relationships between the private sector and government to accelerate the implementation of difficult reforms. Some prominent examples include reducing customs clearing time from two to three weeks to three to five days in Ghana; and enacting legislation to ease the process for starting a new business and in improving access to land and labor in Tanzania. Progress on more complex strategic priorities, such as identifying and promoting sources of growth, however, has been more elusive.

The Investment Climate Facility (ICF) is another private-public partnership initiated under the New Economic Partnership for Africa's Development (NEPAD), launched on June 1, 2006. The objectives of ICF include: (i) encouraging, developing, and working with coalitions for investment-climate reform and supporting business-government dialogues; (ii) supporting governments in creating a legal, regulatory, and administrative environment that encourages businesses at all levels to invest, grow, and create jobs; and (iii) improving Africa's image as an investment destination through a coordinated effort to publicize improvements that have been made in the investment climate.

This initiative, together with the efforts of some African governments, may improve the investment climate of Africa and balance FDI inflows across the world.[23] However, the effectiveness of the agency is still too early to assess.

INTERNATIONAL TRADE AND INVESTMENT AGREEMENTS

Apart from domestic trade-policy regimes, trade and investment flows between African and Asian countries are shaped by various international agreements and treaties. These include arrangements that are multilateral or regional (whether plurilateral or bilateral) in nature.

With respect to trade flows, over the last 30 years, alongside the multilateral trading system, regional trade agreements (RTAs) (or Free Trade Agreements (FTAs)) have proliferated around the world; as of June 2006, 197

RTAs had been filed with the World Trade Organization (WTO).[24] RTAs include not only reciprocal bilateral and plurilateral agreements but also special preferential arrangements provided by developed countries to facilitate market access for developing countries, including those in Africa. The most notable examples are the Everything But Arms (EBA) initiative, extended by the EU to African LDCs, and the Africa Growth Opportunity Act (AGOA), extended by United States. Both EBA and AGOA impact the flows of trade between Africa and Asia. Of course, African-Asian trade is also influenced by agreements between countries in the two regions, yet, to date, these remain very limited in number. Regional trade agreements *among* African countries themselves also shape the nature and extent of the continent's trade flows with Asian countries.

While some trade agreements contain provisions related to FDI, the main instruments governing FDI flows are bilateral investment treaties (BITs).

African-Asian Trade under Multilateral Agreements

WTO. At the most macro level, trade between the two regions is governed by multilateral commitments under the World Trade Organization. Of the 47 Sub-Saharan African countries, 37 are WTO members. Most of the 10 countries that have not acceded to the WTO are either small island countries or nations that have been subject to conflict over the last decade, since the WTO was founded: Cape Verde, Comoros, Equatorial Guinea, Eritrea, Ethiopia, Liberia, Sao Tome and Principe, Seychelles, Somalia, and Sudan. Regarding the Asian countries, China, of course, is a new member of the WTO, while India was a founding member. Of the other developing countries in Asia, Afghanistan, Bhutan, Lao PDR, Timor, and Vietnam, do not have WTO membership.

Extensive progress in the lowering of tariffs and other trade barriers was achieved over the half-century life of the GATT (General Agreement on Trade and Tariffs), the WTO's predecessor organization. Indeed, as result, the preponderance of world trade today is governed by a fundamentally liberalized policy regime based on multilateral rules, disciplines, and standards, such as Most Favored Nation (MFN) and National Treatment, that provide for nondiscrimination in international commerce; 149 countries are committed to this policy regime. The founding in 1995 of the WTO marked a watershed by extending multilateral liberalization of trade to cover not only commerce in products but also in services and intellectual property, among other aspects. In the intervening years, however, the WTO has not been able to meet the aspirations of its founders to significantly deepen further what had been accomplished in 1995. The most recent round of multilateral negotiations, the

Doha Development Round, which was launch in 2001, has moved in fits and starts. In the summer of 2006, the talks were indefinitely suspended.

The lack of progress in the Doha Round certainly has been disappointing to virtually all of the players, and both Africa and Asia would reap substantial gains—not only from the North but also from each other—if the Round could be concluded in lines with the objectives initially envisaged. To this end, much is riding on initiatives to revive the Round and they deserve strong encouragement by African and Asian leaders. Still, the fact remains that the foundation of world trade flows—including those between most countries in Asia and Africa—are still grounded in a multilateral rules-based system. Thus, even if no further progress is made in the Doha Round, the basic contours of trade between Africa and China and India are still subject to WTO rules and standards, including procedures for dispute settlement.

Multi-Fiber Arrangement. In January 2005, the Multi-Fiber Arrangement (MFA), which began in 1974 and governed world trade in textiles and garments, imposing quotas on the amount developing countries could export to developed countries, expired. The expiration of the MFA is engendering inevitable negative consequences and positive effects on both developed and developing countries, including those in Africa and Asia. Positive effects include efficiencies in production and trade of textiles and clothing, saving quota-related expenses, and consumers' benefits from lower prices. Negative consequences include an increase in the unemployed as well as declining exports in least-income countries.

