SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

INSIDE SOUTHERN AFRICAN TRADE

INSAT

ISSUE 13 JUNE 2008

It seems incredible that Angola emerged from a devastating civil war only five years ago. The capital city, Luanda, is dotted with cranes and virtually covered in scaffolding. Designer boutiques share the cramped sidewalks of the city's streets with young entrepreneurs peddling anything from fresh fruit to televisions.

To the south of Luanda a new industrial and residential area is fast rising out of the red earth. Luanda Sul will provide its residents with world-class accommodation and work spaces during the week and on weekends, high-end recreation in the country's first shopping mall.

While the rest of us complain about rising prices at the petrol pump; Angola is smiling all the way to the bank.

At least, some Angolans are. The rest are living in some of the most adverse conditions in Southern Africa. Medical care is largely reserved for diplomats and those connected to the oil industry; so are the luxuries of drinkable water, proper sanitation and electricity. In the countryside entire harvests rot in warehouses and on the fields as whole regions remain cut off from the coastal capital. While much progress has been made in rehabilitating the roads and railways – it is still costly and time-consuming to transport goods to the main markets around Luanda, and more than half of the population remain unemployed or underemployed.

Angola has come far since the war, but the challenges of distributing the benefits of its resource wealth equitably and creating more jobs by diversifying the economy loom large.

We hope you will enjoy this issue of INSAT and we invite you to share your opinions and suggestions with us by writing to *insat@satradehub.org*.

INSIDE THIS ISSUE

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

Published by the Southern Africa Global Competitiveness Hub as part of its Trade Facilitation and Capacity Building Activities, and sponsored by USAID.
However, the views expressed in this publication do not necessarily reflect the views of USAID or the US Government.

AROUND SOUTHERN AFRICA

MAKING INROADS FOR AGRICULTURE IN MOZAMBIQUE

For years, poor road networks between Mozambique's rural areas and its urban centers and major ports have stifled growth in agriculture and hindered the development of commercial farming. At a time when demand for agricultural commodities was booming in domestic markets, farmers in the northern provinces of Cabo Delgado and Niassa had to sell their produce across the border in informal markets in Tanzania and Zambia.

But that might soon change, thanks to a US$1.4 billion government plan to build roads connecting rural areas in the north to the country's business centers. Many hope that easier access to local markets and ports will encourage increased investment in agriculture.

"The absence of a good road network and infrastructure has been one of our biggest challenges in promoting the products of local farmers in most parts of Mozambique," said Jose Macaringue, president of the Mozambique Institute of Export Promotion (IPEX) in an interview with INSAT. "At the moment the poor road networks make it physically difficult and expensive for the farmers in areas such as Cabo Delgado and Niassa. It is easier and cheaper for them to sell maize, timber, fruits, and fish across the Rovuma River to Tanzania and Zambia than to transport the products to towns [in Mozambique]."

Sources familiar with the plan, which will be funded by the Government and several donor agencies including the U.S. Millennium Challenge Corporation, say the northern provinces of Cabo Delgado, Niassa, Nampula and Zambezia are expected to benefit the most from the transport and infrastructure expansion.

About 80 percent of Mozambique's 21 million people depend on subsistence farming for their livelihoods and agriculture accounts for one fourth of GDP. Output of traditional crops such as maize, rice, and cassava has recently started to rebound to pre-war levels after decades of decline.

The combination of severe food shortages and new investments in commercial farming has made the development of infrastructure to support agricultural expansion ever more pressing.

In May, Mozambican President Armando Guebuza said during a visit to Cabo Delgado that the Government was seeking to increase food production in the province. "Our objective is to see the progress of government projects in the province and to see how Cabo Delgado province can increase food production," he told reporters on arrival in Pemba.

Recent investments in commercial farming have further highlighted the need for improving road connectivity between rural areas and the country's main cities.

In May, Chiquita Brands International announced plans to grow bananas in the Nampula province in Northern Mozambique for export to its main markets in Europe. Because bananas are uniquely perishable and cannot be processed readily by freezing or canning, infrastructure has always been essential to the banana industry.

Chiquita said in a press release that it will support the project "with its expertise in farm development, good agricultural practices, training of local workers, logistics, marketing and distribution to European markets."

"The company is working on a project to provide technical assistance to farmers in Nampula. The company is helping them with requirements [in the European market] – such as the size of the bananas. Chiquita will then buy from them and sell the bananas in the UK. If the local farmers meet the standards there will be incentives for them. So far no bananas have been produced yet, they will start next year," said Todd Chapman, deputy chief of mission at the United States Embassy in Maputo.

Chapman also pointed out that the presence of refrigerated cargo vessels transporting bananas could encourage investments in other high value agricultural crops.

"For American businesses, infrastructure still remains a barrier to trade. Investors are always asking about political stability, infrastructure and corruption," Chapman said.

Chiquita, which has launched a similar project to support banana production in Angola, said these projects will significantly increase sourcing from tariff-free African, Caribbean and Pacific (ACP) countries, reaching an estimated 20 to 30 percent of its sales in Europe.

AFREXIMBANK FACES SOARING DEMAND FOR OIL TRADE FINANCE

With oil prices at a record high, the African Export-Import Bank (Afreximbank), the continent's largest trade finance institution, is facing soaring demand from two groups of countries: non-oil producers scrambling to pay for soaring oil bills and oil-exporting countries seeking to finance the cost of processing increasing orders, sources with the Bank say.

"There is a dilemma when we look at oil," says Afreximbank President Jean-Louis Ekra. "A large number of countries in Africa are non-oil producers and these need oil to generate and move exports. At the same time those countries which are net oil exporters also need financing to be able to produce at levels that meet rising global oil demand. So both importers and exporters need financing."

Crude prices, which opened the year below US$100 per barrel, galloped to a record high of US$136 a barrel by mid-June, and analysts say further increases appear likely as rising demand puts further pressure on tight global supplies.

Soaring oil prices, together with declining international credit flows to Africa, have led to increasing demand for financing from Afreximbank. Sources with the Bank say that demand for pre-shipment credit, both for imports and exports, is at a 22-year high. Between 2005 and 2006 the Bank disbursed US$2.1 billion in funds mostly to finance imports and exports of oil in various countries on the continent. This financing is being provided under a special arrangement known as a 'syndicated finance facility' or 'club deals', where Afreximbank arranges syndicated financing together with partner banks and provides the guarantees.

One of the companies that recently benefited from Afreximbank's export credit facility is Nigeria's Lonestar Drilling Limited, which received a US$70 million pre-payment credit to finance its export costs. Afreximbank provided 36 percent of the credit, while the rest was met by a pool of partner banks.

Headquartered in Cairo, Egypt, Afreximbank was set up in 1993 by African governments, private and institutional investors and non-African financiers, to provide trade finance facilities and promote intra- and extra-African trade. The Bank provides short-term credit and medium-term loans to African exporters and importers and finances imports needed for trade development, such as equipment, spare parts and raw materials. Between 1996 and 2003, Afreximbank approved and disbursed over US$6.7 billion in loans to countries on the continent through various commercial and merchant banks.

In an interview for INSAT, Ekra said that financing oil trade will be the focus of Afreximbank over the next couple of years but he added that electricity and telecommunications will remain among the Bank's top priorities.

Although Afreximbank has assured African nations that it has raised enough capital to finance African trade for the next ten years, many analysts are raising questions about whether the Bank will be forced to divert resources away from infrastructure development to finance oil trade, especially imports.

Only nine of the 53 African nations are net oil exporters. The rest depend heavily on a narrow range of primary agricultural and mineral exports which have been historically subject to wide price fluctuations. The IMF estimates that oil imports account for 25-40 percent of annual total import payment of many net oil importers in Africa.

Many countries in Africa are concerned about facing a debt crisis akin to that of the 1980s. The oil shocks of the 1970s were one of the main causes of the developing-country debt crisis in the 1980s. Some economists have warned that rising oil import bills will put considerable pressure on fragile economies in Africa, making the repeat of a debt crisis likely.

REGIONAL SUGAR PRODUCERS BET ON BETTER TIMES

Market conditions for sugar do not appear favorable at the moment. There is a glut of global supply, prices are at 12-month lows and the EU sugar protocol, which guaranteed African producers a price much higher than the world price, is being phased out.

Yet, many countries in the region are increasing their stake in the sector. At least four SADC members are either expanding their sugar production, restructuring their industries or offering incentives to attract foreign investments into the sector.

Mauritius, the region's second largest sugar producer after South Africa and the largest sugar exporter to Europe, is in the process of restructuring its sugar sector to boost efficiency and increase its output of high-quality sugar. The country is projecting a six percent increase in sugar output this year. In Tanzania, the Government is offering foreign investors long tax holidays and 100 percent profit repatriation as part of its efforts to expand production and modernize existing processing facilities. Meanwhile Mozambique's sugar production is expected to double in the next four years from 240,000 tons to 500,000 tons. Plans are also underway in Zambia to increase annual sugar production to 440,000 metric tons by 2010 from around 240,000 tons produced last year.

The expansion in the sugar sector in these countries is being driven by three factors.

First, the anticipated quota-free access to the EU market together with declining sugar production in the EU means a bigger export market for producers from developing countries. Under the Economic Partnership Agreements, African, Caribbean and Pacific (ACP) countries will enjoy quota-free access to the EU after 2009. At the same time, EU sugar production is projected to fall by over five percent as a result of reforms and restructuring of the sugar regime. Even though EU sugar prices will be more than 30 percent lower than what ACP producers received under the Sugar Protocol, producers in the region are being lured by the promise of a bigger EU import market. Analysts estimate that if the EU sugar output settles at around 15 million tons, there will be an import market for four to five million tons a year.

