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Economic development in Africa: Intra-African trade: Unlocking Private Sector Dynamism

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Economic Development In Africa: Intra-Africa Trade-Unlocking Private Sector Dynamism

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The Brookings Institution

UNCTAD Panel

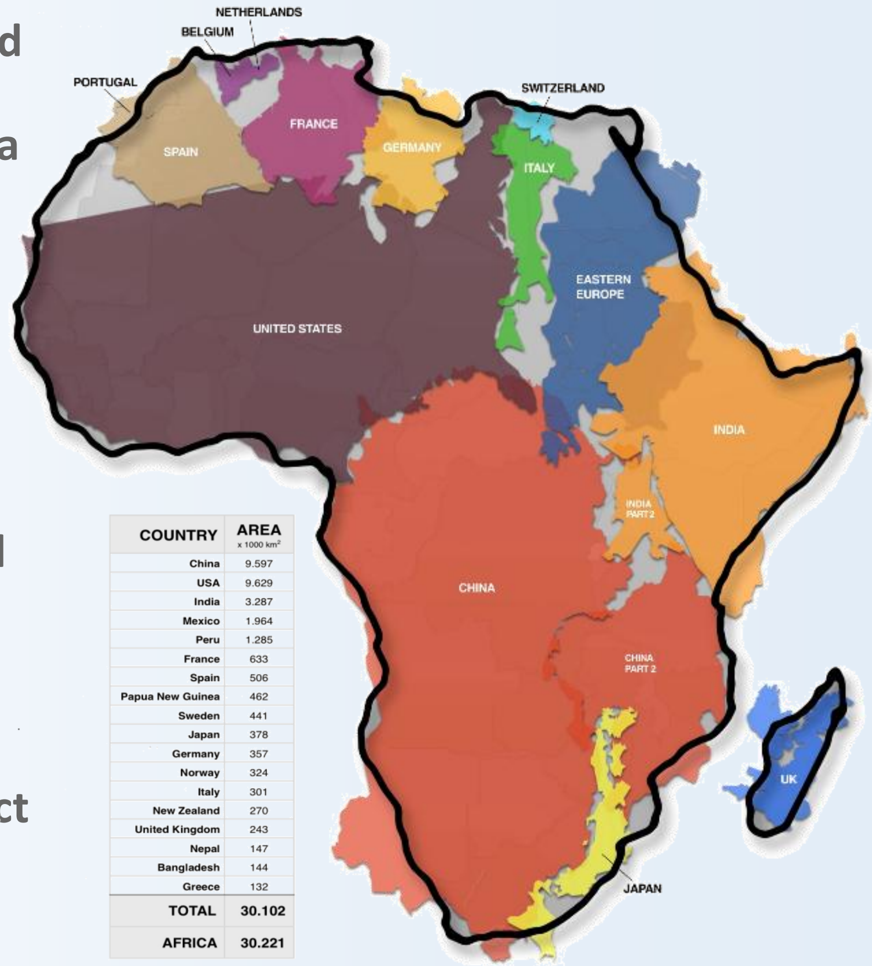
September 19, 2013

Boosting Intra-Africa Trade

- The integration imperative—A large continent, small economy
- Regional Integration and intra-Africa trade- case of EAC
- Challenges of Regional Integration-
- Rethinking Production- Regional Value Chains/ Private sector Integration
- Boosting Intra-Africa Trade

Why Regional Integration?

- Africa is a huge continent – the second largest in the world and bigger than the US, Europe, India, Japan and China combined.
- The continent has 16 landlocked countries; arguably more than any other region in the world.
- Regional integration allows for the reduction of barriers to economic and noneconomic transactions.
- Among the many benefits, it can incentivize and spur infrastructural development and attract foreign direct investment to the continent.



COUNTRY	AREA x 1000 km²
China	9.597
USA	9.629
India	3.287
Mexico	1.964
Peru	1.285
France	633
Spain	506
Papua New Guinea	462
Sweden	441
Japan	378
Germany	357
Norway	324
Italy	301
New Zealand	270
United Kingdom	243
Nepal	147
Bangladesh	144
Greece	132
TOTAL	30.102
AFRICA	30.221

Image Source: http://static02.mediaite.com/geekosystem/uploads/2010/10/true-size-of-africa.jpg

Why Regional Integration?

