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Global Oil Prices: Production cuts bolster a still-sluggish market

Following the unexpected end of the commodity super-cycle in 2014, the collapse in oil prices emerged as one of the most important drivers of global volatility and macroeconomic management challenges especially in the immediate aftermath. Between June 2014 and January 2016, the per barrel price of oil fell by more than 72%, from over US$110 to US$30, the lowest level in more than a decade. The economic implications of that sharp decline have been significant, both in terms of growth and macroeconomic management across the continent, but more pronounced in major oil-exporting countries. Nigeria, the largest oil-producing country in the region, slipped into a recession in 2016 for the first in more than two decades. In addition to economic contraction, most oil-producing countries experienced significant macroeconomic management challenges reflected in rising twin deficits and shortage of foreign reserves. While the economic implications of this sharp decline in prices have been negative for net oil-exporting countries and positive for net oil-importing countries, the overall impact for the region could be negative, reflecting the fact that oil-exporting countries account for about half of Africa's overall GDP and more than 55% of its export earnings. In effect, the downward revisions to Africa's growth forecast in 2016 has been largely driven by growth prospects in oil-exporting countries and demonstrates the vulnerability of the region to adverse commodity terms-of-trade shocks, particularly oil.

After a trend reversal that saw a price increase during the second quarter of 2016 with prices averaging US$44.79 a barrel in the first half of 2016, global oil prices came under renewed pressure in the third quarter of 2016 on the back of oversupply of both crude and refined products, especially following record production in Saudi Arabia and rising inventories in the U.S. Prices recovered by 11.8% during the last quarter of 2016,

to average above US$50/bbl. following agreements by both OPEC and non-OPEC producers to reduce output by nearly 1.8 million barrels per day in the first half of 2017. Prices in 2017 have continued to be supported by production cuts, with prices averaging US$50.85 over the first three quarters of 2017. More recently, prices have witnessed a significant spike on the back of reduced U.S. oil inventories and political uncertainty in Saudi Arabia, with Brent prices reaching over US$60/bbl. at the end of October 2017, its highest level in more than two years. The recovery in oil prices has resulted in improved macroeconomic management in most oil-exporting countries in the region with Nigeria exiting the recession. The price recovery is expected to be sustained in 2018 on the back of resurgent demand and the commitment from both OPEC and non-OPEC producers to maintain output cuts and could sustain the growth momentum enjoyed by the region in 2017.

Gold Prices Could Benefit from Its Safe Haven Status in 2018

After the period of excess volatility which followed the end of commodity super-cycle in 2014, Gold prices showed resilience in 2017 with prices recovering to average US$1251.65/oz. during the first three quarters of 2017 despite monetary tightening in the U.S. The recovery in the gold market has been driven by six major global economic developments including heightened geopolitical risks, currency depreciation, rising inflation expectations, inflated stock market valuations, long term growth prospects in Asia, and the opening of new markets. For a number of countries including Burkina Faso, Ghana, Mali, South Africa, Tanzania and Zimbabwe, for which gold accounts for a large proportion of foreign exchange earnings, the price trajectory of the market will be closely monitored in 2018. While monetary tightening in the U.S. might put pressure on gold as investors exit their gold positions, the market is expected to be supported by lower returns on US equities, ongoing geopolitical risks, income acceleration in developing markets. It is expected that these developments will raise demand for safe haven assets and enhance the attractiveness of gold as a hedge instrument. It could also boost the role of gold as an instrument for portfolio diversification particularly given political and market uncertainties emanating from the U.S., Europe and the Middle East. Elsewhere, a more robust performance of gold could bolster ongoing measures by the West African regional exchange to create a separate section for mining stocks by 2018, which would make it easier for resource companies to raise funds in local currency.

The Collapse of the Doha Round — A Catastrophe?