The second factor driving expansion and modernization efforts is the fact that producers from the region will be facing fierce competition in the EU market from growers in Latin America. Without preferential access to Europe, regional producers will have to compete on price and quality. Francisco Javier Ortiz de Zuniga, the EU country desk officer for Zambia, says that with greater investment in the sector, SADC countries can effectively compete in open sugar markets and capture a larger market share.

Third, producers are betting on a significant growth in demand for sugar cane-based ethanol at a time of surging oil prices. Economic analysts believe that sugar prices will be increasingly guided by trends in energy markets. Many countries in Southern Africa have taken notice of the growing demand for sugar cane-based ethanol and are trying to respond to it. Mauritius, for instance, is building "flexi-factories" that can produce both sugar and biofuels. The country targets producing about a third of its electricity from sugar waste by 2015, Babu Rajpati, executive director of the Mauritius Sugar Authority told Reuters in an interview in June. Under the renewable energy program, the country aims to increase the ratio of renewable energy to about 40 percent. Mauritius already produces a growing percentage of its electricity by burning bagasse, the remaining waste when sugar cane is crushed, alongside coal.

Despite these buoyant prospects for the sugar sector in southern Africa, economists in the region say that the ability of southern African producers to compete in the EU market does not depend solely on supply side constraints. They point out that despite EU's recent moves to drop quotas and tariffs on developing countries, reforms to its Common Agricultural Policy are proceeding very slowly with subsidies still estimated at €106 billion (US$159 billion).

"Contrary to belief, removing quota restrictions is not enough on its own," says Angeline Munzara-Chawira, policy researcher with Community Technology Development Trust (CTDT), a foundation that deals with the development of agriculture technology in SADC. "There are capacity questions, which have to be addressed. But more critically, the EU has to cut subsidies and other support in order to enable fair competition. Even if a farmer was to increase production to take advantage of greater market access, he/she would not be expected to compete effectively with someone with cheap subsidized goods".

At a Regional Aid for Trade Review Conference in Dar es Salaam, Tanzania, in September last year, the World Trade Organization (WTO) Director General Pascal Lamy said that unless the EU cut subsidies to farmers by at least 40 percent, the EU sugar markets would remain closed to ACP producers.

SOUTH AFRICA SEES PROMISE IN REGIONAL TOURISM MARKET

South Africa has been aggressively promoting itself as a prime tourist destination in preparation for the 2010 World Cup. Over the past few years, the Government has spent considerable amounts on marketing the country abroad and expanding its reach into new markets such as the Arab Gulf and China.

But, increasingly, South Africa is turning its attention to its own backyard in search of potential tourists. South Africa Tourism (SATOUR), the agency mandated with promoting tourism to the country, is spearheading a campaign to lure tourists from much poorer neighbors.

Tourist Arrivals by Country

Country	Arrivals 2007	% change '06-'07
Africa & Middle East	6,908,912	9.3%
Angola	31,227	10.2%
Botswana	818,403	7.3%
Lesotho	2,170,074	13.4%
Malawi	147,246	18.2%
Mauritius	14,663	14.7%
Mozambique	1,084,157	18.2%
Namibia	220,535	-1.6%
Swaziland	1,039,233	4.8%
Zambia	183,056	14.6%
Zimbabwe	964,027	-1.7%
Americas	387,379	8.2%
USA	276,941	8.7%
Asia/Australasia	333,390	10.4%
Japan	31,855	-0.4%
India	51,823	17%

Highlights of Tourism's Performance in 2007, South African Tourism, May 2008.

"We have identified four key markets in the SADC region and are focusing our efforts on attracting tourists from these markets aggressively. These are Botswana, Mozambique, Lesotho and Swaziland. Angola is a market we are watching with keen interest because we are seeing increasing growth in arrivals from this country," says Nothando Mathe, SADC country manager for SATOUR.

SATOUR is making Botswana the center of its regional marketing strategy. Sources with SATOUR say Botswana's well developed infrastructure, good organization and proximity to South Africa makes it a good entry hub for Southern Africa. Moreover, about half of Botswana's 1.6 million population visit South Africa each year, making the country a very important market for South Africa's tourism industry.

SATOUR says its new tourism hub in Botswana will help maintain the current flow of Batswana tourists to South Africa and, at the same time, serve as a center for promoting tourism for the entire Southern Africa region.

"Botswana has the largest number of visitors to South Africa annually as compared to the rest of the countries in SADC. This is largely due to the fact that populations living on either side of the Botswana/South Africa border share common cultural, traditional, and historical ties, including languages, dating back to the precolonial era," says Nothando Mathe.

And unlike the old days, when the vast majority of Batswana travelers went to South Africa for work, a growing number of Batswana visiting their giant neighbor are leisure travelers who have benefited from the country's recent economic growth.

With a GDP more than double that of all the other countries in Southern Africa combined, South Africa, until a few years ago, did not see the region as an important source of tourists, at least not the high-spending long-haul tourists that it was trying to attract. If anything, the South African Government has been trying to stem the influx of economic migrants from its neighbors, let alone actively encouraging visitors from these countries to enjoy South Africa's offerings.

But with many countries in the region experiencing strong economic growth, due in part to rising commodity prices, South Africa is realizing that the region is fast becoming an important source of newly affluent travelers.

In its "Highlights of Tourism's Performance in 2007" SATOUR said that the "phenomenal growth" in the number of tourists visiting the country was driven by travelers arriving by land from neighboring countries. The number of Mozambicans visiting South Africa in 2007, for example, grew by 18 percent in 2007, nine times the increase in the number of European tourists visiting the country.

And despite continued concerns about economic migration, the South African Government appears willing to relax its immigration policies to facilitate movement of regional travelers. In May, the Government announced that it was very close to an agreement with its neighbors that would allow visa-free travel across Southern Africa in time for the 2010 World Cup.

Mathe, who is also responsible for promoting tourism for the South African market in other SADC countries that include Angola, Democratic Republic of the Congo (DRC), Lesotho, Mozambique and Swaziland, said: "[O]ut of an annual global average of two million tourists, 1.2 million are from Lesotho and Swaziland because of the longstanding historical ties dating back to the days of providing labor to the mining sector of the former. Although Angola and DRC statistics are yet to be confirmed there is an ongoing tourism promotion package by air at competitive market rates because of the peace."

Tourism accounts for eight percent of South Africa's GDP. In 2007, the country received over nine million tourists, an eight percent increase over the previous year. But the Government wants the industry to grow much more. It is banking on the World Cup, expected to draw an 4.5 million visitors, a third of which from Africa, to help place the country among the world's top tourism destinations.

NEWS BRIEFS

SADC TRADE GROWTH MAY SUFFER DUE TO SOUTH AFRICA'S ENERGY CRISIS

Regional trade growth will depend to a great extent on South Africa's ability to overcome its energy shortage, according to the chief economist of African Development Bank (ADB).

In an interview with INSAT, Louis Kasekende said because South Africa is the region's primary exporter of manufactured goods, the export performance and economic growth of SADC as a whole are tied to those of South Africa. "[South Africa] is both a major driver of outward growth and inward investment for the SADC region."Kasekende said, "it is the only major exporter of manufactured goods to China and India in Africa. An improvement in trade depends on how it will solve its energy shortages."

South Africa has been grappling with frequent power shortages that interrupted mining operations for up to six hours in one day, casting a grim light on the country's economic growth prospects. Output in the mining sector has fallen by over 20 percent in the first quarter of this year compared to a year earlier. As a result, many economists have cut their 2008 economic forecasts for South Africa by half a percent.

State-owned power supplier, Eskom, has said that it will not be able to meet the full demand of key commodity producers of aluminum, manganese, platinum and gold for at least the next five years.

MTN IN MERGER DISCUSSIONS WITH INDIA'S RELIANCE

According to recent news reports, MTN, Africa's largest cell phone company in terms of number of subscribers, said it launched talks with Reliance on the "possible combination of their businesses." A full merger of MTN and Reliance would create a US$70 billion telecom powerhouse spanning Africa, Asia and the Middle East. MTN has 68 million subscribers which generated about US$11 billion in revenue last year. Reliance has 46 million subscribers and had revenue of US$5 billion. MTN Group also agreed in June to buy the South African unit of US-based Verizon Communications for an undisclosed amount.

LATEST STUDY ON TRANSPORT COSTS REVEALS NOTHING NEW

Earlier this year the World Bank released the preliminary results of a study on transport costs and rates to stakeholders in Pretoria, South Africa.

The study found that the average transport rate for a 12 meter container on the Lusaka-Johannesburg route on the North-South Corridor, is around US$7.5 cents per ton kilometer, or US$6,400 per round trip.

In a subsequent note to its members, the Federation of East and Southern African Road Transport Associations (FESARTA) observes that while the study did not uncover anything new, it obtained data from 'hands-on' sources – around 600 transport companies, owner drivers and drivers were interviewed – something FESARTA describes as "a new approach".

In his introductory presentation, Barney Curtis, FESARTA Executive Officer, noted that in terms of cost per ton kilometer, South Africa is actually cheaper than the USA and Europe which shows that "though our fuel and labor costs may be low, the delays and extra costs are high".

The World Bank study echoes findings of other studies that identified high fuel costs, bad roads and delays at borders as the main sources of the high transport costs on some routes.

The study suggests that the financing of road rehabilitation, reduction of border crossing time, reduction of fuel prices, and reduction of informal payments would have the greatest impact on transport costs.