- Africa's total economic size is similar to that of Canada.
- Most African countries have very small economies—smaller than those of many large and even medium-sized U.S. metropolitan areas

African Country	GDP(Mil)	U.S. Metropolitan Area	GDP(mil)
Sudan	62,046	Boston	313,690
Kenya	31,409	Los Angeles	735,743
Ghana	31,306	Columbus	93,353
Ethiopia	29,717	Ann Arbor	18,566
Tanzania	23,057	El Paso	27,025
Côte d'Ivoire	22,780	Madison	35,615
Cameroon	22,394	Oklahoma City	58,339
Uganda	17,011	Kansas City	105,968

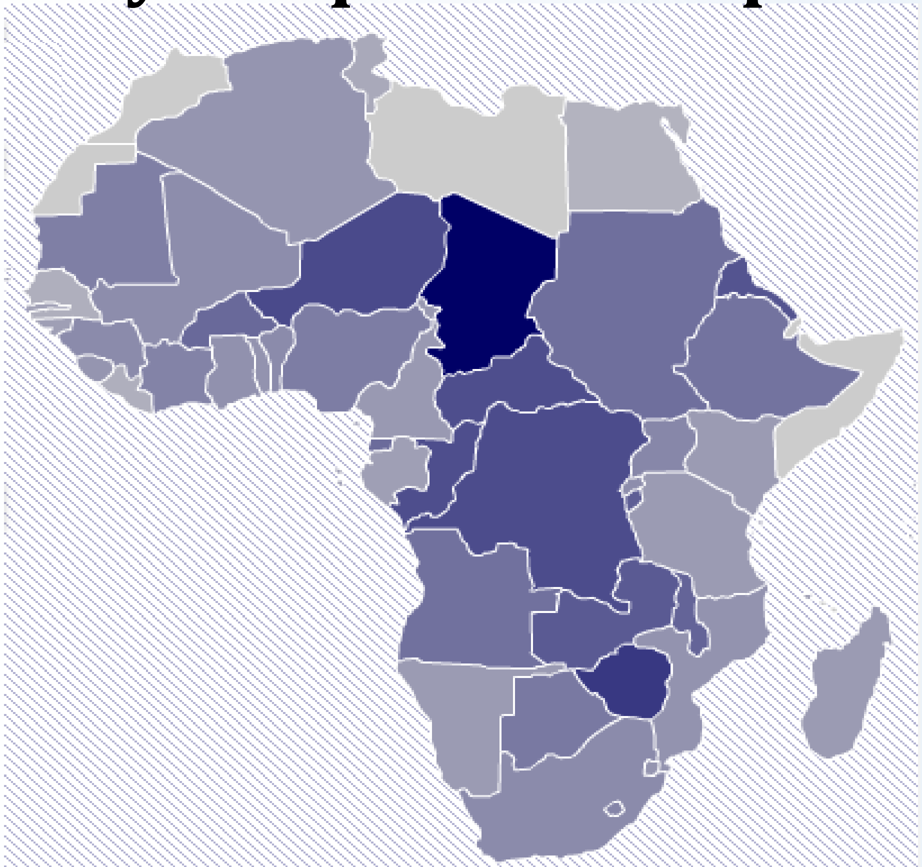
Data Source: World Bank data, http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf
U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov/regional/gdpmetro/

Why Regional Integration?

- **Increased regional integration will make Africa better connected and cut down on the costs and time of doing business within the region.**
- *Doing Business 2011* shows that Africa is the most expensive region to trade within in the world and border delays in trading are up to three times as long in Sub-Saharan Africa.
- For example, it’s more expensive to ship a car from Abidjan, Ivory Coast to Addis Ababa, Ethiopia than it is to ship it from Japan to Ivory Coast (see right).

Why Regional Integration?

Days Required to Import



Data Source: World Bank's Doing Business 2012

Days Required to Import	
Least number of days	
Egypt	12
Mauritius	13
Senegal	14
Liberia	14
Tunisia	17
Seychelles	17
Cape Verde	18
Gambia	21
Comoros	21
Gabon	22

Days Required to Import	
Largest number of days	
Chad	101
Zimbabwe	73
Niger	64
DRC	63
Central African Republic	62
Republic of Congo	62
Eritrea	59
Zambia	56
Burundi	54
Malawi	51

Why Regional Integration?

- **In addition to trade, regional integration involves the movement of people within the region and can include the promotion of socio-economic policy coordination and the management or development infrastructure and the environment. Because of this regional integration has important social and welfare related implications.**

- When one looks at Africa there are varied levels of implementation regarding migration protocols, so policies for working and traveling to other countries within the same regional community are sometimes inconsistent and create difficulties. Managing legal and illegal migration is tied to policies related to the movement of people.

- Food governance is another important example. Last summer East Africa was facing the worst famine and drought in decades while Southern Africa was reporting good rainfall and grain surpluses. Having a shortage in one region while there is a surplus in another shows the importance of better regional integration.