The Doha Round of World Trade Organization (WTO) negotiations, formally known as the Doha Development Agenda, was launched in November 2001. The tenth WTO Ministerial Conference, held in Nairobi (December 15–19, 2015) was the first-ever organized in Africa. The work program covered about 20 areas of trade, including agriculture, services, market access for non-agricultural products, and certain intellectual property issues. Despite initial optimism, negotiations stalled as tensions and disagreements among major trading countries in the developed and developing world impeded progress. Despite some success in the area of trade facilitation and agricultural export subsidies, the greatest disagreement among WTO members relates to the future of the Doha Development Agenda and the WTO's negotiating function itself. Both the United States and the European Union have declared the end of the Doha Round and the need to move on to new issues and approaches, while most developing countries, including India and China, remain supportive of concluding the Doha Round of WTO Negotiations.

The eventual resurrection of the Doha Round is yet to be known, especially in a global environment where bilateral agreements, most notably the Trans-Pacific Partnership and several bilateral trade arrangements including European Union-United Kingdom (EU-UK), United Kingdom-New Zealand (UK-NZ), United States-United Kingdom (US-UK), United Kingdom-Canada (UK-Canada) are quickly emerging as an alternative to multilateral trade agreements. While the benefits of the Doha Round have been limited for African countries, especially in the area of agriculture, the move toward bilateral agreements could further marginalize the

continent making it more urgent to deepen the process of regional and economic integration, including within the context of the Continental Free Trade Area (CFTA).

The EU's Economic Partnership Agreements and Africa: More Countries Refusing to Sign

Following the expiration of the Cotonou Agreements and the Lomé Accords, the European Union introduced the EPAs to serve as the framework for a free trade area between the European Union and the African, Caribbean and Pacific Group of States and to govern all trade relations between the EU and the aforementioned regions. Unlike its predecessor agreements, the new EPA lays emphasis on reciprocity. In this regard, EPAs, once signed, are legally-binding bilateral contracts between the European Union and individual African countries warranting the opening up of 80% of those countries' markets to European goods and services within a decade. However, as a result of a lack of clear structures to address capacity challenges and unfair competition, negative impacts on industrial policy and regional integration, losses of fiscal revenues, and uncertainty regarding the impact of Brexit, African countries are increasingly reluctant to sign the agreement. The decision by Tanzania and Uganda to decline the invitation to sign the East Africa Community Economic Partnership Agreement (EPA) with the European Union (EU) adds to the growing number of African countries, including Ghana (only on an interim EPA) and Nigeria, that are refusing to sign the trade agreement with the EU. Although, Kenya, Rwanda and Burundi are ready to sign that agreement, World Trade Organization rules do not allow countries aligned to a trading bloc to sign up individually.

UNCTAD 14: The Nairobi Consensus — "The Azimio"

The fourteenth session of the United Nations Conference on Trade and Development (UNCTAD 14), held in Nairobi July 17–22, 2016, concluded with the adoption of two important documents aimed at strengthening the mandate of UNCTAD to effectively deal with matters affecting trade and foreign investment. The first document, called the 'Nairobi Azimio' by its Swahili translation, represents a broad expression of the social and economic state of the world and calls for an increase in financial, infrastructure, and development support to developing countries. The second document, the Nairobi Consensus or 'Nairobi Maafikiano', proposes a way forward for trade and investment after the stalling of the Doha Round of trade negotiations last December.

The conference was hailed as a success in multilateral cooperation on trade and development and related issues. The Azimio pledges that UNCTAD's role "will be strengthened as the focal point within the United Nations system for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development". However, there is a growing concern that developed countries are reluctant to offer concessions to developing countries and that UNCTAD's development mandate has taken a backseat to advancing the commercial interests of industrialized countries, promoted through global financial architecture and existing trade arrangements. The development impact of UNTACD 14 will depend on the extent to which the world is prepared to move away from the beggar-thy-neighbour approach, which has dominated international trade and development, towards a more inclusive approach to globalization.

G20 Summit Launches Initiative on Supporting Industrialization in Africa

The eleventh summit of the Group of 20 (G20) major economies, held September 4–5, 2016, in Hangzhou, China, provided an opportunity for leaders of the twenty most advanced economies to exchange views on a range of topics, including more effective global economic and financial governance, anti-terrorism financing, climate change, the refugee crisis, Brexit, and international trade and investment. Still, another important and highly relevant topic considered was structural transformation of developing economies as a path to effective integration into the global economy. The summit reached consensus on pursuing innovative, invigorated, interconnected, and inclusive world economic growth. The summit also undertook to continue work on

addressing cross-border financial flows derived from illicit activities, including deliberate trade mis-invoicing, which hampers the mobilization of domestic resources for development. One of the major outcomes was the launch of the G20 Initiative on Supporting Industrialization in Africa and Least Developed Countries to strengthen inclusive growth and sustainable development. The initiative was timely in light of ongoing efforts by African countries to accelerate the process of industrialization for value addition and inclusive growth. It also augurs well for the Bank's current strategic plan, which has singled out industrialization as one of its pillars.