Many analysts predicted that the market shares of China and India in textiles and clothing exports to the United States and the EU would increase as those of Sub-Saharan African and other developing countries with high production costs declined.[25] Evidence from the WBAATI business case studies clearly reveals that such a transformation is already underway in parts of the African textile and garment industry; see below. It is evident that in the short- to medium-run, because Chinese and Indian textile firms have lower cost structures and thus are more efficient than their African counterparts, it will be difficult for African firms to compete in the mass clothing market. Instead, as the business case studies indicate, African textile firms are likely to be more competitive in niche clothing markets. Increasingly these are the markets that African textile firms are targeting.

Regional Trade Agreements Affecting African-Asian Trade

AGOA and EBA. The AGOA and EBA programs add preferences to the existing Generalized System of Preference (GSP) programs of the EU and the United States.[26] Most of the countries that have taken advantage of the AGOA apparel and textile benefits are located in Southern and Eastern Africa. In part, the increased inflow of foreign direct investment from Asian economies, such as India and China, to these countries has been driven by these preferential arrangements. As illustrated in table 3.12, benefits enjoyed by the apparel sector grew significantly between 1999 and 2002 and exports surged. AGOA's apparel benefits had such visible impacts because general tariff and quota barriers were relatively high for these products in accordance with the MFA.

Table 3.12 Export Performance of AGOA Countries

	Share of U.S. in Total Exports (2002)	Growth of Total Exports (1999–2002)	Growth of Exports to U.S. (1999–2002)
LDCs without Apparel Benefits	6.4%	2.6%	-30.2%
LDCs with Apparel Benefits	13.7%	19.5%	80.1%
Non-LDCs Nonoil Exporters without Apparel Benefits	8.2%	15.4%	-16.8%
Non-LDCs Nonoil Exporters with Apparel Benefits (Liberal Rules of Origin)	6.6%	21.5%	38.0%
Non-LDCs Nonoil Exporters with Apparel Benefits (Restrictive Rules of Origin)	13.0%	11.1%	30.9%

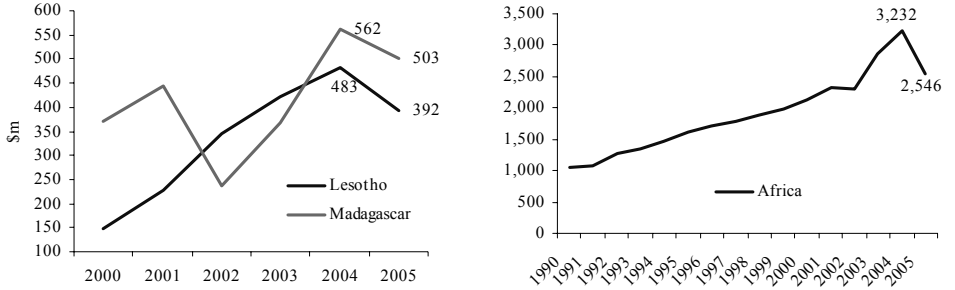
Source: Brenton and Ikezuki 2004.

AGOA and EBA have provided market access for Africa, based on supply capacity largely built by Asian investors. The most well-known case is the sudden surge of Lesotho textile and garment exports to the EU and the United States, facilitated by Asian investors who had capital, technology, and know-how. Textiles were produce locally and exported to the EU and the United States duty free. The repeal of MFA has enabled China to dominate global textile trade and has significantly reduced AGOA's apparel benefits. Many Asian investors abandoned their apparel factories in Lesotho, for example. Non-AGOA countries also suffered. It is reported that South Africa's textile and clothing industry lost 44,000 jobs between 2000 and 2005.

Overall, African textile, apparel, and footwear exports to the United States and EU suffered a big drop in 2005, as shown in figure 3.13. However, the full effect of China's global textile domination remains to be seen. It is still possible that African textile exports could recover from the current setback if production capacity being built in African countries can be sustained or, more probably, if niche rather than mass markets are targeted.

Cotonou Agreement and Economic Partnership Agreements (EPAs) of the EU. In addition to EBA, the EU has extended to Africa, the Caribbean, and the Pacific (ACP) countries preferential access to its market under the Cotonou Agreement, the successor to the Lomé Convention. Economic Partnership Agreements (EPAs) between the EU and ACP countries are under negotiation to replace the preferential systems embodied in the Cotonou Agreement, which had received a waiver under the enabling clause from GATT Article XXIV; this waiver expires in 2007.

Figure 3.13 African Textile, Apparel, and Footwear Exports to EU and United States ($)



Source: COMTRADE, SITC Revision 2.

