South-South Co-operation and Regional Integration: Perspectives from Africa

by

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

Why South-South Trade?
A recent UNCTAD publication, in collaboration with the Japan External Trade Organisation (JETRO) titled “South-South trade in Asia: The Role of Regional Trade Agreements, had pointed to the factors influencing the expansion of south-south trade in Asia as the following:

- Substantial increase in demand for natural resources from rapidly growing developing countries;
- Increasing demand for new markets particularly for exports of manufactured goods;
- Strategies for regional and global supply chain of transnational corporations from the north as well as those from the south;
- Growing interest across the south to integrate their economies through bilateral, regional and interregional trade agreements;
- Increased access to markets through inters alia, access to the internet.

I think these reasons do not hold true for only Asia but for South-South trade and co-operation as a whole.

Yesterday, while I was still searching for what I should be speaking about, I stumbled on the web site of the University of Mumbai Centre for African Studies. There was an advertisement calling for the submission of papers for an event scheduled for 23 – 25 February 2009, with the Theme “Redefining South – South Co-operation: Africa on the Centre Stage”: and I thought, how apt, this theme was for the event here today. Perhaps, the only difference is that here Africa is not on the centre stage, but certainly a key “Spoke”, propelling south-south trade and overall co-operation.

The concept note to the Mumbai event also struck me in the sense that it states that “today south-south co-operation is not an option but an imperative for developing countries to meet their common challenges”.

To underscore this imperative, the UNCTAD Publication cited above, in analyzing the dynamics of south-south trade flows and performance, made the following
revelations indicating that the share of exports from developing countries in international trade has continued to grow since the last decade:

- In 2006 total south exports reached $4.5 trillion, accounting for 37% of world trade. This performance has in large part been attributed to expansion of South-south trade.

- Again, in 2006, south-South trade amounted to over $2 trillion, accounting for 17% of world exports, indicating a rise from 11% in 1995.

- Total South-South exports accounted for 46% of total developing countries exports, increasing from 41% in 1995, while exports from the rest of the world to the south also increased 25% in 2005, up from 23% in 1995.

- Trends further indicate 51% of developing Asia’s export went to the South, while for Africa and developing Americas’ exports to the South also accounted for 30% and 27% of their total exports respectively.

- South-South exports have increased at a much faster pace than exports from developed countries to the south, rising by over 200% between 1995 and 2005, while exports from developed countries rose by 140%, within the same period.

- Among developing countries, the UNCTAD report indicates that the highest growth of exports to the South was recorded by Africa, with 277% increase while within the same period of 1995 – 2005, exports to the rest of the world increased by 179%. Asian exports was said to have increased by a much greater rate than its exports to the rest of the world, while increase in exports from the Americas, to the South was slightly lower than their exports to the rest of the world.

**AFRICA IN THE SOUTH-SOUTH CO-OPERATIONS NEXUS**

From the indications above, Africa appears to be the beautiful bride in this new dynamics of South –South Trade and co-operation, contributing in no small way towards satisfying the twin factors that have helped expand South-South trade, namely: substantial increase in demand for natural resources from rapidly growing developing countries; and increasing demand for new markets particularly for exports of manufactured goods. While, the trends indicate that Asia plays a dominant role in the directions of trade flows in South-South trade, accounting for the greatest inflow of both imports and exports, including intra-Asia trade, trade between Asia and Africa is said to assume a particular trend of interregional specialisation. While Africa imports mainly manufactures from Asia (textiles and apparels, electronic goods and vehicles) nearly 80%of Africa’s export to Asia are natural resources, (oil, mineral ores and base metal products).
Unfortunately, trade within Africa continues to experience low performance, accounting for only 10% of its overall trade with the rest of the world. While the situation remains, African countries have long believed that regional integration is a key strategy for integration and development of Africa. The Abuja Treaty, establishing the African Economic Community (AEC), had the identified Regional Economic Communities (RECs) as the building blocks of a continental customs union within a period of 25 years.

In spite of this regional integration in Africa have witnessed mixed results and continues to face critical challenges, ranging from structural economic deformities such as weak productive capacity, lack of complementarity and geographical asymmetries to trade policy regimes, which maintain disparate tariff and non-tariff barriers, thereby undermining the very basis objectives of free trade arrangements, they seek to enthrone.

There is also the challenge simultaneous membership of different regional trade arrangements with often conflicting objectives, while calls for the rationalization of the many existing regional groupings on the continent to which African countries belong have remained unheeded.

Added to the foregoing, is the new challenge that the ongoing Economic Partnership Agreement (EPA) negotiations, whose likely outcomes for the regional integration processes and further south-south co-operation, particularly in terms of trade and investments, have continued to raise serious concerns, both for the RECs and other Southern developing countries. In this regard, the immediate outcomes of the signing of Interim Economic Partnership Agreements (IEPAs), by number of African countries within respective RECS, have exposed the fragility of the regional groupings, further confirming the fears that the EPAs have the tendency to stall and indeed reverse the steady progress that have been achieved by the RECs in recent years.

Some of the provisions enshrined in the IEPA and even recurring in the ongoing negotiations for full EPAs, such as the inclusion of the MFN and National treatment clauses, the scope of coverage of liberalization in market access, among others, have raised serious questions on the implications for South-South trade and co-operation.