INSIDE THE DONOR COMMUNITY

ASPIRING MOZAMBICAN EXPORTERS TO RECEIVE ASSISTANCE TO ACCESS THE EU MARKET

Small and medium exporters in Mozambique stand to reap the benefits of a new project by the Netherland's Centre for Promotion of Imports (CBI) aiming to help businesses market their products and services in the EU market.

CBI signed a three-year €700,000 (US$1 million) agreement with Mozambique's Institute of Export Promotion (IPEX) earlier this year to provide training and technical support to current and aspiring exporters in the country Jose Macaringue, president of the Mozambique Institute of Export Promotion, said in an interview with INSAT. The project will primarily target producers of tropical fruits and vegetables and cashew nuts and will address challenges relating to, among other things, lack of information and limited knowledge of market requirements.

"The partnership with CBI will help us in areas of training, market research, marketing management and meeting requisite quality standards in the EU – areas that have been major handicaps for us in the past due to inadequate government funding," he said.

Mozambique's exports are concentrated in aluminum smelter and moatize coal which together account for about 72 percent of exports. But these sectors are dominated by transnational companies and, despite strong growth, have had very limited impact on employment and growth in the rest of the economy. In comparison, agriculture, which employs 80 percent of the country's work force, accounts for only 20 percent of exports and remains highly vulnerable to climatic conditions.

There have been increasing concerns that Mozambique's economy is growing at two speeds. The mining sector is experiencing strong growth, fuelled by large inflows of foreign investment, while labor-intensive sectors, including agriculture, are growing at relatively low rates.

"Under the partnership agreement we are looking at promoting small and medium scale exporters at the grassroots level mainly in the agricultural sector, including those in the production of tropical fruits and vegetables, horticulture and cashew nuts," Macaringue said, adding that the IPEX is currently working with CBI consultants to determine the criteria for selecting the sectors, products and businesses that will benefit from the project.

Anneke Wevers, head of the Institutional Development Section at CBI and one of the program managers for Mozambique, says the project will address two aspects of the export process.

"The first area includes the strategy towards enhanced service delivery to (potential) exporters to EU and EFTA markets in promising sectors/products. The second area is about the actual knowledge and skills to train and advise exporters and other stakeholders on everything that has to do with export marketing and management to Europe," she explained.

Sources within IPEX say they expect to launch the first activities of the project in July.

Wevers says she is very optimistic about the project and the impact it will have on exporters in the country.

"It promises to be a challenging and exciting period of some three years of working with IPEX on the program. Its stakeholders will benefit from the program directly or indirectly," she said.

EU TO HELP ZIM'S NON-STATE ACTORS PARTICIPATE IN TRADE NEGOTIATIONS

In May, six months after committing over one million Euros to enable non-state actors in Zimbabwe to participate in trade negotiations, the European Commission launched its capacity building efforts under the project. Sources say the €1,036,000 (US$1,554,00) in capacity building activities will target the private sector, trade unions and civil society organizations.

"The project's overall objective is to contribute to an increase in non-state actors' understanding, participation and influence in trade negotiations through a series of activities that the project will undertake," Project Coordinator James Jowa said at the project launch in May.

The project, which will run until March 2011, will cover a range of topics such as training and advisory services, policy dialogue and communication and networking. "Zimbabwe is one of the few in Africa where Government has agreed to work with non-state actors in implementing a project on trade negotiations," said the representative of EC Delegation at the launch.

The project is part of development-related aid the EU promised to countries that sign EPAs. The EU pledged two billion Euros (US$3 billion) a year in aid over the next five years to compensate EPA signatories for revenue loss and help them finance other adjustments that they have to undertake to comply with the agreements. The aid would also be used to expand supply capacities in these countries through, for instance, private sector support, infrastructure development and trade promotion.

NEWS BRIEFS

WTO COMMENDS CHINA'S REFORMS BUT HIGHLIGHTS IMBALANCES IN ECONOMY

Structural reforms in China, including trade liberalization, have led to high GDP growth over the past four years, rising per-capita income and poverty reduction, according to a WTO report on the trade policies and practices of China.

Noting that China has become the world's third largest trader, the report said that since the WTO's last review in 2006, China's trade and investment reforms have accelerated the country's integration into the global economy.

Yet, the report noted that sources of China's economic growth remain imbalanced. It said growth has been mainly driven by exports and investment rather than by consumption and that the country suffers from rising income inequality despite high GDP growth.

INDIA PLEDGES MORE PROJECTS IN AFRICA

India pledged to invest hundreds of millions of dollars in development projects in Africa in a bid to expand its economic presence on the continent.

India's Prime Minister Manmohan Singh, speaking to the leaders of 14 African nations attending the first India-Africa summit in New Delhi, said India will provide more than US$500 million over the next five years in grants for development projects.

US EX-IM BANK AUTHORIZES AFREXIMBANK TO FINANCE IMPORTS FROM THE US

In an effort to facilitate U.S. exports to Africa, the Export-Import Bank of the United States (Ex-Im Bank) has authorized the African Export-Import Bank (Afreximbank) to provide up to US$40 million in Ex-Im Bank short-term and medium-term financing, Ex-Im Bank said in a March press release.

INSIDE THE WTO

WTO MINISTERIAL FAILS, A DOHA DEAL UNLIKELY IN THE NEAR FUTURE

The seven-year effort to forge a global trade pact has collapsed over disagreements on agriculture tariffs. The failure of trade ministers on July 29 to reach an agreement, analysts say, makes it nearly impossible for WTO members to conclude the Doha Round in the foreseeable future.

According to statements by various trade ministers, negotiators made significant progress towards reconciling their differences and came very close to an agreement. "What we achieved in the first stages of this Ministerial massively exceeded most people's expectations," said European Trade Commissioner Peter Mandelson in remarks on July 30, "We had had agreement on 90-95 percent of the issues at stake in modalities. This was a deal within reach."

But at the end, the talks broke down because of disagreements between the US on one side and China and India on the other over the special safeguard measures. China and India demanded a "safeguard" clause that would allow them to raise tariffs on key crops such as cotton, sugar and rice in case of a sudden surge in imports. But the two sides could not agree on the threshold for an import surge that would trigger the safeguard clause. The US wanted to set the trigger threshold at 40 percent while China and India demanded a much lower trigger at a 10 percent increase.

India has publicly accused the U.S. Trade Representative Susan Schwab of being completely inflexible on the talks on the Special Safeguard Measures (SSM). But Schwab insisted that a trigger lower than 40 percent would have created a "free for all" where developing countries could drastically increase tariffs every year.

Yet some analysts argue that the SSM issue was rooted in much deeper disagreements and ultimately revealed Members' dissatisfaction with the broader package on the table.

Still, soon after the collapse of the talks, trade officials sought to defend the multilateral trading system and dispel fears that the Doha Round is dead.

WTO Director General Pascal Lamy insisted that "no one is throwing in the towel," saying that "looking at what is on the table now, members believe that the Doha Round is still worth fighting for".

In a press conference on July 30, U.S. Trade Representative Susan Schwab suggested advancing the less controversial parts of the negotiation. "Perhaps duty free/quota free, export competition, trade facilitation has been moving, environmental goods and services has its own track. Some of those pieces of it one could start moving ahead and see whether the rest can catch up," she said. "It may be that as Pascal [Lamy] has said, the complexity of the cathedral that was built for the Doha Round was its own worst enemy, was its own source of demise"

Sources say talks between trade officials are already under way to see if there is any way to salvage the Round. Lamy is expected to travel to India and the US in August to begin "healing the wounds," sources say.

But U.S. officials have cautioned against "quick fixes" for the Doha Round. Warren Maruyama, U.S. trade representative general counsel, was quoted earlier this month as saying that it is better to "let the dust settle" before trying to develop a strategy for a "plausible way forward."

"No one wants to see Doha die. [Members] are trying to figure out whether anyone has any bright new ideas on what to do next," Maruyama said in a speech at a think tank in Washington, adding that "there's no point in calling people back together and still being at loggerheads."

COUNTRY FACT SHEET…

ANGOLA

LAND OF DIAMONDS

Angola lies along the west coast of Southern Africa, bordering the Democratic Republic of Congo to the north, Zambia to the east and Namibia to the south.

At independence in 1975, Angola was the region's largest staple food exporter and one of the world's leading exporters of coffee. The country's manufacturing sector was considered among the most developed in Africa.

But with the departure of colonists, including most of the country's businessmen, administrators, commercial farmers and technical experts, production in manufacturing and agriculture fell dramatically. The decline was exacerbated by the 27-year long civil war which ended in 2002.

Angola has recently started showing signs of economic recovery and stability. For the past few years, the country has posted record-high economic growth – as high as 18 percent in 2007 – thanks to a combination of booming commodity prices and significant investment in oil and diamond production. Non-mining sectors including agriculture, services and, to a lesser extent, manufacturing have continued to recover.

