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Reconstructing regional integration in Africa? A briefing paper on the UNCTAD 2013 Economic Development in Africa Report

by Harry Zarenda

During July 2013, the United Nations Conference on Trade and Development (UNCTAD) released its new edition of the annual *Economic Development in Africa Report* (UNCTAD, 2013). The focus in this specific report deals with **intra-African trade** and has included in its title 'Unlocking Private Sector Dynamism'. A succinct and critical summary of the essence of this Report has been produced in a very recent Trade Law Centre Hot Seat Comment (Woolfrey, 2013). Apart from providing a more expanded summary of some of the important conclusions emerging from the Report, this briefing will attempt to unveil and evaluate the approach and set of recommendations put forward by UNCTAD in the Report.

This briefing, initially, provides a summary of the UNCTAD Report. Then it introduces a more critical focus on some of the overall UNCTAD Report's conclusions and suggested policies, relating to the encouragement and expansion of intra-Africa trade. Before going into the details of the Report, it should be emphasised that since 2008 UNCTAD has produced several relevant annual Economic Development in Africa reports dealing with pertinent issues which relate to deepening and expanding Intra-African regional trade (UNCTAD, 2008, 2009, 2011). In addition, the UNCTAD and UNIDO definitive and elaborate report dealing with Industrial Development in Africa in the new Global Environment (UNCTAD and UNIDO, 2011) highlighted some critically important and fundamental policy guidelines for enhancing intraregional trade, also incorporated in the present Report. The 2013 Report can be viewed as an attempt to apply and justify many of the findings and recommendations of these earlier reports that were compiled over the past six years or so. However, as pointed out in the introduction to the 2013 Report, there are four significant respects that differentiate the present Report from abovementioned studies. Firstly, there is more emphasis on how to integrate and strengthen the private sector to boost and promote intra-African trade. Secondly there is a recognition of the lack of productive capacity acting as an important barrier to expanding intra-African trade – an obstacle that UNCTAD regards as important in terms of emphasis as the elimination of trade barriers. Thirdly, the present Report claims to provide 'novel and specific ideas' on how to enhance the implementation of existing regional trade arrangements with a view to boosting intra-African trade. Fourthly, the present Report stresses the need for an alternative approach to regional integration in Africa by placing substantial emphasis on the concept and application of 'development regionalism' in the African context. This latter concept contrasts with the historic linear models of integration which were characterised by process rather than by pragmatism and design.

The structure and content of the UNCTAD 2013 Report

The tone and context of the Report is set in the broad introduction. The opening comment in the introduction bemoans the fact that, despite the enormous potential that thriving intra- African trade can contribute to creating employment, catalysing investment and fostering growth in Africa as well as the continual efforts made by African governments to exploit this potential of trade for development, in reality very little significant progress has been made. The introduction cites that over the period from 2007-2011,the average share of intra-African exports in total merchandise exports in Africa was 11%, compared with 50% in developing Asia and some 21% in Latin America and the Caribbean, while the share in Europe accounted for 70% (UNCTAD, 2013:2). The report mentions that one of the most important reasons for such weak regional trade performance in Africa relates to a focus in approach too heavily reliant on the elimination of trade barriers and less on the development of the productive capacities for trade (Ibid.:2). It is this latter aspect that provides the Report with its rationale.

The Report is divided into five chapters. Chapter 1 presents some interesting and (in the context of the statistics in the previous paragraph) stark empirical insights into the recent state of intra-African trade. Chapter 2 deals with the 'drivers, challenges and policy options' for encouraging such trade. In Chapter 3, the role of the private sector and productivity in enhancing trade is discussed, while Chapter 4 is devoted to a discussion of the context of 'development regionalism' as a crucial component of trade. The concluding Chapter 5 addresses in summary form the main findings and recommendations of the Report and how these are related to the issue of 'unlocking of private sector dynamism'. In effect this chapter constitutes an executive summary.

Empirical data on inter-African trade (Chapter 1)

The data presented in this chapter, covering the period 1996-2011, highlights several issues. Based on the UNCTADSTAT database the statistical data in the chapter attempts to provide an understanding of the scale, trends and composition of intra-African trade. Acknowledging the obvious problem of data limitations, much of the analysis is carried out in terms of trading in goods rather than services. The emphasis in the empirical analysis focuses on developments within the eight regional communities, recognised by the African Union as building blocks of the future African Economic Community (AEC). The broad conclusions emerging from the data (which are additionally summarised in the first half of Chapter 5) indicate several important trends.