State of Regional Integration in Africa

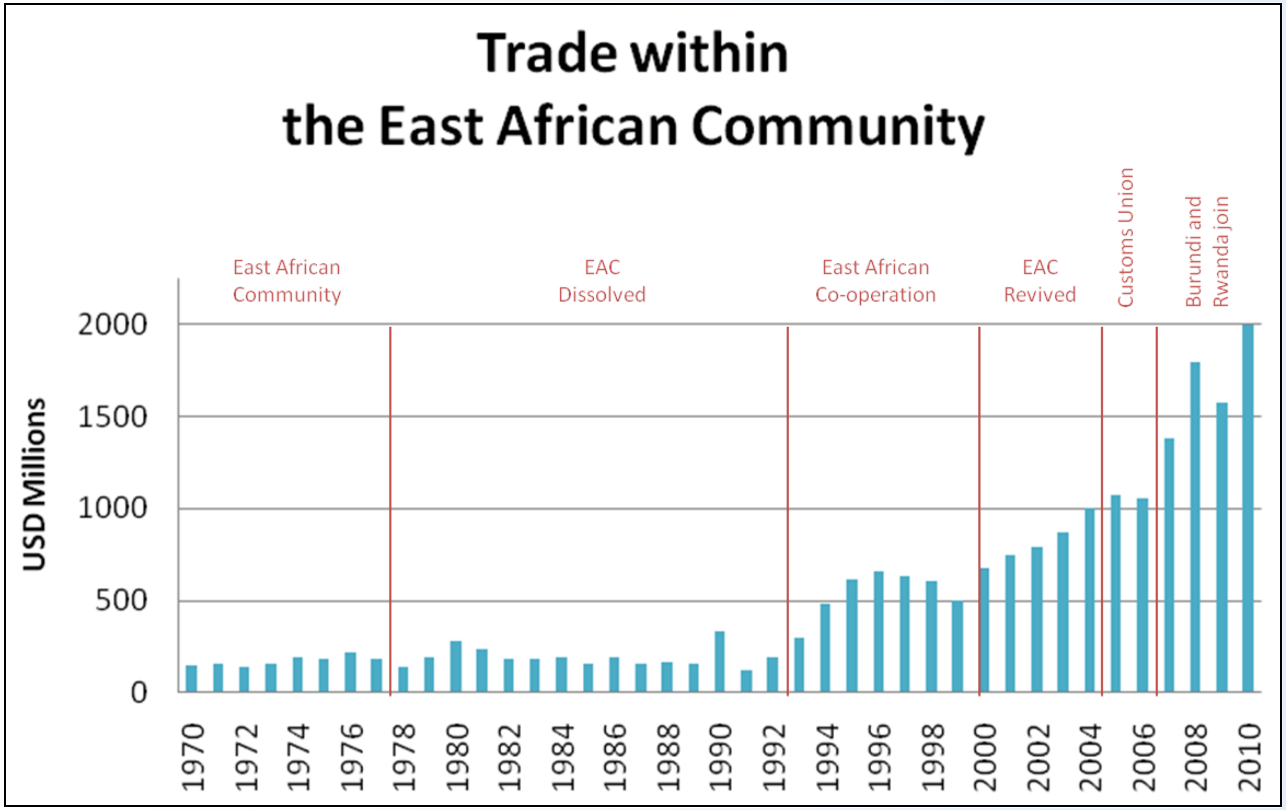
- Africa currently and historically has had multiple regional organizations that have made attempts to increase regional integration between specific countries.
- Such agreements can date back to pre-independence periods; some attempts have failed and others have been revived in recent years.
- Regional organizations require both political will and coordination as well as technical cooperation. Lacking either or having political disagreements can easily destroy such attempts (i.e. previously in the EAC).

East African Community: Brief History

1895	Building of a common service i.e. the Uganda Railway
1900	Establishment of the Customs Collection Centre
1905	Establishment of the East African currency board
1909	Court of Appeal of Eastern Africa set up
1917	Customs Union came into force (between Kenya and Uganda)
1927	Tanganyika joined customs union
1940	East African income tax board
1948	Established the East African high commission
1961	Established East African Common Services Organisation
1967-1977	Establishment of the East African community
1977	Collapse of the East African community
1992	Agreement to revive the East African cooperation treaty
1993-2000	East African Cooperation
2000	Transformation of the Cooperation into a Community
2001	East African Assembly and Court of Appeal
2005	East African customs union began
2007	Rwanda and Burundi join
2010	EAC's fully-fledged Customs Union takes effect

Source: EAC website and "Challenges for Regional Integration in Sub- Saharan Africa: Macroeconomic Convergence and Monetary Coordination" by Mothae Maruping 2005

East African Community



Data Source: IMF DOTS

Challenges to Regional Integration

- Movement of people
- Conflicts
- Infrastructure
- Limited production diversification
- Overlapping membership
- ownership- top-down approach

State of Regional Integration in Africa

Africa has many different and overlapping regional blocks or regional economic organizations, including: the Community of Sahel-Saharan States (CEN-SAD), Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Economic Community of Central African States (ECCAS/CEEAC), Economic and Monetary Community of Central Africa (CEMAC), Economic Community of West African States (ECOWAS), West African Economic and Monetary Union (UEMOA), West African Monetary Zone (WAMZ), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), and Southern African Customs Union (SACU).