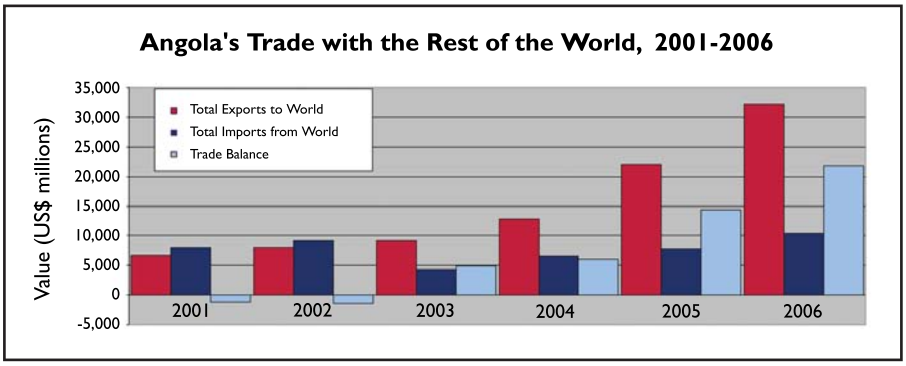
Sound macroeconomic management has resulted in a reduction in inflation from over 100 percent in 2003 to less than 12 percent in 2007, and the Angolan Government has made improvements in streamlining fiscal management.

Angola has been expanding its role in the region and has increasingly become a more active participant in the international community. It joined the Organization of Petroleum Exporting Countries (OPEC) in 2007, and it is currently negotiating an Economic Partnership Agreement with the EU under SADC.

Although Angola has made progress in improving production in both manufacturing and agriculture, the economy remains poorly diversified, with oil and gas accounting for 57 percent of the country's GDP and 98 percent of total exports. Moreover, Angola's capital-intensive growth has failed to create crucial linkages to other sectors of the economy. The oil sector, for example, employs only 0.23 percent of the workforce.

Another challenge facing the country relates to improving the business climate and simplifying costly and time-consuming procedures governing business activities. The World Bank's Doing Business Report has consistently ranked Angola behind its neighbors on the ease of doing business. For example, it takes 119 days to start a business and 334 days to register property in Angola compared to regional averages of 56 and 104 days respectively.

Angola's legal and judicial systems suffer from lack of transparency and efficiency.



Source: UN COMTRADE

Population: 16.6 million (growing at 2.8% per annum)

Land Area: 1,246,700 km^2

GDP: US$61.4 billion (IMF 2007 est.)

GDP Growth: 22.4% (IMF 2007 est.)

GNI per Capita: US$1,970 (Atlas method, current US$)

HIV/AIDS Prevalence: 3.7% of population ages 15-49 (2005)

Inflation Rate: 11.77% (IMF 2007)

Currency: Kwanza (AOA) 75 = 1US$

Literacy Rate: 67% (CIA World Factbook)

Life Expectancy: 42 years

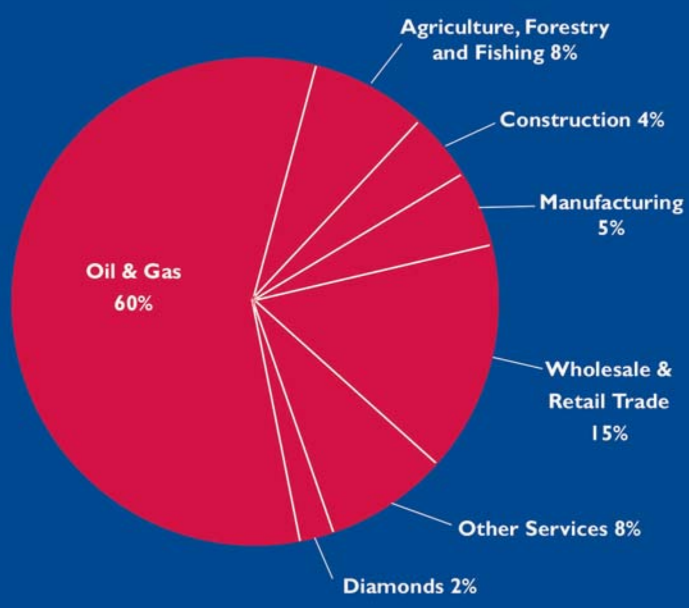
(Data Source: World Bank for 2006 unless otherwise indicated
Angola Map: http://www.wordtravels.com
est. = estimate
IMF = International Monetary Fund)

Simplifying procedures and publishing laws and regulations is an important step that Angola should take to foster confidence in the country's institutions and promote entrepreneurship and investment.

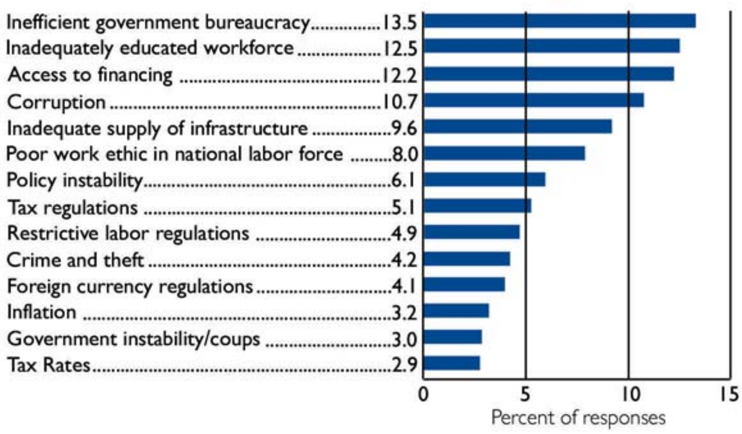
As Angola reconstructs itself and reforms its economy to improve economic diversification it must push through the required reforms to boost the competitiveness of the non-oil and non-mining sectors to generate jobs and reduce poverty.

COMPOSITION OF ANGOLA'S ECONOMY - GDP BY SECTOR IN 2006

(Source: Ministry of Finance)



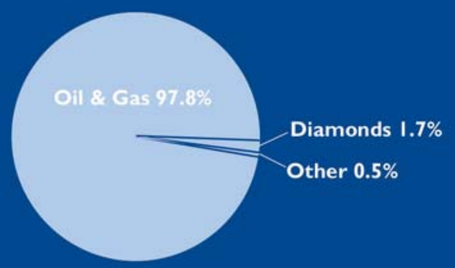
The Most Problematic Factors for Doing Business



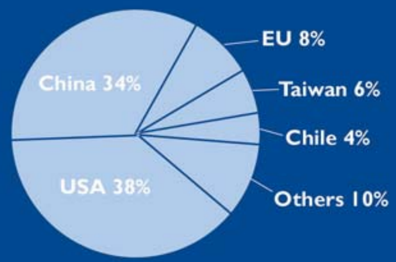
From a list of 14 factors respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: World Economic Forum 2007 Africa Competitiveness Report

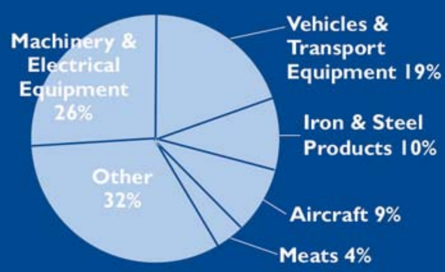
TOP EXPORTS 2006



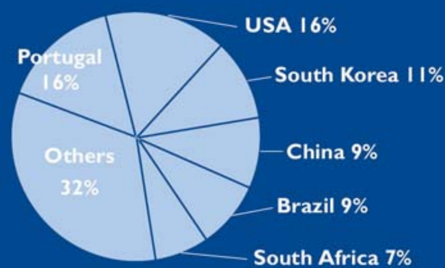
TOP EXPORT MARKETS 2006



TOP IMPORTS 2006



TOP IMPORT MARKETS 2006



The data on top imports and exports and import and export markets is from UN COMTRADE.

INSAT FOCUS

GOOD TIMES, BUT FOR HOW LONG?

These are good times for Angola. Only a few years after the end of a devastating civil war, the country is experiencing a construction boom, the economy has been growing at a staggering average rate of 15 percent per annum and, with oil prices at historic highs, exports are forecast to reach US$79 billion this year.

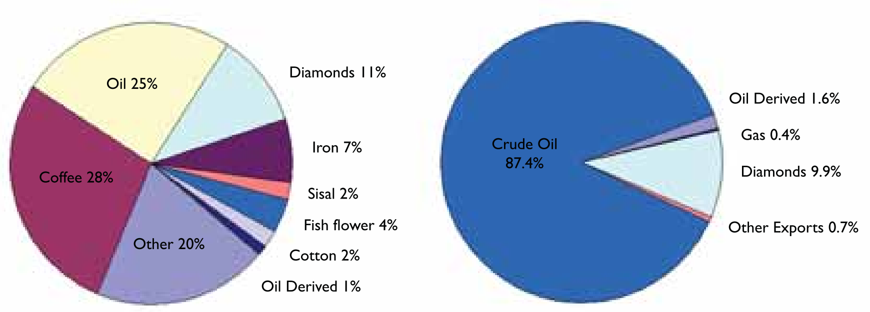
But those good numbers mask a deep-seated problem: Angola's overdependence on oil-export revenue, which adversely impacts prospects for broad-based as well as long-term growth in the country.

Last year, oil and gas accounted for over 85 percent of export revenues. The sector has been the primary driver of Angola's economic expansion, though with very few linkages to other parts of the economy. The Government estimates that the oil industry employs only 0.23 percent of the economically active population. As a result, in the midst of Angola's oil boom, more than half of the population is unemployed or underemployed and 70 percent of Angolans live on less than two dollars a day. Meanwhile, the manufacturing and agriculture sectors, while growing rapidly, still account for a mere 11 percent of the country's GDP.

Many of Angola's problems are typical of those encountered by oil-rich countries, particularly in the developing world. This is the curse of commodity wealth, known to economists as 'Dutch disease', a concept first used to describe the decline in the manufacturing sector in the Netherlands and the ensuing economic hardships that hit the country in the 1960s after it found North Sea gas. When a country strikes it rich on oil or a mineral, the inflow of revenues often leads to a sharp appreciation in the domestic currency. That crowds out other sectors like agriculture and manufacturing by making them less competitive. Export figures for those products then decline, thus leaving oil to dominate exports.