The level of intra-African trade has increased both in nominal and real terms.

While over the period from 2000-2011 intra-African trade increased in nominal terms by a factor of 4.1, in real volume and value terms (at constant 2000 prices) the factor was only 1.7 – suggesting that most of the increase in both volume and value for such trade could be attributable to price increases (Ibid.:13). The fact that many of these African countries are primary commodity producers and that these prices are predominantly externally determined, is a source of concern.

There has been a significant decline in the share of intra-African trade in total African trade.

Intra-African trade in total trade increased from 19.3% in 1995 to a peak of 33.4% in 1997. By 2011 this had fallen to a level of 11.3% (Ibid.:13). The implication of this statistic is that African trade with the rest of the world increased much faster than trade with other countries in Africa.

African regional economic communities tend to undertake a significant part of their trade in the continent within their own regional blocs.

Statistics cited in the Report for the Southern African Development Community (SADC), for example, suggest that over the period 2007-2011, 78% of SADC trade within Africa went to the SADC region. While these figures are high and do indicate the positive impact that the formation of such a community can have on trade within the bloc, they are low relative to what they were during the period from 1996-2000, when the average level approximated 95% (Ibid.:19).

Despite relatively low intra-African trade overall there is significant heterogeneity in the importance of such trade for some countries.

The Report cites that over the period, 2007-2011, countries such as Benin, Djibouti, Kenya, Mali, Rwanda, Senegal, Togo, Uganda and Zimbabwe exported in excess of 40% of their total exports to Africa, while Botswana, Burkina Faso, the Democratic Republic of the Congo, Lesotho, Malawi, MaIi, Rwanda, Sierra Leone, Swaziland Zambia and Zimbabwe, imported in excess of 40% of their goods from Africa over the same period (Ibid.:21).

Opportunities exist for intra-African trade in many product categories, particularly food and agricultural products.

This finding relates to the fact that despite the abundance of arable land and the concentration of agriculture in the productive structures of many African countries, many African countries import food and agricultural products from countries outside the continent. The Report cites the following figures: between 2007 and 2011, 37 countries were net food importers, but only 17% of African world trade in food and live animals took place within the continent. Furthermore, over the same period, only about 21% of Africa's food exports went to the continent (Ibid.:29,36).

While the share of manufacturing in intra-African trade is higher than its share in African trade with the rest of the world, it has been in steady decline over the past decade.

The share of manufacturing in intra- African trade averaged about 43% during the period from 2007-2011. This can be compared with about 14% in the share of manufacturing in African trade with the rest of the world. According to UNCTAD, this has declined since the mid-1990s due to deindustrialisation in many African countries. Furthermore, the share of manufacturing in intra-African trade is far below the share in other regions of the world such as Asia (65%) and Latin America (56%) (Ibid.:36).

Intra-African investment has expanded over the past decade but much of this investment is focused on the services sector.

The UNCTAD database suggests that between 2008 and 2010 several countries (Botswana, Malawi, Nigeria, Uganda and Tanzania) received more than 20% of their total inward stock of Foreign Direct Investment (FDI) from other African countries. Also, statistics suggest that intra-African FDI in new projects for the continent as a whole grew at some 23% per annum between 2003 and 2011. Much of this investment (68%) tended to be directed at the services sector, while only 28% went to manufacturing and 4% to agriculture (Ibid.:127).

African countries have large informal sectors and the average size of the formal business enterprise is relatively small.

The issue of the 'informal sector' in international trade is certainly a neglected area of study. In the context of intra-African trade, its significance could certainly help account for the possibility of misinterpreting statistics and forming a consensus view that such trade is low relative to other continents and their regional groupings. Given that much of the abovementioned statistics are reliant on official available data, and frequently exclude smuggling, second-hand trade and cross-border purchases, exclusion of this data could make a substantial difference to various conclusions. Based on survey data in some regions of Africa, UNCTAD estimates that for the SADC region, the inclusion of informal trade could amount to some 30-40% of intra-African trade (Ibid.:14). The other aspect of this reality is that by virtue of being 'informal' and operating outside the official legal and regulatory framework, such enterprises have very limited access to government support, basic infrastructure and finance for growth. Even formal manufacturing firms seem to be much smaller in average size than in other developing regions such as Asia, with UNCTAD citing surveys of manufacturing firms in sub-Saharan Africa averaging 47 employees compared with 171 in Malaysia, 195 in Vietnam and 977 in China. In the formal manufacturing sector, small domestic firms are not conducive to participation in substantial exports (Ibid.:128). UNCTAD's reflection on estimated labour productivity per worker in Africa is also revealing: \$4 734 compared with \$6 631 in East Asia, \$8 890 for Latin America and \$10 297 for Eastern Europe and Central Asia (Ibid.:129).

