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# Draft report of Sessional Committee II to the Trade and Development Board at its fifty-sixth session

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## Contents



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# Sessional Committee II

## Economic development in Africa: Strengthening regional economic integration for Africa's development

### Chair's summary

1. The UNCTAD *Economic Development in Africa Report 2009* argues that deeper regional integration within Africa is one possible response to the multiple crises that have affected Africa, in order to promote economic development and address long-standing structural weaknesses through economic diversification, structural changes and technological development. However, regional integration should complement – not substitute for – Africa's efforts to integrate into the international economy.

2. The sense of the meeting was that the report, like its predecessors, had made significant contributions to the debate on Africa's development, and as a major source of new ideas on the subject, had attracted the attention of the research and policy communities in Africa and beyond. UNCTAD was called upon to expand its work and activities for the benefit of Africa, with this to include strengthened dissemination work.

3. There was widespread concurrence that development of infrastructure was vital for African regional integration, trade and development. To enable the continent to fully benefit from enhanced regionalism, delegates agreed that supply-side capacities had to be improved at the local and regional level, and that demand and supply constraints had to be addressed at the regional and international level. Inadequate hard infrastructure was one of the strongest supply-side constraints faced by Africa. Soft infrastructure, in the form of improved governance and a conducive business environment, should be improved too. According to one delegation, better governance was the most necessary element for achieving trade and development and for translating growth into poverty reduction.

4. Three challenges must be overcome regarding hard infrastructure: (a) finding the political will to implement transcontinental road infrastructure projects, the Yamoussoukro Decision and regional energy projects; (b) the infrastructure deficit, in which a poorly integrated and inefficient infrastructure costs an estimated $80 billion per annum; and (c) resource mobilization. More than 54,000 kilometres of road links are missing in the trans-African highway network, including the Lagos–Mombasa and Tripoli–Windhoek routes. It was pointed out that the Westcor regional energy project would utilize environmentally friendly and renewable hydroelectric sources.

5. Delegates called on development partners for their support in helping ease the financial constraints faced by Africa in financing domestic and regional infrastructure-building projects. Several international initiatives were identified as being vital for deepened regionalism: the provision of stable official development assistance (ODA) flows, the reduction of external debt and debt servicing, and the Aid for Trade mechanism; although it was felt that the latter should focus more on export promotion rather than on import procedures. Completion of the Doha Round was considered a means to facilitate regional integration.

6. One participant underscored the importance of increasing the efficiency of resource utilization by reducing barriers to business transactions and freeing the movement of goods, capital and labour among countries. The harmonization of laws, regulations, procedures and standards was considered essential for successful regional integration.

7. Political will in strengthening the regional process and role of South–South cooperation was stressed as being important in promoting African integration and economic development, as highlighted by the New Asian-African Strategic Partnership.

8. The basic regional integration programme strategy described in the meeting requires that intra-African trade liberalization and market integration should be preceded by intra–regional economic community trade liberalization and market integration, and should be followed by the gradual opening of African markets to imports from non-African countries. An appropriate and effective response to the challenges posed by the pressures for bilateral and multilateral trade liberalization would be to speed up and front-load the movement from regional to Africa-wide integration, by taking urgent action at both the national and regional level. Countries that sourced significant shares of their total imports from other African countries, and who depended substantially on import duties for fiscal revenue, would suffer revenue losses. Therefore, considerable attention must be paid to cost-sharing and compensatory measures.

9. Implementation inevitably involves gains and losses, as well as winners and losers. In negotiating such agreements, the relative costs and benefits are revealed, and agreements are adjusted to include compensatory measures to "balance" the net benefits across all participating countries.

10. Africa's economic and trade relations with non-African countries and regions had important implications for its regional integration agenda. The existing non-reciprocal trade preferences have allowed many African countries to benefit, to varying degrees, from the preferences offered. Generally, the effect of this type of relationship in Africa's regional integration agenda had been largely benign.