Many warn that Angola's over-reliance on oil revenues could lead the country's economy into crisis as the oil reserves dwindle. According to data from the Energy Information Administration of the US Government, Angola's proven oil reserves are estimated at 9 billion barrels. That means with current production levels of around 2 million barrels per day the country's oil will last for only another 12 to 13 years.

Composition of Angolan Exports in 1972 (left) and in 2001-2003 (average)



Source: Diagnostic Trade Integration Study, 2006

Meanwhile, the IMF expects Angola's real GDP growth to fall to 15.9 percent in 2008, from 18.6 percent in 2006 and over 21 percent in 2007, and projects very low GDP growth after 2010. The weakening of GDP growth reflects projected leveling-off in oil production and oil prices.

Escaping the 'Oil Curse'

To escape the 'oil curse', economists say, governments should use oil revenues to stabilize the economy by boosting productivity in non-oil sectors and diversifying exports to reduce dependency on the booming sector.

"Angola may be experiencing a petroleum boom, but output will soon reach a plateau and then decline quickly. To prepare for this, the authorities should redouble efforts to diversify and increase production by wisely investing current revenues for the benefit of future generations," read the 2007 African Economic Outlook report prepared by the African Development Bank (AfDB), Organization for Economic Cooperation and Development (OECD) Development Center and UN Economic Commission for Africa.

While using oil revenue to diversify the economic base by expanding non-oil exports is sound in theory, in practice, managing oil-led development can be quite complicated.

First, experts say, the flow of oil revenue often outpaces the capacity of non-oil sectors to absorb these revenues. "The problem is the ability of the non-oil sector to recycle these 'petro-dollars'. The capacity to absorb this foreign inflow will be proportional to the size of the non-oil economy…[t]his is one of the main challenges that we face [in Angola]" says Manuel da Costa, director of the Office for Research and International Economic Relations in the Ministry of Finance.

Second, governments in oil-rich countries sometimes find it hard to plan their budgets given the volatility of oil prices. As a result, when oil prices fall, many of these governments tend to resort to borrowing in order to finance programs developed on the back of high oil prices.

Third, in many countries, oil revenues usually flow directly to small groups of individuals with policy-making powers and very few, if any, incentives to develop non-oil sources of wealth.

Despite these challenges, the Angolan Government has taken several steps to improve management of oil funds and use oil revenues to develop non-oil sectors.

In 2006, the Government established the Development Bank of Angola (Banco de Desenvolvimento de Angola (BDA)) to promote domestic investment in non-oil sectors. The Bank's principal activity is to manage a Development Fund in excess of US$400 million, which receives five percent of the Government's revenue from the oil industry, and two percent of its revenue from the diamond industry.

By the end of 2007, the BDA had approved a series of projects with a total value of US$307 million, of which 55 per cent was channeled to industrial projects, 32 per cent to agriculture and 13 per cent to wholesale and retail trade. Angola is also looking to invest some of the funds overseas, in among others, European banks.

In 2007 the Council of Ministers also adopted legislation that provides for an oil fund into which the difference between the world price for Angola's oil and the budgeted oil price (US$45 in 2007) is automatically channeled.

The Angolan Government has also prudently applied oil revenues to paying off its foreign debt, reducing it from nearly 80 percent of GDP in 2002 to below 20 percent by 2008.

The Angolan parliament is expected to pass new laws by the end of the year on structuring and monitoring the oil fund that sources say are based on "best experiences elsewhere" and designed to improve transparency in the management of oil revenues.

The Government's plans are based on oil prices averaging US$45 which means that the Government will be able to go through with its plans even if oil prices fall drastically below their current level. "With today's stratospheric oil prices and the government budgeting based on US$45 per barrel the price of oil could plummet with very little effect on the domestic economy," says economist Bruce Bolnick, who recently participated in a USAID study on Angola's financial sector. "Even development of the oil sector would probably continue unabated, as the investment decisions were made at much lower world prices."

But even with better management of oil revenue, Angola will not be able to expand non-oil new sectors unless it addresses the various factors undermining the business environment.

Chief among those is access to finance. The 2008 World Economic Forum's African Competitiveness Report ranks it as the third most problematic factor for doing business, while the World Bank's Doing Business Report puts it among the top five.

Some argue that the reason access to finance is a problem in a country awash in cash stems from the limited capacities in the business sector.

"The finance exists and it is available. For banks the problem is not not having the money to lend, it is to select the projects that are viable and that are able to be developed," says Gabriela Pires of Banco Espirito Santo Angola (BESA), a Portuguese subsidiary that has been doing business in Angola since 2001, in an interview with INSAT.

The findings of a recent study by the Southern Africa Global Competitiveness Hub echo Pires' comments.

"Most local enterprises lack the capacity to present their accounts, develop a credible business plan, or demonstrate the management skills needed to make a convincing case for a bank loan to finance capital investments," the report says. "The lack of accounts often reflects a lack of basic education or access to business training. Angola suffers from a severe shortage of qualified accounting professionals, though major universities are providing at least rudimentary training to hundreds of students each year."

Apart from access to finance, economists say, the overall environment in Angola is not conducive to investment. A flawed judicial system, poor regulatory policy and rampant corruption are some of the many problems that continue to plague the investment climate.

"My concern is that the problem is inside of the environment – the business environment is not favorable to the actual productive investments. Much has to be done in terms of improving the climate; whether it is in infrastructure as well as the bureaucracy. One main issue is property rights on land…registering properties is an issue," says Manuel da Costa.

Poor infrastructure is another major constraint to new investment. Much of Angola's infrastructure was destroyed during the civil war and, although the Government has invested heavily in the reconstruction of transport links and many vital links are near completion, insufficient infrastructure is still a deterrent for productive investment.

The Hub report notes that "despite the excellent prospects for investment in the country, private investment is severely constrained by high costs associated with, among other things, poor infrastructure especially roads, ports, railroads, and electricity."

For example, inadequate energy distribution capacity has been causing

...continued on page 16

WE SPEAK TO...

JOAQUIM ICUMA MUAFUMBA, MINISTER OF COMMERCE

Does the Government have a comprehensive strategy for export/economic diversification? What are the elements of this strategy?

The Angolan Government has been carrying out a new macro-economic policy aimed at recovering and rebuilding the country's infrastructure. This policy has, among others, the following objectives: setting up a favorable environment for investments in the non-oil productive sector, which might allow the diversification of the exports; reducing the inflation rates; the stability of the national currency; and the recovery of the international net reserves aimed at strengthening the confidence among the investors. We are working towards re-launching the agricultural sector as a way to make the country self-sufficient and fight poverty and hunger by reducing the need to import basic goods, the prices of which are always rising on international markets.

What is the Government doing to escape the 'resource curse'?

The Government is promoting fiscal discipline, and is also creating a transparent budgetary process aimed at supporting various sectors of the national economy. We are prioritizing job-creating sectors like agriculture, textiles, public works and agro-industry, as well as investments in the areas that were most affected by the war.

What, in your view, are the most critical challenges facing your efforts to diversify the economy? And what are the main pre-conditions for your diversification efforts to be successful?

The most critical challenges that affect the diversification of our economy are: the re-launching of the productive sector, especially agriculture; the rehabilitation and modernization of the social and economic infrastructures; as well as capacity-building.

The pre-conditions would be macro-economic and political stability, the re-launching of the non-oil sectors, the strengthening of the private and public entrepreneurial sectors and the training of labor.

What are the respective roles of Governments in addressing these constraints?

The Government should play its role as regulator and manager of the economy. It should invest public funds and it should create a favorable environment for investment by the private sector.

What, in your view is Angola's comparative and competitive advantages for possible export diversification?

The comparative and competitive advantages of Angola lie in the fact that Angola has sectors with strong potential that are currently under-developed: agriculture, cattle-breading, forests, fishing and derivates, food industry and mineral resources.

What are the priorities for trade facilitation reforms to make imports and exports cheaper and easier?

The priorities of the trade reforms so that the imports and exports become cheaper and easier would be: the abolition of goods pre-registration process; the modernization and deburaucratization of imports and exports; reviewing the customs tariffs; and the modernization of the road, airway and railway infrastructure.

In order to overcome the constraints related to the facilitation of commerce, the Angolan Government agreed in 2003 to adhere the SADC protocol on trade, thus launching the project for the modernization of the custom services according to norms considered by the World Trade Organization to result in positive outputs.

This situation has to do with the government program that outlines key activities to be carried out within the next five years: creating infrastructures; setting up a legal and judicial framework and upgrading the main commercial dealers.

Angola consistently ranks very poorly on the World Bank's Doing Business Review; what are your priorities for reform?

Problems related to the lack of infrastructures, for example, internal transportation, maritime, air-transportations, ports, storage, and telecommunication. Priority areas for reform include: access to the market; constraints on marketing and distribution; technical assistance; new information technologies; reducing the unemployment rate and maintaining high GDP growth.

How important is macroeconomic stability for a friendlier business environment? How far has the Government gone in creating macroeconomic stability and what remains to be done?

The importance of macro-economic stability lies in the confidence and gain that investors may have. The Government is trying to reduce the inflation rate and secure the stability of the national currency, as well as guarantee the recovery of the international net reserves which compete for the strengthening of confidence among external investors.

What impact are skills shortages having on economic diversification and industrialization efforts? How can these best be addressed?