It is against this background of empirically grounded attempted stylised facts that UNCTAD bases the rest of its analysis. To UNCTAD's credit, even though one may cast doubts regarding the accuracy relating to some of the empirical data contained in the Report, the detail and focused approach incorporated in the above data can be extremely useful to researchers and policy makers.

The drivers, challenges and policy options affecting intra-African trade (Chapter 2)

This relatively short chapter deals with the multiplicity of regional blocs on the continent. The chapter begins with a summary of the classic Vinerian economic rationale for economic integration in terms of static trade creation and diversion effects and explores briefly the more dynamic growth benefits in terms of economies of scale, technological transfer and the intensification of competition encouraging more efficient resource utilisation – all of which can enhance employment, investment and growth (Ibid.:47-48). The chapter looks briefly at the issue of the distribution of benefits in a trade bloc and issues a warning that as African countries step up their efforts to boost intra-African trade through strengthening regional trade blocs, it is crucial that credible mechanisms are established to ensure promotion of equitable development among members.

The rest of the chapter focuses on a more detailed discussion of some of the factors adversely affecting enhanced intra-African trade. Three broad categories of factors are identified:

- poor competitiveness in production and trade, relating to infrastructural problems forcing escalated transactions costs, as well as high tariff and non-tariff barriers
- product and market concentration, whereby it is cited that Africa's export concentration index (0.411) in 2011 was double that of South Asia (0.203) and four times that of East Asia (0.103) respectively (Ibid.:54); market concentration: the examples of SADC (with approximately 59% of the region's imports sourced from South Africa), the EAC (with Kenya accounting for 75% of intra-EAC exports) and ECOWAS (with Nigeria dominating the region's exports) (Ibid.:55)
- external factors, such as globalisation, trade liberalisation and economic partnership agreements, which have all impacted on the level of intra-African trade.

The chapter concludes with a plea for enhancing the implementation of regional trade agreements in order to address these obstacles (Ibid.:58):

> If African Governments want to make significant progress in boosting regional integration they will have to make more effort to address the problem of lack of implementation of regional agreements. Overlapping membership of regional organizations, concern about ceding national sovereignty to regional organizations, inadequate domestic financial resources and dependence on donor funding, setting of unrealistic targets and deadlines and lack of effective mechanisms to compensate potential losers from integration are some of the reasons for lack of implementation of regional trade agreements.

The UNCTAD Report argues for leadership by both the relatively large and resource-rich African countries to enhance the implementation of regional trade agreements and recommends these countries contributing a small percentage of either their regional trade or resource revenue to build regional infrastructure and finance an integration fund to build supply capacity in those smaller countries that may lose from regional integration in the short run (Ibid.:58-59,132). As far as monitoring of these agreements is concerned, UNCTAD urges an European Union (EU) type of regular 'scorecard' to ensure that regional trade rules are transposed into national law by agreed deadlines (Ibid.:59,132). The success of such a policy is also heavily reliant on the elimination of overlapping membership of regional economic communities.

The private sector, enterprises and productivity (Chapter 3)

This chapter can be split into two parts. The first section looks at the key distinctive features of the African enterprise structure, many of which include high levels of informality, small size structure and size, weak inter-firm linkages, low levels of export competitiveness, lack of innovation capabilities, high costs in relation to productivity – all of which mitigate against entering and penetrating export markets. Having identified these, the second part of the chapter focuses on some key elements of what UNCTAD considers a 'credible' package of recommendations to promote entrepreneurship and boost productive capacity in the region. It is essentially this 'unlocking private sector dynamism' to boost intra-African trade that forms one component of the core central message emphasised in the UNCTAD 2013 report, hence its inclusion in the sub-title of the report.

The section begins with the realisation of the constraints imposed by prevailing inadequate infrastructural deficiencies (lack of transport, energy, communications and water). There is reference as to how these are presently being addressed by organisations such as the African Union (AU), New Partnership for Africa's Development (NEPAD) and private-public partnerships, infrastructure bonds and financing through regional development finance institutions. There certainly is an acute awareness that these have to be redressed, and necessitate regional as well as continental interaction, as is presently evident (Ibid.:83-86).