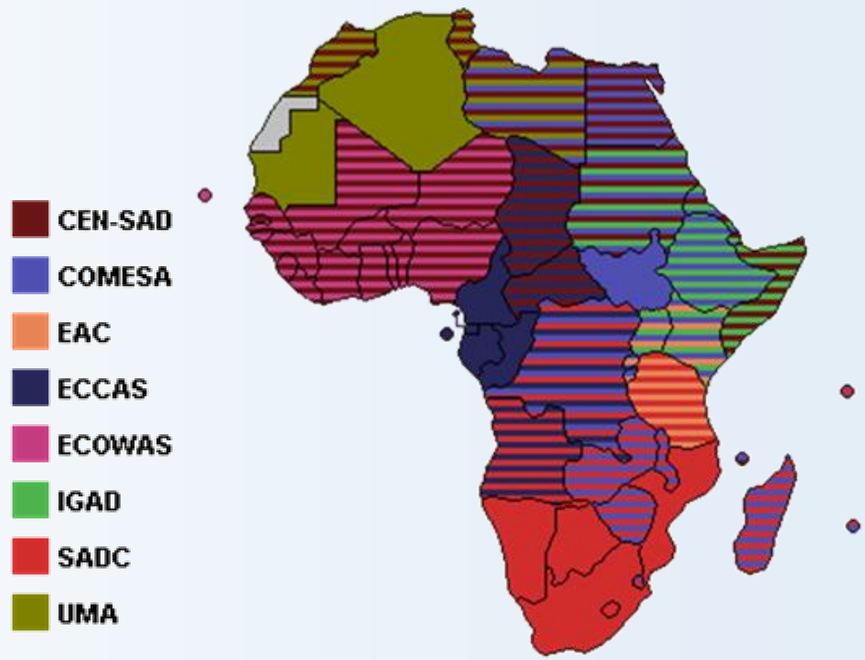
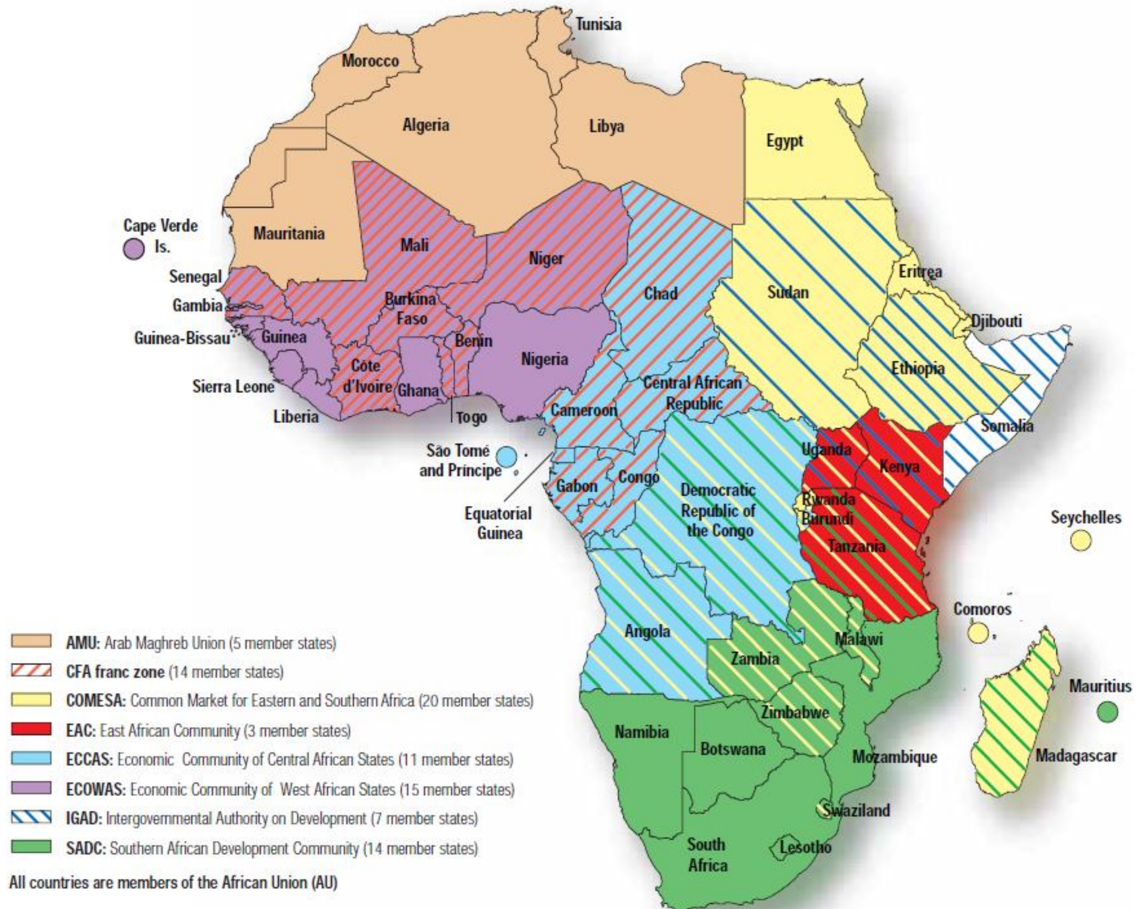
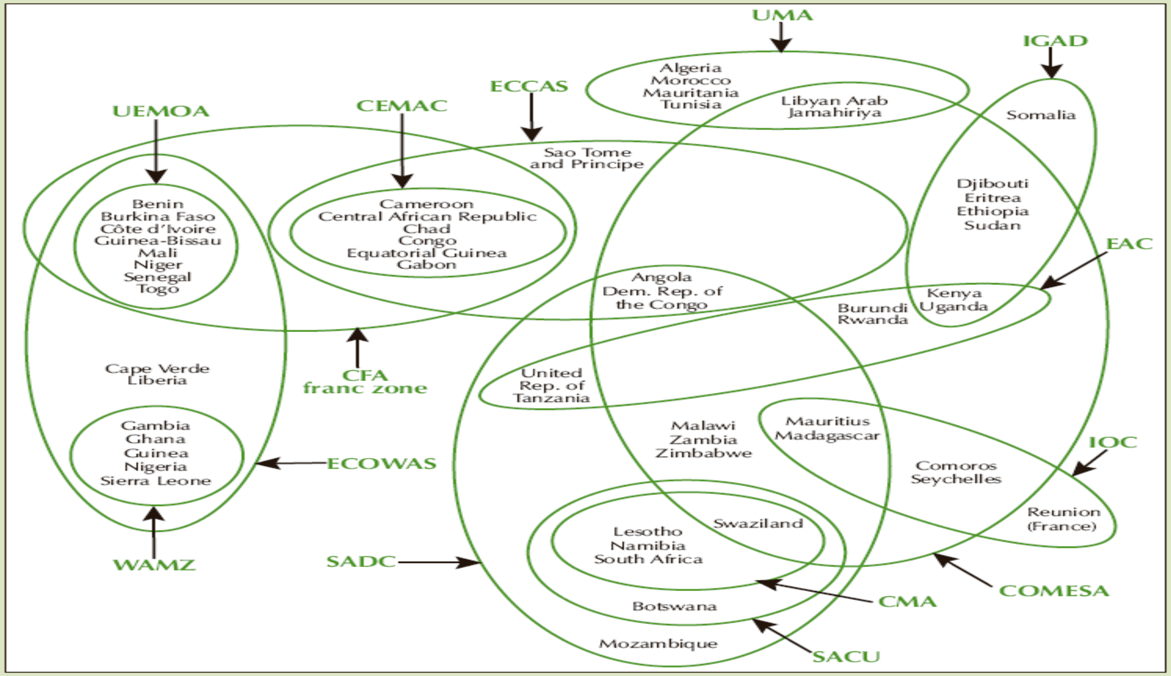