The shortages of the capacity is influencing the efforts of diversifying the economy and industrialization, and the best way to solve this issues should be the setting up of industries, and capacity-building programs in the respective areas.

Angola is said to lack a 'culture of entrepreneurship'. To what do you ascribe this, and how do you hope to address this?

The marginalization of the citizens before independence led to the absence of an entrepreneurial culture.

Further, the adoption of a centralized economic policy in the first republic, resulted from the historic-cultural factors.

Here we need to define a training policy that meets our reality - financing the private sector and the strengthening of financial capacity.

What are your main priorities at the World Trade Organization (WTO)? To what extent do you aim to coordinate your position with countries in the region? Where are your priorities aligned with other countries in the region and where not?

Angolan does not have any individual priority at WTO, our positions are dealt within the ACP, G9-African Group and the less developed countries.

Both for Angola and for African countries the main factor of Doha is development. The commercial rules should allow the insertion of the developed and underdeveloped countries in the multilateral trade. That is the reason why we back up the reduction of subsidies both in agriculture and NAMA.

In light of the difficulties that global trade negotiations have been running into, do you think that South Africa and other countries in the region should pursue trade liberalization under bilateral and regional agreements instead of negotiating under the auspices of the WTO?

Depending on the regional integration and on the south-south cooperation, we think that only with multilateral rules at the level of the WTO might international commerce become balanced for all its members.

SADC will officially launch its Free Trade Area later this year and there are plans to establish a Customs Union in 2010. What does the FTA and Customs Union imply for Angola?

We need to take into account the development of our industry, capacity-building, and the creation of mechanism of control related to flow of people and goods, as well as public services. There is also a need to consider the certification of goods to be imported or exported.

What are the key issues facing Angolan business and what will Angola need to do to take advantage of regional integration?

Productivity needs to be strengthened and elevated. There must also be leadership and financing.

How does Angola view the Economic Partnership Agreements (EPAs) that are being negotiated with the EU? What does Angola hope to realize through such an agreement?

An unequal treatment in favor of the European Union. Angola expects the application of the non-reciprocal principles.

GUEST PERSPECTIVE

CHINA AND ANGOLA: MAKING FRIENDS

In the context of the increasing Chinese presence in Africa, Lucy Corkin, Program Director at the Center for Chinese Studies at the University of Stellenbosch in South Africa, comments on how the emerging relationship between China and Angola is much more equal than generally thought.

The international oil price has sent Angola's economy soaring, prompting the Government to seek foreign investment as it slowly implements domestic reforms.

And despite the prospect of elections later this year, widespread corruption and rising inequalities, the country is fast being seen as the most promising investment opportunity on the African continent. This has been well-noted by, among others, China. Amid its rush for energy, the Asian giant has identified this country as an important source of oil, and is providing billions of dollars in loans and aid to finance Angola's infrastructure projects in return for favorable treatment in the oil sector.

Oil-Fuelled Partnership with Small Direct Investment

The Sino-Angolan relationship has been primarily fuelled by oil-backed loans. China Exim Bank has accumulatively extended US$4.5 billion to the Angolan Ministry of Finance in support of the Public Investments Program, which will be used for the country's post-war reconstruction. In exchange for the loan, payable over 17 years, including a grace period of 5 years, China has reportedly secured 10,000 barrels of oil per day from Angola. The loan, which operates like a current account held in China under the name of the Angolan Government, is paid directly to the Chinese companies responsible for the construction work. The loan has placed China in a favorable position with the Angolan Government, especially as a much smaller amount of oil must be put up for collateral, as compared to traditional expensive oil-backed loans.

Tied to the China Exim Bank loan, is the agreement that the public tenders for the construction and civil engineering contracts tabled for Angola's reconstruction will be awarded primarily (70 percent) to Chinese enterprises approved by the Chinese Government. Of the tenders, 30 percent have been allocated to the Angolan private sector, to encourage Angolan participation in the reconstruction process.

Additional loans from China International Fund Ltd, a Hong Kong-based fund management company, have been placed under the auspices of Gabinete de Reconstrucção Nacional (GRN), Angola's Department for National Reconstruction headed by General Helder Vieira Dias "Kopelipa". Kopelipa is also Minister in Chief of the Presidency. The GRN was created specially to manage the CIF Chinese credit line and the large construction projects it was to finance.

In the telecommunications sector, Mundo Startel, the Angolan fixed line telecommunications utility, has signed a framework agreement with the Chinese company ZTE Corporation International for the purchase of telecommunications equipment. The agreement signaled the start of Telecom's new business operations in Angola, as Mundo Startel began constructing the physical infrastructure for its network, launched in 2006. ZTE Corporation is to put US$400 million into the Angolan telecoms industry. This investment will be used for the construction of Angola Telecom's network; improvements to Angola's military telecommunications system; the construction of a mobile phone factory; the creation of a telecommunications institute for the training of Angolan staff; and the creation of a telecommunications research laboratory.

Cumulative Chinese Investment in Angola by Sector, US$ millions (Sept 2007)

Recipient Sectors	Project	Value	Year Invested	Company
Manufacturing	Car plant	Undeclared	2007	CSG Automobile
Mining - Oil and Gas	Oil Blocks 15,17,18	2,400	2006	Sinopec Sonangol International (SSI)
Telecommunications	Fixed Line infrastructure	1469	2005	ZTE

But the Chinese credit line, although it funds much Chinese commercial activity in Angola, is not direct investment. According to an estimate by a senior official at Angola's National Agency for Private Investment (ANIP), 99 percent of Chinese companies' activity is state-owned and directed by the Chinese credit line. Despite a paucity of real investment, ANIP is confident that private Chinese investment will grow over the short term with private Chinese firms being attracted to the high activity of other Chinese firms in Angola due to the credit line.

More Equal Than You Think

China's commercial engagement in Angola, and in most African countries for that matter, is often viewed as being dominated and driven by Chinese national interests. As a result, there have been concerns about the Angolan Government conceding too much to their Chinese counterpart.

But indications are the Sino-Angolan relationship is being defined as much by Angolan as by Chinese economic interests.

Nothing illustrates this better than the recent effort by Sociedade Nacional de Combustiveis de Angola (Sonangol), the state-owned oil company, to explore for oil and build a refinery under a joint venture with China's national oil company, Sinopec. The Sonangol Sinopec International Limited (SSI), announced in March 2006, has Sinopec as a majority partner holding 55 percent of the equity and Sonangol holding 45 percent.

SSI purchased stakes in several oil blocks, and for the two blocks, SSI pledged US$1.1 billion in signature bonuses to the concessionaire for each block and pledged US$100 million in 'social projects'. The size of these signature bonuses was unprecedented and has since caused the price of such structures to soar.

In addition to oil exploration, SSI had intended to develop a new refinery at Lobito, requiring a total investment of US$3.5 billion. Sonangol held a 70 percent share in this project while Sinopec held the remaining 30 percent. SSI planned to start working on the refinery in 2008, which would have produced 200,000 barrels per day once on full stream.

But in March 2007, SSI announced that the negotiations to build the refinery had collapsed and that the joint venture was no longer planning to build it. It subsequently emerged that SSI talks collapsed because of a disagreement over the target markets for the proposed refinery's products. About 80 percent of the refinery's output would have been destined to the export market. This is despite the fact that Angola's domestic market regularly suffers from shortages in oil by-products and relies on imports for 70 percent of its derivatives needs. Currently, there is a severe refining capacity shortage in Angola where only 60,000 of Angola's output of 1.4 million barrels is refined in the country.

The other suggested reason that prompted Sonangol to walk away from the deal is that the refinery would have been configured to produce for the Chinese market – as export products, they could not have been used in Angola if the deal was renegotiated – as the chemical compounds are different.

Sonangol has since announced that it will build the refinery alone and has stepped up plans to 'Angolanise' the extractive sector by encouraging local companies to become more involved in the oil industry. Angola has plans to sell oil to the rest of Africa – not to an entirely overseas market. Many potential investors had doubts about the financial viability of the project and the risk that the project exposes the investor to, particularly with threats of oil price fluctuations.

According to Chinese Economic Counsellor Chang Hexi, the refinery was deliberately made unpalatable by the Chinese negotiators, as they were not genuinely interested in the deal. Indeed for Sinopec, it is commercially more viable to export crude oil over more expensive refined products, particularly as there is sufficient refining capacity in China.

The dynamics of the negotiations between Sinopec and Sonangol revealed that Sino-Angolan relations are directed by commercial imperatives and economic interest of both countries, not just China. The Angolan Government did not, it seems, feel obligated to China and refused to relinquish absolute control over too much of Angola's oil resources to a foreign owner. The collapse of the planned Lobito refinery is indicative that Sonangol was refusing to concede to the (at the time) majority foreign-owned stake-holder, Sinopec. This is despite the fact that the Lobito refinery was a long-term dream of the Angolan Government and their reported difficulty in finding an investor.

Steering the Benefits to Angola's Economy

As the general development of infrastructure is a national priority to sustain economic growth and encourage FDI, it bears noting that Chinese companies have made a broadly positive contribution towards the development efforts of Angola. Of concern, however, are the challenges posed by a lack of institutional framework and government capacity to monitor and encourage direct investment in terms of local skills development and technology transfer. Linked to this is the issue of whether enough is being done to cultivate and harness the development of the local private sector. An additional challenge relates to whether the Angolan Government has ownership of the reconstruction process. This arises in view of the fact that at least 70 percent of the contracts funded by the loan money goes to Chinese companies, in addition to the original loan, which will also be paid back to China Exim Bank. Furthermore, once these large-scale projects have been completed, the question of maintaining them arises. Either the Chinese companies must be kept on at additional expense or the project is handed over to the local authorities with the risk of the projects falling into disuse over time through a lack of funds and/or skills and technological know-how.