It is envisioned that the EPAs will promote trade and development in the ACP countries compatible with WTO principles by establishing agreements between large groups of countries forming customs unions. By negotiating reciprocal liberalization with existing South-South regional groupings and by providing common rules of origin with cumulative provisions, the intention is to prevent the hub-and-spokes effects that plague many bilateral North-South agreements. Several issues will determine the ultimate effectiveness of any EPAs in promoting development: the degree of additional MFN liberalization in goods and services; the restrictiveness of rules of origin; and the extent of trade diversion that could occur in the event that there is no reduction in MFN border protection. Because tariffs are relatively high and internal barriers within groupings are still prevalent, enacting EPAs without prior action on these issues could result in hub-and-spokes patterns of trade integration, trade diversion, and in a worst-case scenario, net losses of income. Without action on external and internal barriers, giving EU firms preferential access to ACP markets could well divert trade to EU producers from more efficient producers in non-EU countries, including Asian countries.[27]

Agreements between Asian and African Countries. To underpin China's rapid trade expansion with Africa and its intention to consolidate broader economic cooperation, in January 2006 Beijing issued "China's Africa Policy." This white paper pledges further cooperation with Africa in four areas, including politics, economy, culture exchange, and security (see box 3.6). As a part of its "Africa Policy," the Chinese government granted zero preferential tariffs for 24 SSA countries on 190 commodities (see table 3.13).[28] This is a first step to stimulate African LDCs exports to China through a scheme similar to the GSP of developed countries granted to LDCs worldwide. It is still too early to assess the full effect of this preferential treatment.[29]

Box 3.6 China's "Africa Policy"

On January 12, 2006, the Chinese government issued "China's Africa Policy." The occasion was the fiftieth anniversary of the establishment of diplomatic relations between China and Egypt, the first such agreement among the countries of the African continent. The policy's purpose is to further promote the steady growth of Chinese-African relations in the long term, and bring the mutually beneficial cooperation to a new stage. The release of the document demonstrates the growing interest of China in Africa and Africa's important role in supporting China's economic growth in the future. In fact, productive and strong relations are of critical importance to both China and Africa. Among Africa's 53 countries, 47 have established diplomatic ties with China, and trade between Africa and China had grown to an estimated $37 billion in 2005.

"China's Africa Policy" is in keeping with China's general foreign policy, which is guided by the "Five Principles of Peaceful Co-existence."[30] In addition, the document sets forth guidelines for future cooperation in the areas of politics, economy, culture exchange, and security, which are summarized as follows:

1. Political Cooperation: China will continue to encourage dialogue and exchange with African governments through national executive and legislative bodies and regional gatherings, and support international mechanisms for increased cooperation such as the United Nations.

2. Economic Cooperation: China will grant duty-free treatment to as yet unspecified exports from the least developed African countries, and will generally facilitate the access of African goods to the Chinese market. In support of outward investment, China will continue to provide preferential loans and buyer credits to encourage Chinese firms to invest in Africa. Moreover, China will expand its economic cooperation with Africa, especially in financial services, agribusiness, infrastructure, tourism, and resource-based sectors (oil, mining, forestry, etc.). China also pledged to work to resolve or reduce the debts owed by some African countries, both to China and to the broader international community.

3. Cooperation in cultural exchange: China will carry out exchange and cooperation programs with African countries in fields of common interest, especially human resources development, education, science and technology, medicine and health, civil service systems, the environment, and disaster reduction.

(cont.)

4. Cooperation in security: China will strengthen military cooperation with the continent through technological exchanges and training exercises. In addition, China will work closely with African countries to combat transnational organized crime and corruption, and intensify cooperation on matters regarding judicial assistance, and extradition and repatriation of criminal suspects.

The paper's release coincided with the visit of China's Foreign Minister, Li Zhaoxing to five African countries (Cape Verde, Senegal, Mali, Liberia, and Nigeria). During the trip, Minister Li announced several new initiatives under the policy, including a $25 million interest-free reconstruction loan to Liberia for the construction of hospitals, roads, and other infrastructure projects; cancellation of some $18.5 million in Senegalese debt; and other development efforts.

Source: World Bank Group staff.

To date, however, use of Chinese preferential tariffs for African LDCs has been limited. In 2004, African LDCs actually exported products that correspond to only 72 of the 190 lines with zero tariffs. In terms of magnitude, Africa's exports under current preferential tariffs account for only 25 percent of total exports by these countries. The most notable category is "textiles," which includes cotton, cotton yarns, and fabrics. While China granted zero tariffs to 18

Table 3.13 Chinese Preferential Tariffs to 24 Sub-Saharan African LDCs

	Number of lines in preferential tariffs	Tariff cancelled, simple average	Number of lines exported by Africa LDCs in 2004	Effective applied tariff before preferential tariff	Africa LDC's export values on preferential tariffs in 2004, $m	As % of total category imports from Africa	Tariffs paid in 2004, $m
Agricultural raw materials-non-edible	26	7%	15	11%	16	28%	6.7
Agricultural raw materials-edible	20	10%	9	13%	10	95%	13.4
Processed food	7	14%	2	5%	26	100%	13.0
Petroleum products	2	8%	0	-	0	-	0.0
Ores	4	2%	3	2%	4	2%	0.6
Mineral manufactures	1	18%	1	18%	0.01	100%	0.01
Non metal minerals	2	24%	0	-	0	-	0.0
Basic metal	14	8%	6	2%	147	100%	34.7
Textiles	18	8%	7	5%	2	1%	1.2
Apparel/footwear	26	15%	9	15%	0.04	33%	0.1
Machinery and transportation equipment	15	7%	1	4%	0.003	3%	0.001
Electric machines	2	7%	0	-	0	-	0.0
Electronics	2	5%	0	-	0	-	0.0
Other Manufacturing	37	10%	14	9%	1	77%	10.1
Non Pharmaceutical chemicals	11	11%	4	8%	0	61%	0.4
Pharmaceutical chemicals	1	4%	1	4%	0.005	100%	0.002
Live animals not edible	2	10%	0	-	0	-	0.0
Total	**190**	**9.8%**	**72**	**5.3%**	**$207**	**25%**	**$80**

Source: Chinese Ministry of Commerce, December 2005.
Note: Categories are based on the conversion of HS code to STIC 2 code.

lines in this category, African countries only exported products in 8 of them in 2004. In terms of magnitude, the exports under zero tariffs account only for one percent of total exports in the textile category. This is because African exports to China under this category are mostly cotton, which has not been granted the

preferential tariff. These findings are based on 2004 data, which are the latest currently available. In 2006, after these preferential arrangements came into effect, African producers may have increased exports of the products being covered.