**WHAT ROLE FOR THE AFRICAN UNION**

In all of the foregoing, what is therefore the role of the African Union (AU)? The AU strongly supports the promotion of south-south trade and overall co-operation. This
is effectively captured under one of the four pillars of the AU’s Strategic Plan 2009 – 2012, namely the pillar on “Development, Integration and Co-operation”. In pursuance of this objective, the AU has adopted a number of measures and initiatives which have been covered under the broad frames of “Africa’s visibility” and “Africa One Voice”. Through these frameworks, the Union has decided a to play a more visible and proactive role:

- At the trade level, under the framework of Africa One Voice, the machinery of the Conference of Trade Ministers, have been fully institutionalized, to evolve common positions for Africa, particularly regarding the World Trade Organisation (WTO) and the EPA negotiations.

- On regional integration, and within the ambit of achieving the objectives of the AEC, there has now been institutionalized, an effective co-ordination process between the African Union Commission (AUC) and the RECs, as to ensure that the objectives of both the AU and the RECs are properly streamlined.

- Along this line, the AUC and the United Nations Economic Commission for Africa (UNECA), have been charged to develop a template that will guide the RECs on their EPA negotiations with the European Union.

- In pursuance of its regional integration objectives, under the new strategic plan just adopted at the just concluded Summit of Heads of state and Government, a Minimum Integration Programme (MIP) has been adopted, with the aim of setting minimum standards and objectives that the RECs would strive to achieve. The main aim is to streamline the integration goals of the RECs with the overall integration objectives of the AU. It is therefore expected that the achievement of the minimum integration benchmarks would not only contribute to increasing intra and inter regional trade, it will also contribute to greater South –South engagement by the African continent.

- At the broader South-South level, a couple of initiatives have already been undertaken, from which major beneficial results have been recorded. These include the Sino-African Summit (2006); the Indo-African Summit (2008); the Africa-south America Summit (2006). These initiatives, particularly the Sino-African summit and the Indo-African Summits have led to the offer of duty free and quota free market access opportunities for African exports to China and India, respectively. Others are the Strategic partnerships with Turkey, Japan (TICAD), South Korea and the European Union.

- On foreign direct Investment, significant investment capital has flowed into Africa through the above mentioned strategic partnerships. The Economic Report for Africa 2008, published jointly by the ECA and AU, reports that FDI originating from the South increased from 5% of outward flows in 1990 to 17% of total in 2005. Of this China’s outward flow of FDI amounted to $16.1
billion in 2006, up by 32% over the previous year. This resulted in a stock of FDI of $73 billion, excluding the financial sector. This development was attributed partly to the “going abroad Strategy launched by the Chinese Government in 2000.

- For Africa, Chinese aid flows have come in the form of technical assistance and soft loans. As of 2006, existing loans and credit lines were estimated to be about $19 billion. Aid is said however to have concentrated in a small number of oil and mineral exporting countries.
- China is reported to have cancelled an estimated $260 million debt in a number of least developing African countries, while it plans to double aid to Africa in 2009.
- Chinese Assistance is also said to be largely in infrastructure (energy, telecommunications, transportation and construction).

**CHALLENGES AND OPPORTUNITIES**

- First, the potential for increased South-South co-operation, open a vista of opportunities for Africa, particularly as expansion in the demand for Africa’s natural resources continue, in the other emerging economies of the South, particularly in Asia.
- As Africa’s RECs continue to reduce their trade and non-trade barriers and improve in convergence of macroeconomic policies and infrastructural development, especially along the trade facilitation lines, the prospects for increased regional market viability becomes real and hence strengthen the drive for increased south-south trade and the derivation of tangible benefits there from.

- But Challenges remain, among them that:
  - Whereas the intensification of ties with Asia holds benefits including increased revenues through exports, improved opportunities for direct employment and better conditions for local firms, it is said that African firms risk loosing markets if they are not able to compete with imports from Asia.
  - There are fears that the current global financial crisis, leading to shrinking global demand, and hence decline in global economic performance, could lead to a consequent depressed demand for Africa’s exports, (especially Commodities which have experienced favourable prices in recent years) especially to Asia and thereby threaten or negatively affect South-South Trade and investment.
  - Similarly, there is also the fear that the continuation and exacerbation of the global financial crisis may lead to reduction of aid and investment flows to
Africa, which can pose serious threats to progress already achieved in recent years, as key donor grapple with budget declines and intervention measures aimed at supporting their own ailing economies.

- There is the fear of the return to protectionism in the face of worsening economic fortunes and the inability of concluding acceptable deals in the ongoing WTO negotiations.

WAYS FORWARD

- In spite of the challenges, the advantages of increased and deepened South-South Co-operation continue to offer the best prospects, for pursuing development and more effective engagement in the global economy.

- For Africa, consolidation and sustenance of the integration process remains key in the promotion of South-South Co-operation. Interestingly, the Strategic plan 2009 -2012 recently adopted by the AU Summit, already endorses Integration, Development and co-operation as a major pillar and the sustenance of existing co-operation initiatives such as the Sino-Africa; Indo-Africa and the Africa-South America Summits, among others, remain viable frameworks for strengthening South-South co-operation.

- However, Africa must work towards the eventual rationalization of the myriad numbers of disparate regional groupings which have served more to distract the Member-states than help the integration process. The recent proposal by three regional groupings, namely the East African Community (EAC); the common Market for East and Southern Africa (COMESA); and the Southern Africa Development Community (SADC), to form a homogeneous regional community is a step in the right direction and should be strongly encouraged towards that end.

- Given the uncertain direction of the global financial crisis, South-South co-operation must move more towards the sharing of experiences and best practices and increased co-ordination of activities in the financial sector regulatory reforms among others, including the reform of the international financial systems, so as to bring Southern experiences and conditions to bear in the reform process.