Ultimately, it is of supreme importance how the Angolan Government invests the money it receives from the oil receipts into viable projects which diversify the economy into manufacturing and services. Essentially, revenue from Chinese demand for Angola's oil exports provides an excellent opportunity for Angola to invest in economic diversification away from extractive industries. Meanwhile, although the Angolan Government is a long way from ensuring the transparent management of the country's natural resources, it seems that the potential for economic self-determination has been created, setting a potential precedent for Africa's future engagement with China in particular, and with the global economy in general. The Government must harness this opportunity to become a developmental, as opposed to a predatory, state apparatus.

continued from p. 11...

increasingly frequent power cuts, especially in Luanda, where the demand for electricity increased by more than 20 percent in 2007 and is expected to continue rising rapidly in the near future.

"Producing here is not easy – all the things that happen in a normal apartment at home – you do not have electricity you don't have water, the domestic help misses – all of it happens in a company: You don't have electricity, you don't have the water," says Pires. "If you want to compete in the global market you do not have the conditions…It is very difficult to make a productive, efficient operation here."

The Government is using oil to rehabilitate the country's infrastructure. Under an agreement with China Exim Bank, China is receiving 15,000 barrels/day of Angolan oil in exchange for extending a US$4.5 billion credit line which is being used to finance public investment in infrastructure projects. More recently, other non-traditional partners such as Spain and Israel have also opened their purses to Angola.

The Angolan Government has taken many steps to improve management of oil revenues to generate growth and enhance the business environment. It may succeed in escaping the 'oil curse', but much more still needs to be done.

For example, the Government can try to reduce the volatility of oil revenues by negotiating oil contracts so that oil companies can bear a larger share of the risk of falling prices. "In a typical oil contract, the oil company is guaranteed a steady income and the Government gets to keep most of the profits but also must bear most of the risk of fluctuating prices. This setup is exactly backward", argues political scientist Michael Ross in a recent article in Foreign Affairs. "The terms of these contracts should be changed so that the oil companies bear more of the price risk than they do now and governments bear less."

Oil prices have always fluctuated, and as Angola enjoys the current oil boom, the Government should keep its focus on protecting the economy from the impacts of a depletion of its oil reserves by diversifying it export base and providing a conducive environment for investment.

ANGOLAN GROWTH WILL CONTINUE, SAYS COUNTRY'S DEPUTY PRIME MINISTER

Angola's 20 percent growth rate this past year did not undermine economic and financial stability in the country. Angola could grow and bring inflation down to 11 percent, despite the seeming contradiction between growth and stability, says deputy prime minister Aguinaldo Jaime.

Speaking at the Africa Investor Angola Breakfast Briefing, held in Sandton, South Africa on August 6th, Jaime said there are three main reasons for this growth: Angola is at peace, oil prices, and prudent macro-economic policies that have ensured a low inflation rate.

"Angola has found non-inflationary ways to finance the budget deficit" and the government expects to repeat the double-digit growth of 2007 assured Jaime.

However, despite the excellent growth. "The mineral economy does not provide enough jobs, that is why the government of Angola would like to diversify the structure of the GDP," Jaime acknowledged.

In the last few years Angola has experienced an impressive rehabilitation of basic infrastructure. Roads, railways, ports, airports, schools, hospitals and social housing are being built and upgraded. Energy and water distribution is also being improved.

Jaime says one of the main objectives of these projects is to bring down unemployment.

To illustrate the determination of the government to diversify the country's GDP Jaime said each year 5 percent of the country's oil revenue is sent to the Angolan Development Bank (BDA) to grant loans in the non-oil economy.

Jaime noted Angola is also making great strides to improve the banking sector. Angola has 17 banks "operating with increasing confidence" and the sector is growing.

Recently the Government passed a law pertaining to the non-banking financial systems to enable other players in the financial sector like insurance companies greater flexibility, said Jaime.

Of great interest to investors and Angolans alike is the upcoming launch of the Angolan stock exchange. In his speech Jaime didn't reveal the date of the launch, but said the preparations are well on their way. "Personnel are being trained, we've got the necessary software systems and we've studied other stock exchanges around the world."

The Angolan Government is also looking forward to the establishment of the Angolan capital market since market transparency is of utmost importance. "We will be able to make a correct assessment of risk and profitability," said Jaime. He added that the Government is bringing in new regulatory and supervisory systems and is working on making existing systems more efficient.

He stressed again that the government is aware of the needs of the population and want to "give every family the opportunity to earn a better life".

TRADE RESOURCES

In April, the Organization for Economic Co-operation and Development (OECD) released the **2008 OECD Factbook: Economic, Environmental and Social Statistics**. In addition to its extended country coverage, the fourth edition of this comprehensive and dynamic statistical annual features a chapter on productivity. The free online version of the Factbook has been enhanced with interactive diagrams of key indicators which enable users to clearly observe trends in the statistics and perform comparisons.

Visit *www.oecd.org/publications/factbook* to browse the online version or to order a copy of the print edition or an electronic copy on a handy 1GB USB key.

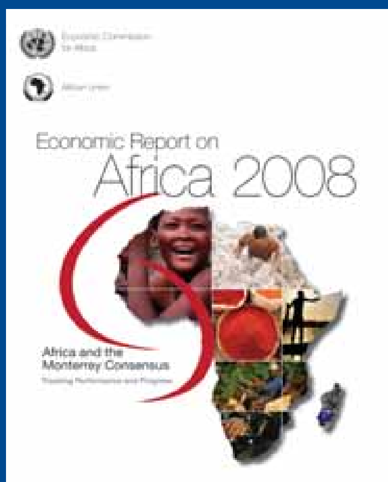
The Growth Report: Strategies for Sustained Growth and Inclusive Development was released in May by the Commission on Growth and Development, an independent panel of experts supported by Australia, Sweden, the Netherlands, United Kingdom, William and Flora Hewlett Foundation and the World Bank Group. Drawing on the experiences of countries that have sustained a growth rate above 7 percent for 25 uninterrupted years since World War II, the report highlights the importance of leadership and governance, economic security, competition, sound fiscal and monetary policy, and public investment in health and education. It also looks at global trends such as global warming, rising prices, rising income inequality, and labor migration, and their impact on growth. The report offers some specific recommendations for Sub-Saharan Africa such as the reduction of the cost of doing business; increased productivity and output of agriculture; improved access to and quality of education; increased regional cooperation; improved access to credit; best practices in the exploitation of natural resources; and continued emphasis on macroeconomic stability.

Access the full report via *http://www.growthcommission.org*.

In its second annual report, **Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries**, released in May, the U.S. International Trade Commission (ITC), analyses factors that affected the exports from 11 industries during 2002-6. It found that, in addition to global price increases, several internal factors contributed to increased exports for several industries such as coffee, processed diamonds and natural rubber. Key among these were: industry-specific government policies and programs; increased investment; infrastructure improvements; regional integration; tariff preferences; and sector and market liberalization. Where the value of exports decreased, many of the usual suspects – lower prices due to overproduction; increased competition; the relative strength of the local currency against the US$; reduced resource supply; and increased domestic demand – were identified.

Visit: *http://hotdocs.usitc.gov/docs/pubs/332/pub3989.pdf* to download full report.

The **Economic Report on Africa (ERA 2008) 'Africa and the Monterrey Consensus: Tracking Performance and Progress'**, the annual joint flagship publication of the United Nations Economic Commission for Africa (ECA) and the African Union is divided into two parts. The first part focuses on recent economic trends and prospects for 2008, while the second assesses where the region stood in relation to the key issues flagged at the 2002 International Conference on Financing for Development held in Monterrey, Mexico. The report concludes that while substantial progress has been made on external debt relief, much still needs to be done in terms of other core areas such as domestic resource mobilization, mobilization of international financial resources, international trade as an engine of growth, financial and technical cooperation for development, and systemic issues of coherence. While the report forecasts an increase in the average economic growth rate for Africa from 5.8 percent in 2007 to 6.2 percent in 2008, it warns that previous strong growth was inconsistent across countries and has not yet translated into meaningful social development and benefits for vulnerable groups.



Visit *http://www.uneca.org/era2008* to download full report, which is also available in French.

CARIFORUM EPA NEGOTIATIONS: MOTIVATIONS, APPROACH & RESULTS

Junior Lodge, formerly Technical Coordinator for EPA negotiations at the Caribbean Regional Negotiating Mechanism (CRNM), reflects on the successes and challenges.

After three and a half years of negotiations, CARIFORUM States (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago) and the European Commission concluded an Economic Partnership Agreement on December 16, 2007. The Agreement is comprehensive in two ways. First, all fifteen CARIFORUM Member States are parties to the Agreement – an important development in light of the EPA's ambition of fostering Caribbean regional integration. Second, the Agreement embraces a full slate of technical disciplines: commitments on liberalization in goods and services are complemented by the provisions on rules of origin, trade defense measures, sanitary and phyto-sanitary (SPS) and technical barriers to trade (TBT) issues, competition policy, government procurement, investment, intellectual property, social and labor aspects of sustainable development and personal data protection.

The Drive Towards Completion

Experts estimated that the imposition of EU Most-Favored Nation/General System of Preferences (MFN/GSP) tariffs on Caribbean exports would have amounted to €300 million (US$450 million) per annum – twice the value of the six-year EU development assistance to the region under the Regional Indicative Program.