The negotiation of Free Trade Agreements between Africa and Asia is a very recent phenomenon. Table 3.14 gives a list of FTAs that currently are under negotiation or are proposed between the two regions. While AGOA and EBA have the objective of developed countries assisting African economic development, FTAs between Africa and Asia would largely seek mutually beneficial commercial arrangements for their respective domestic economies.

Table 3.14 Status of Bilateral Trade Agreements between Asia and Africa

	Type of Agreement	Status
China–South Africa	FTA	Under negotiation
Japan–South Africa	FTA	Under feasibility study
Korea–South Africa	FTA	Under proposal
India–Mauritius	CECPA (Comprehensive Economic Cooperation and Partnership Agreement)	Under negotiation
India–SACU	Partial scope agreement (leading to FTA)	Under proposal
Singapore–SACU	FTA	Under negotiation

Source: Authors' compilations from various sources.
Notes: SACU (Southern African Customs Union): Botswana, Lesotho, Namibia, South Africa, and Swaziland.

The short-run benefits and costs of any African-Asian FTAs that materialize will depend, in part, on current tariff schedules and, since these vary by sector, so would the benefits and costs. Asian countries, with the exception of India, stand to lose less in the short run than do the African countries because they have comparatively low tariffs on many of their largest import items already. African countries, on the other hand, have comparatively high tariffs on their major imports, such as textiles, apparel, and footwear. All other things equal, then, in the short run, an FTA with Asia could pose significant losses to the African textile and apparel industries.

South Africa, Africa's the largest regional economic power, is a natural FTA partner sought by Asian countries. All major Asian countries are seeking FTAs with South Africa or with SACU, of which South Africa is a member.

However, the responses of South African domestic industries to some FTAs are mixed. South African mining companies welcome an FTA with China in anticipation of a future increase in exports to China, but local textile and clothing firms largely oppose the FTA, fearing losses due to their inferior competitiveness.

While the fear of the South African textile and clothing industry is understandable, due to its currently high tariff of 20 to 40 percent on textiles and clothing, the optimism of the mining companies many be overstated, since China's tariff on metallic ores is already close to zero.

To ease the concern of South African textile and clothing companies, China agreed to limit the growth of its textile and garment exports to South Africa, taking a voluntary export restraint (VER) measure. South African policymakers are in a dilemma: while some labor-intensive domestic industries might experience revenue reduction and unemployment, consumers can immediately enjoy the benefits of low-priced products imported from China.[31]

Unilateral preferential tariff arrangements such as AGOA and EBA focus on granting market access to goods. On the other hand, deeper bilateral and interregional economic integration initiatives, such as FTAs and economic partnership agreements (EPAs), could potentially provide new and additional opportunities for African countries to enhance their trade activities. The fact that African governments in general welcome Chinese investments more than they do Chinese products provides opportunities for Africa and Asia to pursue FTAs on a much broader base, including investments and services trade, such as financial services and tourism.

Regional Trade Agreements among African Countries. The general benefits of FTAs or RTAs are realized through two main channels: (1) by competition and scale effects, and (2) by trade and location effects. Not surprisingly, many regional integration agreements (RIAs) are currently in force in Africa to expand the economic and geographic horizons of small African economies. The major RIAs are shown in table 3.15.[32] African economies remain relatively fragmented compared to other regions, which implies that regional integration could significantly improve their economies of scale (table 3.16). However, one distinctive feature of these RIAs is their small economic and population coverage, which implies that the scale effects provided by RIAs could be still limited.

Table 3.15 Selected Regional Integration Agreements (RIAs) in Africa

Agreement (founding year)	Full name	Member Countries (total number of members)	Population (million)	GDP (US$ bil, ppp)	GDP per capita (US$, ppp)
SACU (1910)	Southern African Customs Union	South Africa, Botswana, Lesotho, Swaziland, Namibia (5)	51	541	10,605
ECOWAS (1975)	Economic Community of West African States	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo (15)	252	343	1,361
SADC (1980)	Southern African Development Community	Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe (14)	234	737	3,152
ECCAS (1984)	Economic Community of Central African States	Angola, Burundi, Cameroon, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe (11)	121	176	1,451
COMESA (1994)	Common Market for Eastern and Southern Africa	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Arab Republic of Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe (20)	406	736	1,811
CEMAC (1994)	Economic and Monetary Community of Central Africa	Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, Gabon (6)	35	85	2,435
WAEMU (1994)	West African Economic and Monetary Union	Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo (8)	81	101	1,257
EAC (2001)	East African Community	Kenya, Tanzania, Uganda (3)	98	104	1,065

Source: Authors' compilations from various sources (as of December 2004).

