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**Regional Arrangements to Promote Trade and
Development**

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

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Trade and Development in Sub-Saharan Africa

- **Although Africa's trade has been growing, Africa's share of global trade still remains very low – about 3%.**
- **Primary commodities account for 80% of total exports:**
 - **High dependence on commodities creates severe constraints on sustained growth due to exogenous commodity price volatility.**
- **Market concentration in the North with limited regional trade: More than 80% of African exports and more than 90% of African imports from outside the Continent.**
 - **Concentrated in the North: WE & USA accounting for more than half of the Export total.**
 - **Despite some progress in regional trading, Intra-Africa trade remains modest, Less than 10%.**
 - **Intra-North American Trade - >40%.**
 - **Intra-Western Europe >60%.**

Trade & Development in Sub-Saharan Africa

- **Sub-Saharan Africa has registered fast economic growth over the past decade. Real GDP Growth Rates (IMF 2012):**
 - 2004-2008: 6.5%
 - **2009: 2.8%**
 - 2010: 5.3%.
- **One of the driver of Africa's economic growth over the past decade has been external trade.**
- **The growth appears to be intrinsically fragile without structural economic transformation however.**
 - Growth largely based on favorable commodity prices rather than sound economic fundamentals - a circumstance that could not be expected to last.
- **Prospects of sustaining the fast growth faces downside risks due to the global financial & economic crisis.**
 - Growth collapsed with the volatility of commodity prices in 2009.

Trade & Development in Sub-Saharan Africa

- **This structural fragility is the key determinant of the impact of the current crisis on African economies.**
 - **Africa has been too dependent on commodity exports for long, with too little industrialization, and associated process of value addition.**
 - **Africa has been too dependent on concentrated markets (in the North) for its commodity exports for long, with too little market diversification.**
 - **Transformation and productivity of agriculture remains weak - though could have played a critical role in Africa's development.**
 - **The Growth has not addressed these structural weaknesses and was not accompanied with structural transformation.**

The Financial and Economic Crisis and its implication for Regional Integration

- **The financial and economic crisis in the North, and the resultant volatility in global trade, growth and international financial markets leading to greater focus on fostering regional integration and South-South cooperation to promote sustainable trade and growth.**
- **The AU Summit of Heads of State and Government in January 2012 devoted the theme to Boosting Intra Africa Trade and the Establishment of Continental Free Trade Area.**
- **Despite this renewed commitment and long history of initiatives to promote regional integration and intra-Africa trade, the progress remains very low.**

Regional Financial Institutions and Integration in Africa

- **Again despite a number of initiatives the development of regional financial institutions in Africa remains low.**
- **Early initiatives include East African Development Bank, West African Development Bank, etc,**
 - **One of their goals is promoting regional integration, but remains small and their roles in mitigating the impact of the global crisis has been limited.**
- **Development of Pan-African banking groups in recent years like the Bank of Africa, Ecobank, Stanbic, etc, but their role in mitigating the impact of the global crisis on SSA and in promoting regional integration yet to be seen.**
- **The African Development Bank has been involved in**
 - **Taking measure to mitigate the impact of the global financial and economic crisis on SSA,**
 - **Promoting regional integration and Intra-Africa Trade.**

Regional Financial Institutions and Integration in Africa

- **The ADB has played two roles following the crisis:**
 - **Short term counter-cyclical measures to mitigate the impact of the financial crisis and maintain the gains made over the past decade: availing trade financing through the Trade Finance Initiative (1Billion USD), Emergency Lending Facility (1.5 Billion USD).**
 - **Bank Support to deepening regional integration and Intra-Africa trade: so as to create larger, a more competitive and diversified economies that create new opportunities and attract productive investment in Africa.**
 - **Regional integration projects are identified as key part of its business operation. Its strategy also underlies the growing significance of regional economic integration and infrastructure development.**