Beyond this short-term objective, there were more substantive motivations driving the Caribbean to complete a comprehensive EPA:

• CARIFORUM needed to bind current levels of EU preferences and shield these preferences from WTO litigation. This was particularly the case for EU preferences for sugar and bananas which were challenged under the WTO Dispute Settlement Body.

• As trade-dependent economies, CARIFORUM wanted to improve its access to the EU market, most notably in services where many countries in the region have a proven comparative advantage.

• The combination of preference erosion and the typical characteristics of small economies (high production costs, narrow export base and constrained production volumes), warranted a policy response that focuses on enhanced competitiveness, developing an increased value of exports and harnessing innovation as a strategic tool.

• To boost CARIFORUM's own attempts at regional economic integration, particularly through the establishment of region-wide disciplines and targeting EC development assistance towards the establishment of trade and regulatory capacity.

What Shaped CARIFORUM's Negotiating Position

The CARIFORUM position in the negotiations was shaped primarily by four factors.

First, CARIFORUM members, most of whom are heavily dependent on tariff revenue, wanted to minimize the loss of tariff revenue. Negotiators therefore sought a moderate and back-loaded tariff liberalization schedule, a general moratorium on all goods for the first three years of the Agreement, and an extended moratorium on revenue-sensitive items. In addition they secured EC support to assist in the implementation of tax reforms.

Second, the fact that agriculture plays a central role in the economies of CARIFORUM members. The liberalization schedule therefore needed to reflect this fact while seeking to adjust and improve competiveness of the region's exports.

Third, CARIFORUM's members were keen on boosting regional integration. CARIFORUM members saw the EPA as an opportunity to offer commitments on a region-wide basis and identify regional development cooperation priorities.

Fourth, CARIFORUM members were determined to make development a central issue in the Agreement and they made it clear that their developmental ambitions should not be conflated with development cooperation.

Outcome: Main Elements of the Agreement

Under the EPA, CARIFORUM members will have duty-free and quota free access to the EU market for all goods and services, with a temporary exception for rice and sugar. In return, CARIFORUM members agreed to gradually liberalize their own tariffs, with an initial moratorium of three years, and the removal of tariffs on only 8.3 percent of imports by value over the first 10 years, to ultimately cover 87 percent of imports from the EU over a 25-year period. Gasoline, motor vehicles and parts, were designated as "sensitive items" because of their value in generating revenue for CARIFORUM countries and therefore the moratorium on these items is extended to 10 years.

Another important element of the

Agreement relates to Rules of Origin. The Agreement provides CARIFORUM producers with greater flexibility in the sourcing of textiles and it relaxed hitherto stringent rules on agro-industrial products.

Under the Agreement the EU also agreed to eliminate export subsidies on all agricultural products that CARIFORUM liberalizes. Furthermore, 75 percent of the value of imports from the EU is excluded from any tariff reduction or elimination. The Agreement also provides for measures aimed at improving the competitiveness of Caribbean export production to contest the EU market.

In services, the EU will liberalize 94 percent of the so-called 'W120' list of service sectors – while the CARIFORUM's less and more developed countries will liberalise 65 percent and 75 percent of these sectors, respectively. The services-related commitments include provisions for future liberalization, although the specifics of such course of action remain unspecified. The EU will also allow Caribbean Contractual Service Suppliers (CSS) in 29 sectors to enter the EU to supply services once a contract has been secured.

With respect to rules on investment, the Agreement improves predictability and transparency in relation to market access for agriculture and forestry, manufacturing, mining and service sectors in both EU and CARIFORUM. Both regions have liberalized most areas of manufacturing except for some sensitive areas in CARIFORUM and the EU. CARIFORUM public services and other sensitive sectors, for example, were not opened to EU investors.

The EPA also contains obligations aiming to ensure that investors safeguard the environment and maintain high labor, occupational health and safety standards. The Agreement also forbids parties from lowering environmental and social standards to attract investment and from engaging in corruption to secure special concessions from public officials.

The CARIFORUM Agreement also provides for commitments in a host of new trade disciplines. For example, in competition policy anti-competitive practices are defined and institutional partners that will cooperate identified. The traditional range of obligations related to intellectual property is extended to trade and innovation, with EC support secured for the strengthening of CARIFORUM innovation regimes. Furthermore, the Agreement extends the provision of the Agreement on Trade-Related Aspects of Intellectual Property Rights for technology transfer to all CARIFORUM developed countries with a monitoring mechanism to track EC delivery of its obligation.

Under the EPA, CARIFORUM was able to safeguard the integrity and design of the regional integration processes. For example, the grouping did not commit to market access in government procurement or free circulation precisely because regional policies in those disciplines are yet to be designed. Under the Agreement, any concession granted by a CARIFORUM Member State to the EU should be automatically granted to all other CARIFORUM Member States. These provisions are limited in scope to liberalization of goods and services. The regional preference provision facilitates deeper regional integration by providing for a formal framework for closer economic integration of the Bahamas with its Caribbean neighbours; through the de facto integration of Haiti into the CARICOM Single Market and Economy (CSME); and by advancing the implementation of the CARICOM-Dominican Republic Free Trade Agreement.

CARIFORUM's development-related concerns are reflected in both the structure and content of the Agreement. A development-focused chapter reflects the pro-development logic of an EPA. CARIFORUM development priorities are also articulated in subject-specific chapters, thereby complementing the specific rules. Furthermore, a number of the CARIFORUM commitments are linked to the delivery of EU development assistance. For example, the timetable for implementation of rules in both trade facilitation and intellectual property rights is deferred to allow the establishment of CARIFORUM capacity in these disciplines.

Looking Ahead

The Agreement is now being legally verified and preparations made for signing. The next challenge will be translating the legal commitments into operational effect. In this context, the region can draw on the considerable effort of the Regional Preparatory Task Force (RPTF). The RPTF commissioned feasibility studies on a number of technical disciplines aimed at defining CARIFORUM needs, designing specific programmes and quantifying the costs of intervention. The joint CARIFORUM-EC undertaking of these studies also serves to fend off arguments on the cost of implementing an EPA in the Caribbean economic space.

The CARIFORUM EPA is not a panacea, but it is a trade agreement couched in a strong developmental context. Properly implemented and complemented by the requisite reforms, it could help stimulate Caribbean economies, thereby contributing to poverty alleviation and sustainable development.

By the end of 2007 no Southern or East African country had concluded a comprehensive EPA with the EU.

Uganda, Kenya, Tanzania, Rwanda and Burundi signed an interim EPA with the EU as the East African Community (EAC).

Only five of the original 16 members of the Eastern and Southern Africa (ESA) group, Zimbabwe, the Seychelles, Mauritius, the Comoros and Madagascar, initialed an interim EPA.

Five SADC States; Botswana, Lesotho, Namibia, Swaziland (the BLNS) and Mozambique initialed an Interim EPA at the eleventh hour after Namibia initially refused to sign.

INSIDE THE TRADE HUB

BUSINESS TO BUSINESS MEETINGS GENERATE SALES AND REGIONAL VALUE CHAINS

The USAID Southern Africa Global Competitiveness Hub (Hub), in collaboration with its counterparts in West and East Africa, organized the fourth annual Apparel Business to Business Event (B2B) on May 20 and 21 in Pretoria, South Africa.

Joop de Voest, one of the organizers of the event, said the objective of the meetings was not only to open up opportunities for African producers in the U.S. and EU markets, but also to promote greater intra-regional buying of African-produced garments and strengthen regional supply chains.

The event involved over 440 focused pre-arranged buyer-seller meetings between over 60 companies, including U.S. and EU buyers, South African retailers, regional manufacturers and regional fabric and trim suppliers. The 30-minute "speed-dating" sessions provided a cost-effective and efficient means for buyers, manufacturers and suppliers to engage each other and initiate possible business discussions.

The presence of a large number of companies in one place facilitated many business linkages that would not have occurred otherwise given the high travel cost between Africa and the US and the EU and the overall lack of business linkages within the textile and apparel industry in Africa.

For many, even within Africa, it was an eye-opening event on what capacities and opportunities exist in Africa, not only in finished garments, but also in the development of regional supply networks.

It is expected that the event will generate millions of dollars in trade within Africa, and between Africa and the United Sates and Europe. Last year's event has already generated an estimated US$8 million in business with further deals still in the pipeline.

HUB AND SADC TO COOPERATE ON TRANSPORT

In a further step towards a deeper relationship, the US Government and SADC Secretariat signed a Memorandum of Understanding (MoU) on May 22 on cooperation in the transport sector.

H.E. Tomaz Salamão, Executive Secretary of SADC and H.E. Amb. Katherine E. Canavan signing the MoU.

USAID has been working through the Southern Africa Global Competitiveness Hub since 2001 to reduce high transit and transport costs, improve trade facilitation and enhance competitiveness of several transport corridors in the region.

The Hub's assistance has also facilitated the harmonization of several policies and procedures. Among others, the Hub helped introduce a single administrative document, the SAD500, on the Trans Kalahari Corridor (South Africa, Botswana and Namibia). The SAD500 has reduced the number of under-declarations, under-valuations and cut border post crossing time from 4 hours to as little as 30 minutes.

Under the MoU, the Hub will carry out an assessment of the potential impact of the implementation of the Yamoussoukra Decision (YD) on Open Skies in the SADC Region. The YD is aimed at liberalizing and integrating the African air transport market to improve the quality of air transport and reduce the cost of air travel. The Hub will also carry out a review of port and port terminal concessions as well as railway concessions in order to identify best practices and important lessons to improve future decision-making and practices.

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