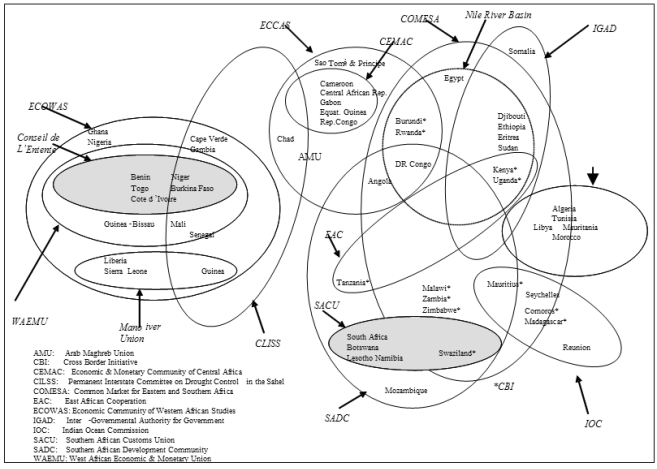
Table 3.16 Interregional Comparison of Geographical and Sovereign Fragmentation Indicators

	Average number of borders	Proportion of population in land-locked countries (%)	Average Transportation Costs ($)
Sub-Saharan Africa	4	40[a]	7,600
East Asia and Pacific	2	0.4	3,900[b]
Latin America and Caribbean	2	3	4,600
South Asia	3	4	3,900[b]

Source: World Bank staff.
Note: Congo, Dem. Rep., Sudan, and Ethiopia have been treated as "landlocked" countries. Data on transportation costs is available for East and South Asia region together (Venables and Limao 1999).

One prominent feature of Africa's RIAs is the so-called "spaghetti bowl effect," arising from the fact that, at present, each African country is a member of four different agreements (see figure 3.14). Such overlapping arrangements tend to have different rules of origin, tariff schedules, and implementation periods. This engenders complications of customs administration and delays in customs processing, eventually driving up the cost of trade and deterring investment from both domestic and foreign businesses. Indeed, the business case studies revealed clear evidence on this score. Such spaghetti-bowl effects are not unique to Africa: they also exist in other regions, such as South Eastern Europe, where there are 29 bilateral FTAs among 8 countries.[33]

Figure 3.14 The Spaghetti Bowl of African RIAs



Source: World Bank staff.

In 2003, the EU finalized its financial agreement with ECCAS and CEMAC, conditional on the merging of the two. In 2005, the EU experienced a main challenge in its EPA negotiations arising from overlapping memberships of various regional integration agreements, including those of Eastern and Southern Africa (COMESA, EAC, and SADC).[34]

Implications of RTAs for African-Asian Trade. As Asian countries seek FTA partners with African countries, dealing concretely with specific measures to handle the problem of overlapping RIA memberships will be critical. At the same time, it is critical to recognize that preferential trade agreements may well not be net trade-creating or that all members will benefit. Positive outcomes will depend on the design and implementation of such agreements. RTAs can

generate "trade diversion" and thus must be pursued in tandem with reductions in MFN tariffs.

When embedded in a consistent and credible reform strategy, the key determinant of RTAs' success is low external trade barriers. While many African and Asian countries have reduced tariffs, in some cases, as noted above, they remain high, and the risk of trade diversion remains significant. Further reductions in applied MFN tariffs thus will be required to ensure that RTAs are beneficial for those participating in them and to minimize the impact on the countries that are left out. At the same time, a preferential trading arrangement cannot substitute for inadequate investment climate.

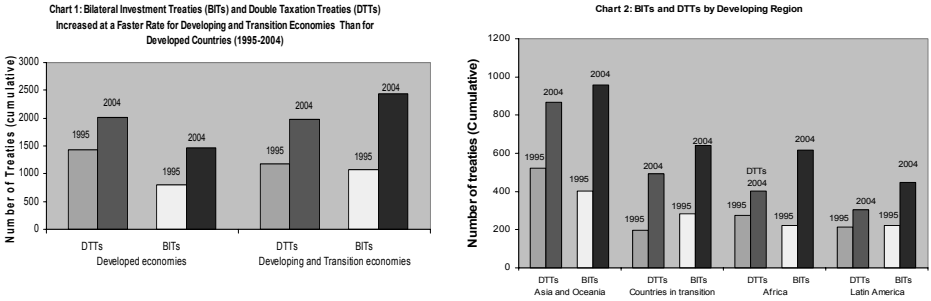
Investment Treaties and Agreements

Bilateral Investment Agreements. Worldwide, the number of bilateral investment treaties (BITs), double taxation treaties (DTTs), and various other types of preferential trade agreements with investment components have increased substantially over the past decade, particularly for developing and transition economies. Asian countries have seen the largest increase of such agreements vis-a-vis other countries within Asia and with other regions. As of 2004, Asian economies had a total of 866 DTTs and 956 BITs with Asian and other countries.