Regional Financial Institutions and Integration in Africa

- **However ADB initiatives are again constrained by resource availability in light of the enormous financial resources required for long-term integration projects and counter-cyclical measures.**
 - **The Bank Group's approved new operations in 2011 (UA5.72 Billion).**
 - **Loans & grants for multinational projects accounted for 17.8% in 2011,**
 - **Loans & grants for infrastructure accounted for 38.1% in 2011.**
- **The long-term solution for putting Africa on a sustainable growth & transformation process lies in addressing Africa's structural problems and long term investment needs.**
 - **Consistent with this, AfDB has continued to channel resources to infrastructure, regional integration and PSD to sustain the growth and lay the foundation for the transformation of African economies.**

Regional Financial Institutions and Integration in Africa

- **Stimulating global demand to mitigate the impact on African economies is one thing. But**
 - This seems to be unsuccessful, as recovery has become more difficult than even initially expected in Europe and the US.
 - The fragility and limitations of commodity driven growth.
 - Protectionist tendencies are growing.
- **Thus African Countries need to rethink their development strategies and their sources of economic growth.**

Sustaining Growth and Trade Gains in SSA

- **To ensure sustained trade and development, SSA countries need to address the root cause of their fragility that made them very vulnerable to the crisis.**
- **Support to Africa's drivers of structural transformation and industrialization has become therefore critical to enhance the resilience of African economies and sustain the growth gained over the past decade.**
 - **Purposefully pursue structural transformation of their economies, industrialization and value addition.**
 - **Rationalize the balance between external and domestic sources (including regional and intra-Africa trade) of economic growth.**
 - **Diversify their exports and market destination,**
 - **Deepen regional integration, and promote Intra-Africa trade,**
 - **Invest in infrastructure, particularly in regional integration projects.**

Role of Regional Financial Institutions in Sustaining Growth and Trade Gains in SSA

1. Supporting Policy Space for Africa

- Ultimately only African States and people themselves could structurally transform African economies.
- Supporting Africa's quest for the *necessary policy space* in its endeavourer to address the root structural problems and thereby structurally transform their economies.
 - Neo-liberal paradigm has proved to be unable to deliver economic transformation in the continent, yet its imposition is clear in association with African states dependence on foreign aid & credit .
 - Financial arrangements of global financial institutions are also more likely to resort to similar policy conditionality that narrow space for unorthodox policy experimentation and creativity.
- *Regional financial institutions could support Africa in having greater policy space to experiment alternative strategies.*

Role of Regional Financial Institutions in Sustaining Growth and Trade Gains in SSA

2. Supporting Intra-Africa trade regional integration investments:

- Supporting optimum investments in regional infrastructure projects with regional trade and growth impacts – compared to global and national financial institutions.**
- Supporting and promoting investments in industrial development through supply chain operations with cross-boundary impacts.**
- Supporting and promoting investments in new ventures and new sectors that contribute to regional economic diversification and transformation of countries.**

Role of Regional Financial Institutions in Sustaining Growth and Trade Gains in SSA

3. Counter-cyclical role: short term measures that help minimize the impact of unfolding financial and economic crisis.

- This in turn requires availing increased resources to Africa countries.
- Such institutions could play a role in soliciting such resources from the North.

4. Supporting Trade and Integration Facilitations

- Improving facilitations of trade, customs, standards, transport & logistics etc to make regional & intra-Africa trade less costly.
- Addressing overlapping of membership in regional economic communities,
- Harmonization of economic, trade and financial policies,

Role of Regional Financial Institutions in Sustaining Growth and Trade Gains in SSA

5. Mobilize resources for promoting Intra-Africa Trade and Regional Integration:

- Focus on leveraging and unlocking domestic resources, and domestic productive capacities: domestic savings, domestic private investments, domestic government revenue/tax revenue, etc.**
- The international community need to help in this regard too: provision of development assistance is crucial given the more hostile global environment in the wake of the crisis.**