Image Sources:
Green map: http://www.padec.org/
Map with regional organizations: http://upload.wikimedia.org/wikipedia/commons/e/ee/RECs_of_the_AEC.png



Source: UNEP 2005


UMA
IGAD
ECCAS
CEMAC
UEMOA
Algeria
Morocco
Mauritania
Tunisia
Libyan Arab Jamahiriya
Somalia
Sao Tome and Principe
Benin
Burkina Faso
Côte d'Ivoire
Guinea-Bissau
Mali
Niger
Senegal
Togo
Cameroon
Central African Republic
Chad
Congo
Equatorial Guinea
Gabon
Djibouti
Eritrea
Ethiopia
Sudan
EAC
Angola
Dem. Rep. of the Congo
Burundi
Rwanda
Kenya
Uganda
Cape Verde
Liberia
CFA franc zone
United Rep. of Tanzania
Gambia
Ghana
Guinea
Nigeria
Sierra Leone
ECOWAS
Malawi
Zambia
Zimbabwe
Mauritius
Madagascar
Comoros
Seychelles
IOC
Reunion (France)
WAMZ
SADC
Lesotho
Namibia
South Africa
Swaziland
Botswana
CMA
COMESA
Mozambique
SACU

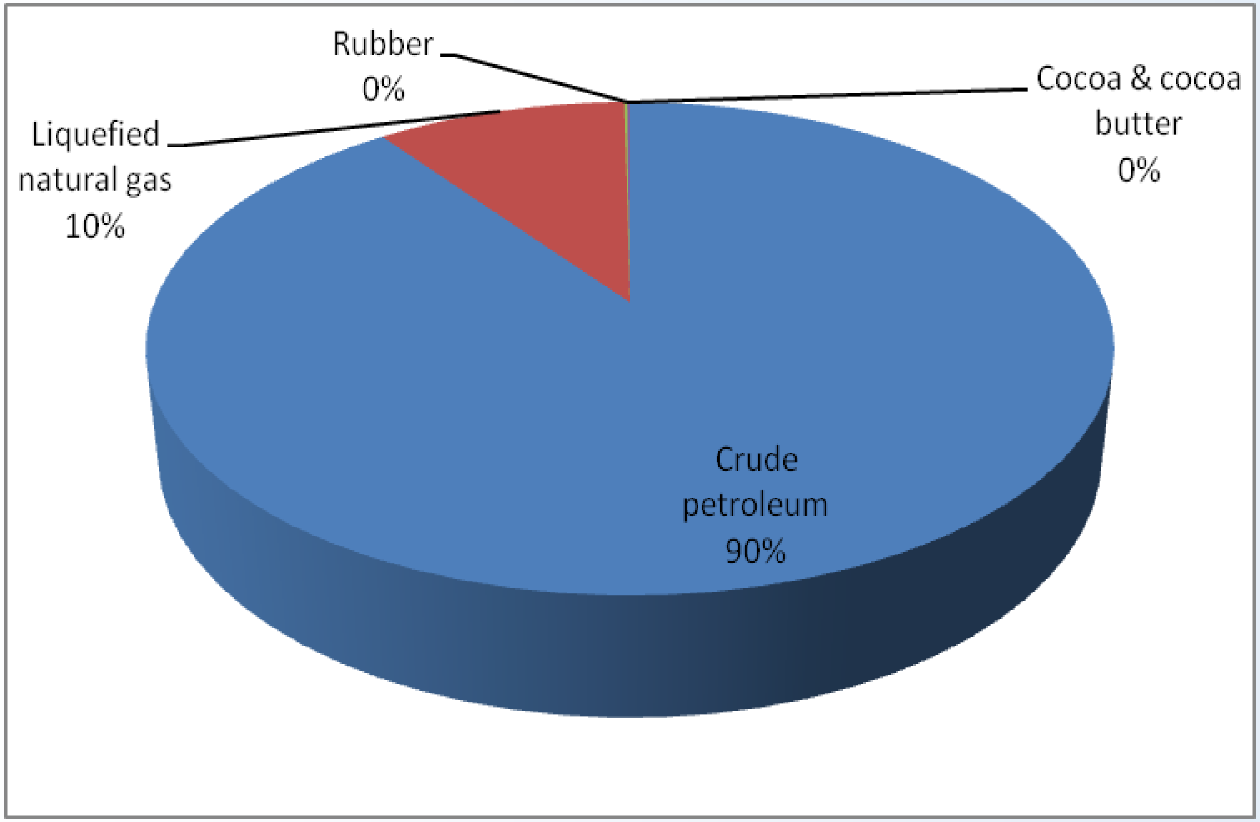
New Developments in Regional Integration

- **The AU approach—the Regional Economic Communities**
  - The Treaty establishing the African Economic Community (AEC) - 1991: commonly known as the Abuja Treaty, it seeks to create the AEC through six stages culminating in an African Common Market using the Regional Economic Communities (RECs) as building blocks. The Treaty has been in operation since 1994.
- **The proposed Continental Free trade Area**
  - At the African Union Summit, which took place from 23 to 30 January 2012 under the theme ‘boosting intra-African trade’, endorsed a plan to set up a Continental Free Trade Area (CFTA) by 2017. The proposed CFTA would be a key component of the AU’s strategy to boost trade within the region by at least 25-30 percent in the next decade.
  - The CFTA would evolve from the proposed 26-country Tripartite FTA and other regional FTA processes, upon their expected completion in 2014.
- **The EAC, COMESA, SADC Tripartite**
  - “Tripartite FTA,” if finalised, would span three existing regional economic communities - namely the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the Southern Africa Development Community (SADC) - or 26 countries in total.