Such agreements encourage and facilitate investment flows through liberalization and protection of foreign investment. In the past, developing countries signed international investment agreements mainly with developed countries, but recently they have been very active in signing such agreements with other developing countries. As of the end of 2004, the number of BITs between developing countries—South-South BITs—stood at roughly 1046 (about 40 percent of the BIT universe), while South-South DTTs reached roughly 374 or about 19 percent of the total DTTs worldwide; see figure 3.15. Of the existing agreements, roughly 50 percent have been signed and are in force.

China, India, and South Africa are among the top 10 developing countries who have signed the most number of BITs and DTTs with other developing countries (as well as with developed countries). China at 112 has the highest number of BITs, while India at 83 has the highest number of DTTs. China by far has the most BITs with other African countries, while India tends to have more DTTs with African countries. Table 3.17 provides a detailed look at BITs and DTTs signed between China and India, and various African countries.

Figure 3.15 Bilateral Investment Agreements and Double Tax Treaties: 1995–2004



Source: UNCTAD.
Note: These are agreements compared with other countries in the world.

Effectiveness of BITs. Some studies show that, despite the significant increase in bilateral investment treaties, the positive impact of those treaties on actual investment flows is not unambiguous. This is the case for both North-North and North-South investment treaties.[35] Empirically, such treaties act more as complements than as substitutes for good institutional quality and protection of property rights, the rationale often cited by developing countries for ratifying BITs. Thus, investors are attracted more by a better investment climate in host countries rather than BITs per se; see chapter 6.

Table 3.17 Investment Agreements between China and India, and Selected African Countries

	China		India	
	BITs (112)*	DTTs (79)*	BITs (56)	DTTs (83)
Benin	X			
Botswana	X			
Cape Verde	X			
Congo	X			
Cote d'Ivoire	X			
Djibuti	X		X	
Ethiopia	X			
Gabon	X			
Ghana	X (25)		X	(7)
Kenya	X			X
Mauritius	X	X	X	X
Mozambique	X			
Nigeria	X			
Senegal	(20)			(12)
Seychelles		X		
Sierra Leone	X			X
South Africa	X(34)	X		(63)
Sudan	X		X	
Tanzania	(12)			X(9)
Uganda	X			X
Zambia	X			X
Zimbabwe	X		X	

Source: UNCTAD.
*Numbers in parenthesis indicate the number of BITs and DTTs respective countries relative to the rest of the world.

Moreover, given the strong synergies between cross-border trade and foreign investment activities in the global business environment, as discussed in chapter 6, the combination of appropriate trade rules, liberalized market access, and investor protections can have positive effects on FDI flows. Several studies have found that RTAs that formed large markets attracted FDI after controlling for other factors that influence investors' location choices. To this degree, RTAs can have a strong positive impact on FDI inflows.[36]

Also, creation of an RTA will not have much effect on investment inflows from outside the region if restrictions on market access are severe and remain unchanged. Thus, open regionalism remains the key to successful attraction of FDI flows.

CONCLUSIONS AND POLICY IMPLICATIONS

Summary of Findings

Tariff structures of African countries as well as China and India still have some unfavorable elements that constrain mutual trade. Some Asian tariff rates are high for many of African countries' leading exports—those that account for about two-thirds of total African exports to Asia. Product-specific analysis of tariffs on African exports to Chinese and Indian markets suggests that in certain cases tariff escalation in these markets has been discouraging the export of higher value-added processed products from Africa. However, China is a relatively liberalized market, with zero or close to zero tariffs on 45 percent of its imports. China also has plans to further lower its tariffs and bring about lower dispersion in the structure of tariffs by the end of 2007.

Although African tariff barriers have been lowered significantly recently, Asian products still face relatively high tariff barriers on the African continent. In fact, some high tariffs on intermediate inputs into African countries constrain African manufacturing exports. This bias against exports is an obvious target for reform.

Non-tariff barriers, such as inappropriate use of technical standards in African export-destination markets in China and India pose special challenges to African exports. At the same time, most countries in Africa lack the institutional capacity as well as the resources to fully implement or effectively enforce internationally recognized standards. This limits the ability of domestic producers

to penetrate certain export markets, not only in more developed countries, but also in Asia, especially China and India.

While export and investment incentives, such as Export Processing Zones (EPZ), to date have been successful in China and India, their potential to stimulate exports has not materialized in African countries, with a few exceptions. The preceding analysis suggests that the ineffectiveness of these incentives in African countries is due in part to significant implementation and enforcement challenges in the face of generally weak institutional capacities, as well as the lack of the requisite infrastructure and labor skills. Export incentives in African countries have also had mixed results in creating backward production linkages.

The proliferation of regional and bilateral trade and investment agreements in recent years on the African continent comprises not only reciprocal agreements among other countries in the South, including those in Asia (China and India among them), but also preferential arrangements provided by developed countries in the North in order to facilitate market access for exports from Africa. The size of the benefits derived from such preferential treatments diminishes significantly when market barriers for other competitors are lowered. Trade diversion from such regimes challenges their desirability and sustainability. No bilateral free trade agreements are currently in effect between Asian and African countries, with the exception of a few unilateral preferential treatments of limited scale.