On a more micro-level, lack of access to finance is particularly serious given the dominant pattern of firm ownership (in small and medium-sized enterprises – SMEs) and the fact that these rate as low priority for domestic financial institutions. A recommendation of the Report (Ibid.:87-88, 130) is to establish credit bureaus and registries to enhance finance for SMEs. For those larger firms encountering difficulties in obtaining access to long-term finance there is a suggestion of guarantee schemes and more involvement by development banks and regional capital markets to address this problem (Ibid.:88).

Another problem addressed in this section of the Report relates to the need to develop and strengthen workforce skills; this is due to the intense international competition for goods in both export and domestic markets. While such competition has been strongly influenced by globalisation, the realisation is widespread that domestic capabilities have to be substantially enhanced through technological innovation and investment in education, training and research and development. Recommendations in the UNCTAD Report suggest that this is not the sole responsibility of governments alone but that the private sector, universities and research institutes should play a role as well (Ibid.:89-92).

The chapter concludes with a brief discussion on the need to strengthen mechanisms for regular government consultation with the private sector (in order to better understand the constraints faced by the private sector and facilitate this sector's participation in the trading system), as well as the need to build strong local and regional resource-based value chains. The brevity devoted to these latter sections should not be interpreted as lacking in importance – they have been covered substantially in some of UNCTAD's previous reports mentioned in the bibliography.

Boosting intra-African trade in the context of development regionalism (Chapter 4)

This chapter emphasises that the concept of 'development regionalism' represents one of the key drivers for a successful regional integration strategy. In fact, UNCTAD explicitly argues that the limited success of regional integration in promoting intra-African trade to date can be attributed to the fact that aspects of the development agenda have been absent or not implemented in its various regional integration arrangements (Ibid.:96). The chapter then briefly reviews some current African regional integration initiatives in the context of development integration. In comparison, the South-East Asian integration arrangement (the Greater Mekong Subregion comprising Cambodia, China, Lao, Myanmar, Thailand and Vietnam) is highlighted as an example of how a development agenda in regional integration arrangements can effectively address the inhibiting constraints and capacity within regions to produce goods and services competitively. The chapter concludes with recommendations for the design of a developmental integration agenda drawing attention to the associated challenges that ought to be factored into the notion of development regionalism. In this Report (Ibid.:96,97), UNCTAD reproduces its earlier (2011) conceptualisation of 'development regionalism' whereby it considers this important notion as

> a development-based integration agenda aimed at securing the traditional benefits of regional integration, ensuring that such benefits flow to all member countries and seeking to enhance the integration of member countries into world markets as a means of fostering regional development. This approach assumes the need for gradual and sequenced trade liberalization alongside conscious and planned policy actions aimed at building the productive capacities of member states (mainly in the private sector) and promoting industrial restructuring. The development of productive capacities and enforcing competitiveness are (sic) necessary to enable domestic businesses to participate in regional and global value chains and to compete in global markets.

What characterises this approach, according to UNCTAD, is that it goes beyond the domain of regional trade liberalisation *per se* by including cooperation in more strategic and ambitious areas such as industrial and infrastructure policy, investment, export promotion and selective protection

(Ibid.:97). The envisaged agenda extends beyond tariffs and non-tariff measures, import and export quotas and bans, technical standards and the like. UNCTAD recommends that development issues (such as competition policy, the provision of infrastructure and other public goods, research and development and building the productive capacities of both private and state-owned enterprises) be harmonised and coordinated in the regional arrangement (Ibid.:97). Simultaneously, UNCTAD argues for a strengthening of structures, institutions and capabilities of national governments to implement such policies.

It is worth mentioning at this point that the concept of development regionalism has a history that predates UNCTAD's elaboration in some of its more recent documents. Doidge (2007) argues that, since the early 1990s, the EU has adopted a more development-oriented approach, both at the intra- as well as inter-regional levels. While regional integration has since then become a popular discourse in the 'neo-liberal counter-revolution in development thinking', in that it was conceived as a stepping stone towards liberalising the world trading order, Doidge questions the essential underlying assumption that the pursuit of economic growth through interaction with global markets will deliver the poverty reduction seen by major actors as synonymous with development. In recent times, market liberalisation is no longer a policy choice of regional groupings – it is *implied* by regionalism (Doidge, 2007:10). Given the left-of-centre argument provided by Doidge, one can see why some governments are reluctant to indulge in development regionalism.