Production and Private Sector Integration

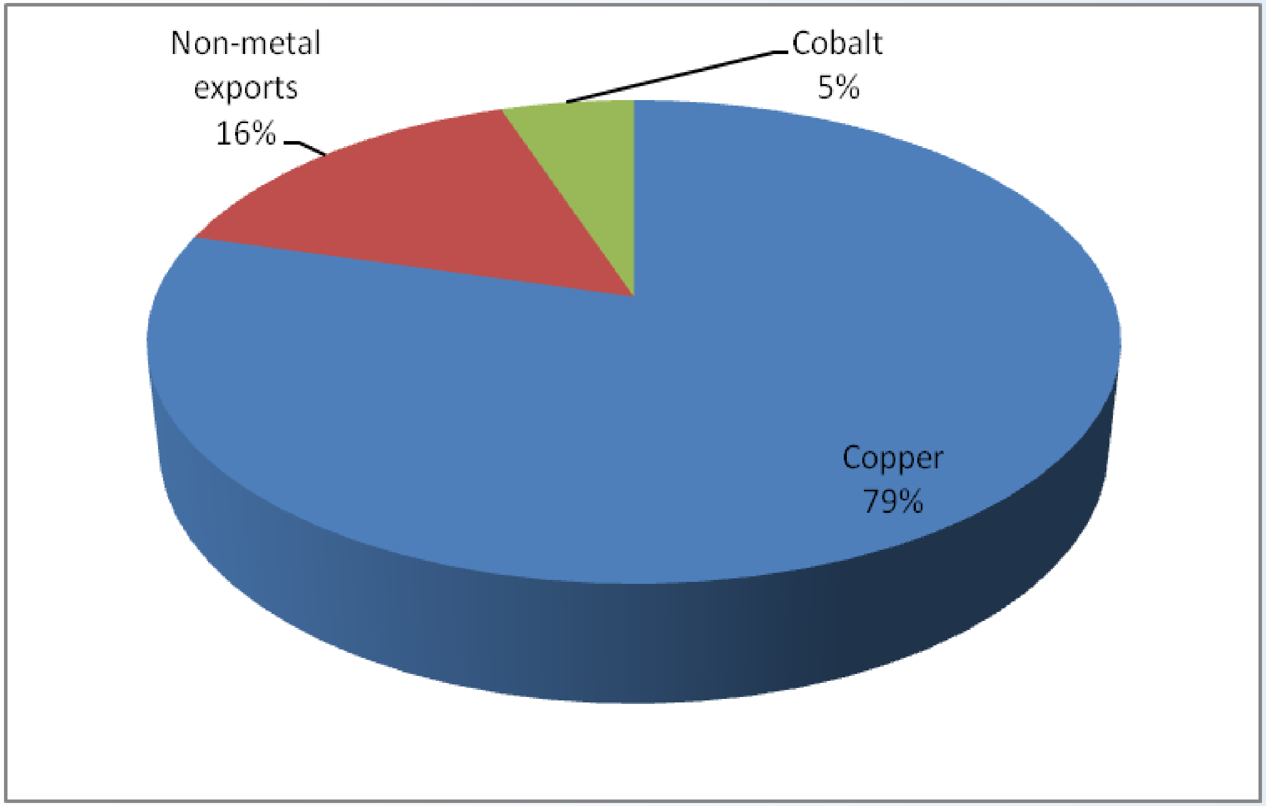
- Product diversification is key to meaningful regional integration
- Focus should not be just on “final” products but in parts and components
- Trade in parts and components key to regional competitiveness/exploitation of comparative advantages- industrial policy
- Private sector “cooperation” in regional value chains pivotal to strengthening Regional Integration