RIAs on the African continent are still very much nascent and have yet to significantly foster regional trade. To Chinese and Indian investors, they are not seen as particularly trade- or investment-facilitating. Some Chinese and Indian businesses already operating in Africa complain that these agreements' spaghetti-like character actually inhibits rather than promotes international commerce.

In addition to formal international agreements, African-Asian trade and investment flows are also influenced—in varying degrees—by other instruments. Investment Promotion Agencies (IPAs) and public-private Investors Councils in African and Asian countries play an important role in facilitating international commerce between the two regions. China and India have also established various other mechanisms in the hopes of stimulating trade and investment with Africa. One of the more recent—and certainly most notable—initiatives is the January 2006 release in Beijing of "China's Africa Policy," a white paper that identifies a large set of economic issues over which China proposes to cooperate with Africa, including trade and investment.

Policy Implications

Continued reforms of at-the border trade policies are important for African countries as well as China and India in order to improve mutual market-access conditions and spur trade and investment. Such reforms would not only help directly reduce the costs of international transactions between the two regions, they would also help to enhance national competitiveness, improve the efficiency of domestic business operations, and lower the prices of goods domestic consumers have to pay.

To this end, reductions of MFN tariffs in India and China would improve Africa's market access to those countries. Equally, MFN tariff reductions in African countries would engender greater access for Chinese and Indian exports to Africa. As part of such efforts, China and India should reduce the escalation in their tariff structures, which serves to discourage higher value-added activities by otherwise competitive African producers, thwarts Africa's ability to diversify its exports, and runs the risk of prolonging Africa's position of being trapped as a raw materials producer.

In lowering the level of their overall tariffs, a phased program could be useful for African countries, such as first lowering tariff peaks—which gets at the most egregious protection, opens up existing domestic monopolies to competition, and reduces current anti-export biases—and then reducing tariff averages. In light of the formidable competitive efficiency of Chinese and Indian producers in certain labor-intensive sectors, such as textiles—especially in the aftermath of the elimination of the MFA—African producers should not only take advantage of this situation and seek joint ventures with Chinese and Indian businesses in the global production networks, as discussed in more detail in chapter 6, they should also focus on building niche markets rather than attempting to penetrate mass consumer markets.

Beyond the need to lower tariffs, eliminating NTBs in both regions is also a reform priority.

All told, countries in both regions have a strong interest in cooperating for a successful completion of Doha Round negotiations. Barring successful multilateral reform, an alternative would be a pan-Asian FTA with Africa and/or the expansion of existing preferences. But these are second- or third-best approaches, and great caution should be exercised. In light of the risks of creating incentives for trade diversion, the contours of such schemes need to be carefully designed, such as with respect to rules of origin, and they need to be made

complementary and mutually reinforcing with other structural and institutional economic reforms.

At the same time, African countries should review their commitments to implementing realistic and substantive regional integration schemes. Rationalizing and harmonizing the "spaghetti bowl' of existing bilateral and regional agreements is clearly needed if they are to accomplish their stated objective, especially since many businesses operating in Africa question the utility of the current arrangements.

The roles of African IPAs and public-private investors' councils could be strengthened to proactively promote FDI opportunities and eliminate bottlenecks for foreign investors. This would require the allocation of more resources to such institutions. Still, IPAs are most effective when operating in an environment with a good investment climate. Countries that do not have these conditions in place should focus on improving them first. By the same token, export and investment incentives appear to be effective only in certain cases where the requisite institutional and governance capacity exists.

Overall, achieving the desirable outcomes hoped for by implementing trade policy reforms will not come from only such actions. While those reforms are necessary to foster trade flows between Africa and Asia, they are not sufficient for trade to leverage growth. Indeed, as suggested by the analysis in chapter 2 and from the assessments contained in the various DTIS diagnostics, relieving domestic supply-side constraints matters a great deal. Thus, for example, while Asian escalating tariffs distort the contours of some African exports, it is the lack of, or the inefficiency in, African countries' domestic production capacity that is likely more critical.

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ENDNOTES

1. While quantitative impacts of tariff reduction are often subject to debate in terms of accuracy, Ianchovichina, Mattoo, and Olarreaga (2002) estimated that fully unrestricted access to all the "QUAD" countries (United States, EU, Japan, and Canada) would lead to a 14 percent increase in non-oil exports.

2. The average rates are separately estimated for tariff rates weighted on the exports from the least developed countries (LDCs) in Africa and non-LDC African countries by destination. Tariff rates for EU are available only up to 2003.

3. The definition of tariff peaks used here is a tariff rate that is more than 15 percent of MFN rate. In large part, the prevalence of tariff peaks reflects the elimination of quantity-control non-tariff barriers (NTBs) during the WTO/GATT Uruguay Round, where tariffication of NTBs prompted an increase of very high duties on agricultural products that had previously been quota-constrained.

4. India has not reported petroleum imports from Africa since 1999. India levies a 10 percent tariff on its crude petroleum imports worldwide.

5. Based on World Bank staff estimation.

6. Production of chocolate requires a higher level of technology than producing cocoa paste or powder. Chinese consumers are increasingly fond of high-quality chocolate from Europe and the United States over low-quality domestically produced chocolate.