11. One speaker asserted that this could not be said for the currently evolving reciprocal (even if asymmetric) trade agreements between African countries and non-African countries or regions, epitomized by economic partnership agreements (EPAs). EPAs had indirectly affected Africa's regional integration agenda, for example by encouraging the five African regional groups to take a firm stand on the issue of overlapping membership of regional integration arrangements.

12. Concluding negotiations under the EPAs was presented as an important objective, considering the need to agree on a new legal framework governing cooperation between the African, Caribbean and Pacific Group of States and the EU in the replacement of the Lomé and Cotonou agreements, which were incompatible with WTO provisions (article XXIV of the General Agreement on Trade and Tariffs). Some of the main selling points of EPAs were that they would strengthen regional integration and economic competitiveness in Africa, they would allow a gradual liberalization approach that takes into account the differences in country realities, and they acknowledged the need for safeguard mechanisms. It was clarified that concluding EPA negotiations never had been and never would be used as conditionality in order to benefit from the European Union's assistance.

13. Several interventions challenged these views. The mildest challenge was that EPAs are, at best, a good idea that is being poorly implemented. The view that EPAs are needed in order to have a new framework that is WTO-compatible was challenged by pointing to the fact that it could have been possible to apply for an exception, as has been the case with the African Growth and Opportunity Act. Moreover, some delegates were not convinced by the view that EPAs are primarily designed to help African economies to better integrate. On the contrary, many speakers voiced their concern that the EPA negotiating approach – particularly the unequal treatment of LDCs and non-LDCs, as well as the signing of interim EPAs by some countries within the same group – was dividing African countries and creating unnecessary tension among them. The most important worry was that EPA implementation might result in a situation where African countries would open their markets to the EU and to other major partners, who would require similar treatment, but not to other African countries; this would strongly compromise the cornerstone of Africa's integration agenda. It was also pointed out that Africa has no capacity to negotiate a fair agreement with the EU. Above all, many in the meeting considered that the large difference in economic development between Africa and the EU made it inconceivable that Africa

should be required to fully reciprocate the EU's market opening, even after a long transition period.

14. Most African countries do not yet have the strong industrial capacity required to produce a diversified range of manufactured products to satisfy the needs of the continent. Some delegates noted that regional integration and increased intra-African trade could strengthen the region's resilience against crises in the longer term.

15. A suggestion was made to create a special and differential treatment mechanism within regional trade agreements, which evoked the possible need for a planned division of labour within countries. The creation of a free trade zone between the 26 member States of the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) was noted positively, as were efforts to develop an African customs union in the future.

16. Regional integration agreements had produced robust pan-African financial institutions, such as Ecobank, which has a presence in 28 countries in West, East and central and southern Africa. A strongly integrated financial system would increase competition, drive down costs, encourage increased lending to businesses including SMEs, and provide consolidated payment systems – especially intra-African systems.

17. It was stated that the prospects for investment included Africa's comparative advantage in natural resources, its favourable growth and demographic trends, as well as its improved institutional and political conditions. Limitations in transport and communications infrastructure – combined with high trade and related costs, inefficient border procedures, and an absence of reliable data – were constraints on investment. Intra-African investment opportunities included banking and finance, insurance, professional services in areas that require limited technology and capital requirements, and transportation and logistics. An enhanced "business-friendly" environment would offer foreign investment opportunities in sectors such as heavy industry and manufacturing, oil and gas, telecommunications services and infrastructure, mining, services, tourism and hospitality.

18. The global financial and economic crises had slowed private investment flows, although public investment had been sustained at its 2008 level. The COMESA–EAC–SADC tripartite arrangement has been preparing bankable projects and mobilizing funding from multilateral development banks and bilateral partners. The Aid for Trade model that was used to mobilize $2.7 billion for the North–South Corridor is to be simultaneously implemented in the next 12 months in all the corridors of the eastern and southern African region.