Export Diversification: Nigeria 2012



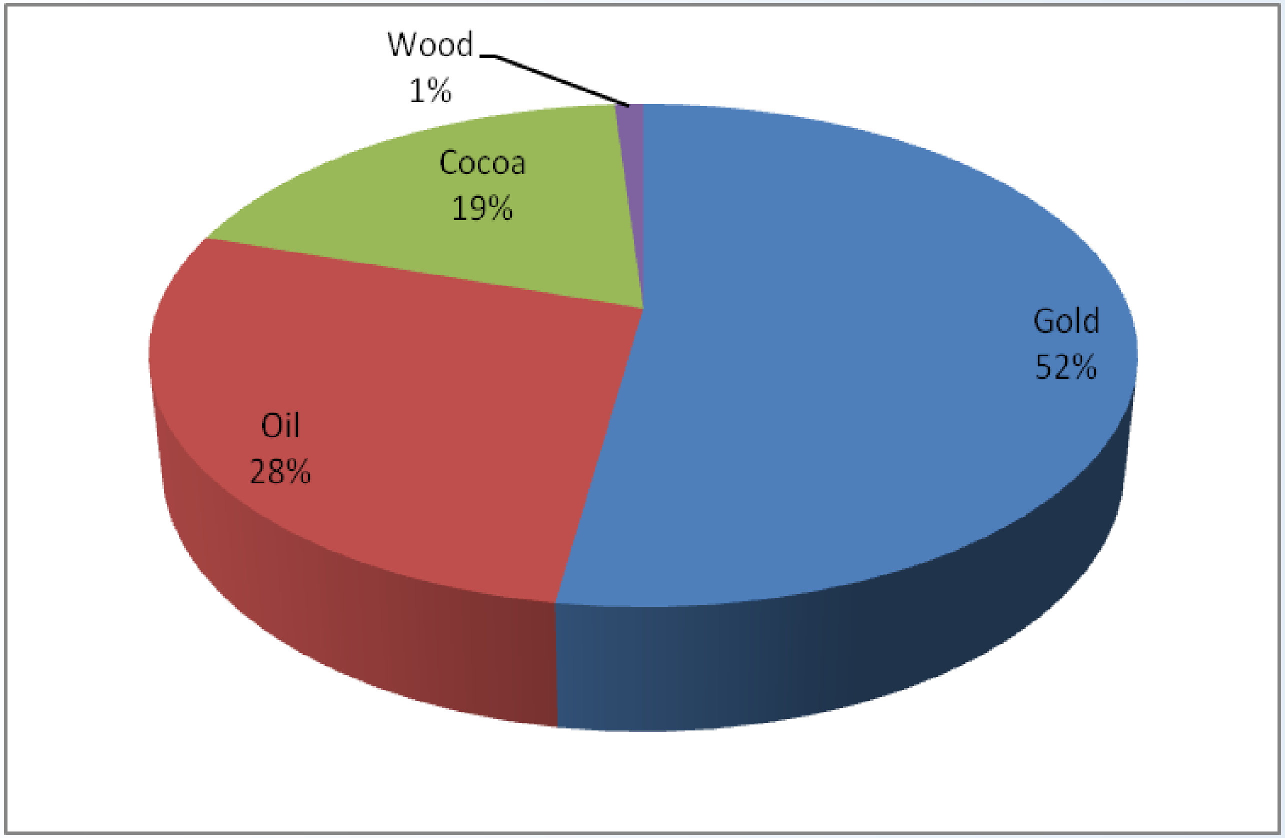
Source: Economic Intelligence Unit

Export Diversification: Zambia 2012



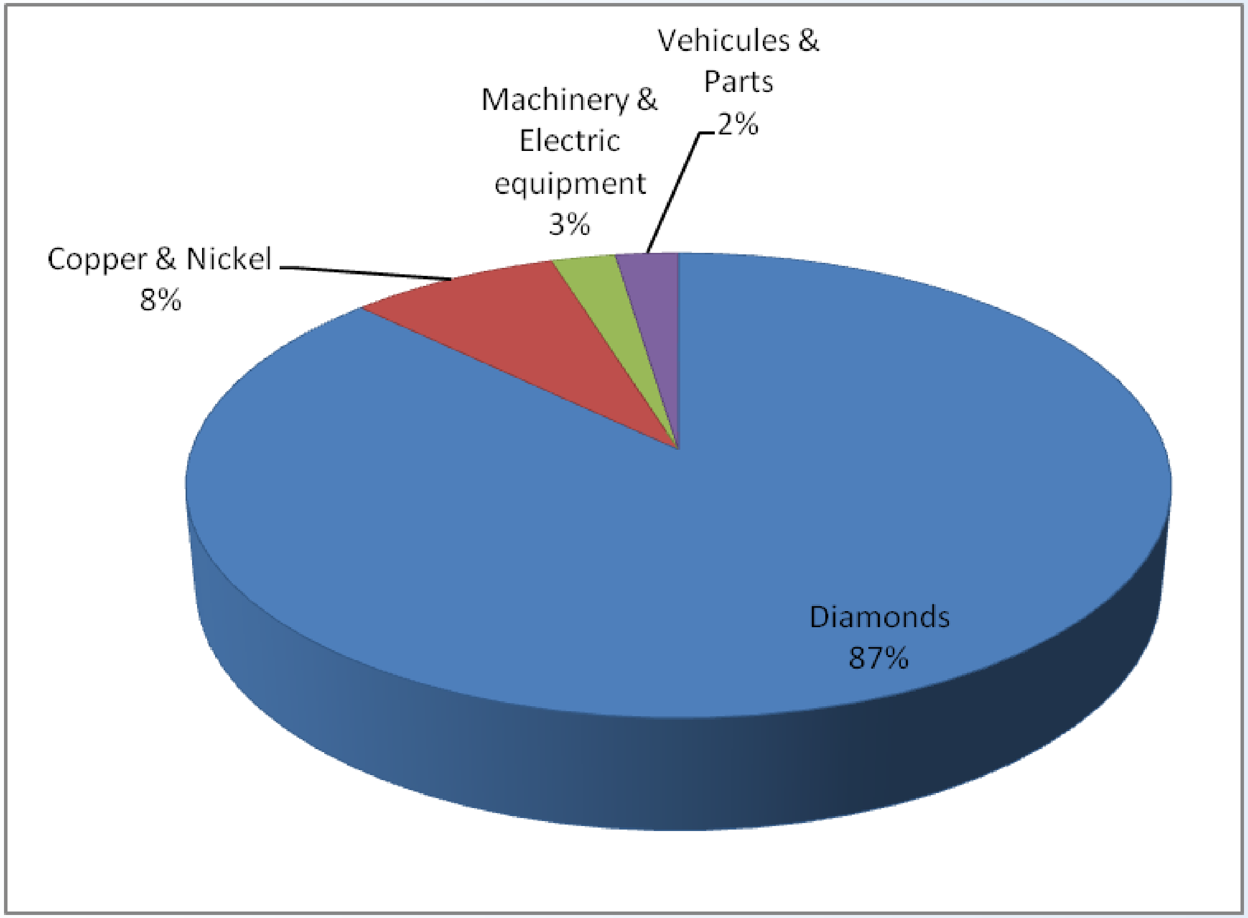
Source: Economic Intelligence Unit

Export Diversification: Ghana 2012



Source: Economic Intelligence Unit

Export Diversification: Botswana 2012



Source: Economic Intelligence Unit

Boosting Intra-Africa Trade

- Infrastructure remains a key barrier to integration
- More focus on both national and also regional infrastructure
- Non-Tariff barriers—urgent focus required
- Competitiveness and diversification—R&D, Productivity are key

Challenges and Opportunities

- Balancing the conflict between national and regional interests and overcoming protectionist tendencies
- Working to ensure clear mandates/end goals for RECs with reasonable timelines
- Avoiding overlap that can hinder integration
- Access to international finance to achieve goals
- Ensuring there is technical cooperation and capacity to meet the political will behind integration
- Lack of ownership at grassroots levels – ensuring that there is more than just political will at the higher levels