7. Many efforts have been taken to measure the trade impact of formal NTBs in a systematic manner, include (1) directly trade-related measures such as import quotas, surcharges, and anti-dumping measures; (2) trade-related measures at the border, including labeling, packaging, proof of compliance with regulations, and sanitary standards; and (3) general public policy such as government procurement procedure, investment restrictions, and intellectual proper right protection. Based on UNCTAD Coding System of Trade Control Measures (TCMCS), over 100 different types of NTBs are classified. They are broadly lumped into core measures, used primarily for quantity control, and non-core measures, used primarily for automatic licensing and technical measures.

8. UNCTAD (2005).

9. Kee, Nicita, and Olarreaga (2006) have calculated Ad-Valorem Equivalent (AVE) of NTBs, directly comparable to a tariff, at tariff level for price and quantity control measures, technical regulations, monopolistic measures, and agricultural domestic supports. It is worth noting that their estimation of AVE applies only to merchandise NTBs. Because NTBs affect trade in addition to the existing tariff structure, the impact of NTBs is estimated over the impact caused by tariff, thus marginal impact.

10. *Everything But Arms* (EBA) is extended by the EU to African LDCs and the *Africa Growth Opportunity Act* (AGOA) is extended by the United States to eligible countries. Both programs have added additional preferences to the existing Generalized System of Preference (GSP) programs of the EU and the United States.

11. Using the World Bank Investment Climate Surveys data of seven African countries, Yoshino (2006) showed that among export incentive programs, trade financing schemes were only effectively promoting firms' exports, after controlling for domestic investment climate factors such as infrastructure quality and customs efficiency. The role of duty relief measures and domestic fiscal incentives were found to be insignificant.

12. According to the United Nations Conference on Trade and Development (UNCTAD) as many as 67 countries offered tax holidays in 1995, one of the most used fiscal incentives among developing countries. Also, surveys indicated that the number of countries granting investment incentives and the range of possible measures is on the rise (UNCTAD, 2004, pp. 11).

13. The tax incentive section is largely based on the work done by Morissett (2003).

14. UNCTAD (2005).

15. See Asian Foundation of Canada (2006).

16. It is difficult to establish whether privately owned and operated zones perform better economically than public ones. On the whole, privately operated zones tend to "offer better facilities and amenities; command higher prices from tenants; and tend to attract higher end types of activities. Because private zones are run on a cost-recovery basis, they tend to be more responsive to tenant needs, and therefore provide a wider range of property

management services and amenities, including such services as specialized, on-site telecommunications facilities, health clinics, day care centers and business support services. Private zones generally are able to command higher rates (of return) (FIAS 2006).

17. UNCTAD (2002).

18. India's investment promotion intermediaries take many different forms, including industrial development corporations, economic development zones, economic development councils, etc., all active at the state level.

19. Wells and Wint (2000).

20. Morisset (2004).

21. Javorcik (2006).

22. It should be noted that the definition of linkage program in the UNCTAD study is quite broad, and that while the survey did ask the IPAs to self-evaluate their linkage programs, it does not include empirical data on program effectiveness UNCTAD (2006).

23. Source: IFC website.

24. WTO members are required to notify the organization concerning any RTAs they participate in.

25. Nordas (2004).

26. For a comprehensive description of AGOA see http://www.agoa.gov/. For the EBA, see http://ec.europa.eu/comm/trade/issues/global/gsp/eba/index_en.htm.

27. See World Bank (2005) and Hinkle, Hoppe, and Newfarmer (2005)

28. Chinese government granted the access to 25 African countries, but we excluded Djibouti from our analysis.

29. Based on Chinese government's statistics, African LDC's exports on the preferential tariff items have increased by 100 percent since their implementation. Liu Dongkai, Xinhua News, January 10, 2006.

30. "The Five Principles of Peaceful Co-existence" refers to the principles of mutual respect for sovereignty and territorial integrity; mutual non-

aggression; non-interference in each other's internal affairs; equality and mutual benefit; and peaceful coexistence.

31. With regard to the current surge of Chinese inexpensive imports in South Africa, what Neva Seidman Makgelta, an economist for the Congress of South African Trade Unions in Pretoria, mentioned is of suggestively significance: "There is no question that, for upper classes, it's a boon. The problem is any lower class South Africans who would rather have a job."

32. As of now, examples of other REIs are as follows; Liptako-Gourma Authority (LGA, since 1970, 3 members of West Africa), Economic Community of the Great Lakes Countries (CEPGL, since 1976, 3 members of Central Africa), Mano River Union (MRU, since 1973, 3 members of West Africa), Intergovernmental Authority on Development (IGAD, since 1986, 7 members of East Africa), etc.

33. See Broadman et al. (2004).

34. Some SADC members are negotiating an EPA with the EU under the SADC framework; meanwhile other members are negotiating under the COMESA framework.

35. Blonigen and Davies (2002) studies he impact of bilateral tax treaties on foreign direct investment using data from OECD countries over the period 1982-1992. Hallward-Driemeier (2003) analyzed bilateral flows of OECD member to 31 developing countries from 1980 to 2000. Also, UNCTAD (1998) found that the number of BITs signed by the host countries was uncorrelated with the amount of FDI it received.

36. See for example Lederman et al. (2004), Levy, Yayati, Stein, and Daude (2004).