"Proudly Made in Egypt" Campaign

In 2016, the Egyptian Minister of Industry and Foreign Trade, Mr. Tarek Kabil, unveiled the 'Proudly Made in Egypt' campaign, which aims to introduce consumers to locally manufactured, high-quality products, and showcase companies that apply quality standards accredited by Egyptian or international standard bodies. It also aims to protect consumers against lower-quality products. The campaign is an important mechanism that targets to double the rate of industrial production and manufacturing capacity and promote Egyptian exports with a view to reducing the widening trade deficit. The success of this campaign and other similar initiatives across the continent could prove instructive in providing innovative ways of supporting Africa's industrialization and boosting intra-African trade in a region where the expansion of manufactured goods has the potential of addressing the challenge of product concentration and boosting intra-regional trade.

Brexit: The Impact on Trade Could Favour Africa

Britain's vote to leave the European Union (EU) in 2016, in what is commonly referred to as Brexit, has raised market uncertainty with downside risks for the global economy. For Africa, there are several channels through which Brexit may affect economies across the continent, including through global output growth and demand; foreign direct investment; development assistance flows; and remittances. The most visible channel is perhaps that of trade, as the EU remains the dominant trading partner of Africa, with the United Kingdom being the second largest economy within the EU and accounting for about 13% of Africa's exports to the EU.

While the U.K. government has guaranteed that it will secure existing duty-free access—underpinned by an agenda of interdependence—to its market for 48 Least Developed Countries (LDCs), which includes a number of African countries, by replicating the EU's 'Everything but Arms' scheme, the full magnitude of the impact of Brexit on Africa's trade and development prospects will depend on the nature of ongoing exit arrangements and the subsequent trade agreement between the United Kingdom and the EU, which would have implications for the existing Economic Partnership Agreements (EPAs). Should Brexit result in the annulment of trade agreements, it would require the United Kingdom to renegotiate trade agreements with Africa, which could result in improved terms of trade for the region, depending on bargaining power. Additionally, the departure of the second largest economy from the EU can potentially weaken the EU's capacity to negotiate with Africa, as witnessed recently with Tanzania's refusal to sign the EPA with the East African Community, citing uncertainty caused by Brexit as a key factor.

IMF Internal Probe Criticism

In the first internal assessment of the International Monetary Fund's (IMF) handling of the euro area debt crisis—specifically in Greece, Ireland and Portugal—the IMF Independent Evaluation Office criticized the IMF's intervention. Specifically, it concluded that the IMF did not foresee the magnitude of risks that would later become paramount, and that the IMF staff shared the widely-held "Europe is different" mindset that encouraged the view that large imbalances in national current accounts were little cause for concern within the euro area. In addition, the IMF sidestepped its role as a crisis manager under the Troika arrangement. Furthermore, its policy on exceptional access to IMF resources, which mandates early Board involvement,

was not systematically followed. The assessment revealed that under the support programmes for Greece and Portugal, the IMF incorporated overly-optimistic growth projections and lessons from past crises were not always applied. The assessment concludes that the IMF's handling of the euro area crisis raised issues of accountability and transparency, which created the perception that the IMF treated economic crises within Europe differently. This finding reveals the inconsistency of the IMF's interventions, which may reflect a cognitive bias when dealing with particular regions and the consequent asymmetry of policy prescriptions across different regions. Asymmetry in policy prescription is not new, especially in the area of trade. The push to eliminate agricultural subsidies in Africa during the structural adjustment era, for example, was not followed by similar measures in Europe and the United States. The consequences were significant for trade and agricultural production, leading Africa, the region with more than 60% of world's remaining arable land to become a net importer of food, with balance of payments implications.

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