Another interesting interpretation of development regionalism is provided by Nesadurai (2003). This author reflects on how the globalisation/regionalism relationship has been traditionally and ideally typecast as:

- an **open regionalism model:** this has been the dominant theoretical and 'economic realist' approach and forms the core of the UNCTAD report. The objective in this approach is to predominantly advance the competitive position of businesses within a region as a stepping stone to eventual global competition, and/or to attract wealth-creating multinational FDI to the region, amid competition from other regions for such investment. The driving force for this form of open regionalism is the concern with economic efficiency and ensuring economic growth through the participation in wealth-creating activities, initially at the regional level.
- a '**resistance to globalisation' model:** this interpretation seeks to preserve through regionalism, particular forms of entrenched social and economic arrangements that would be

unsustainable amid globalisation. In other words, regionalism in this model can be construed as an insular reaction to globalisation.

Nesadurai criticises the above categorisation in that while it provides interesting insights into the relationship between globalisation and regionalism, the models are limited in their treatment of the state-market relationship, particularly in blurring the distinction between foreign and domestic ownership. It is within this context that Nesadurai considers an alternative form of development regionalism encapsulating the developmental state idea of state intervention in markets to promote national development agendas, in this case by adopting an approach to regionalism through which to nurture emerging domestic firms to eventually become internationally competitive (Nesadurai 2003238). The expanded regional market generated through inter-state cooperation would involve temporary protection or privileges for domestic capital in this expanded market as the dominant instruments in this form of development regionalism. This approach incorporating both the globalisation reality and the imperative of growth 'encompasses a period of temporary and limited resistance to aspects of globalization through which attempts are made to build capabilities that will enable domestic businesses eventually to participate in global market activities' (Ibid.:238). Nesadurai then shows how instrumental this latter form of development regionalism proved during recent integration attempts in the Association of South-East Asian Nations (ASEAN) Free Trade Area (AFTA). For a period, foreign (non-ASEAN nations) were granted full national treatment and market access treatment only some years after ASEAN national investors – and this, according to Nesadurai, was a crucial component of the success of the ASEAN project.

The above rationale is not dissimilar to debates surrounding the infant-industry arguments regarding protection that were so dominant during the latter part of the last century. It advocates a form of temporary protectionism to enable (in the regional context) private firms to eventually compete with international firms and acquire some form of regional competitive advantage. This strategy may be appealing to the private business sector and could encourage firms across the region to interact and to establish viable regional value chains.

The UNCTAD Report, having expounded on its vision of development regionalism, then looks at current regional integration initiatives in Africa to see how conducive they are to development regionalism. A brief review of SADC, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) acknowledges that there are some important development initiatives within these regional bodies but that a 'comprehensive, coherent developmental integration agenda has yet to be developed and implemented' (Ibid.;96).

As a contrast to the limited implementation of various African development integration efforts, the Report examines the Greater Mekong Subregion in South East Asia since 1992, a case study which it considers a model of successful development integration. This example has certainly influenced much of the UNCTAD approach to development regionalism, not only evident in this Report but in general. It is worth pointing out, however, that this regional grouping contained only six countries (Cambodia, China, Laos, Myanmar, Thailand and Vietnam) and given the dominance of China experiencing spectacular economic growth during the period, the appropriateness of this model in an African context can be subject to debate.

The chapter concludes with an overview of the importance of special economic zones and regional value chains in the process of regional integration in Africa.

Conclusions

This 2013 UNCTAD Report has certainly highlighted some critically important issues in the debate about regional integration in Africa. Overall, the Report can be interpreted as representing a consistency and continuity with the findings and arguments of several earlier UNCTAD reports on the issue. The trends represented by the updated statistical database are extremely useful and warrant further research, particularly research pertaining to the importance of unofficial and informal trade in various regions within Africa. The central theme of the Report, that governments in Africa in their integration efforts need to shift the emphasis from a process and linear approach (comprising the elimination of trade barriers) to a more development-based approach (which pays as much attention to the building of productive capacity and private-sector development as to the elimination of trade barriers) sends a timely and important message to policy makers regarding important criteria for successful integration efforts. However, experiences of various regional integration communities have shown that there is no real universal template for success in developing and sustaining such communities. As this briefing has attempted to show, there can be several variants of development regionalism that could effectively unlock private-sector dynamism. The assumption that the particular form of development-oriented regionalism advocated by UNCTAD is appropriate and attractive to various actors involved in attempting to ensure a successful regional integration agenda for Africa is questionable. A less ambitious and more insular and effective integration agenda as an initial objective for the continent could provide a more effective rallying cry and overcome the present impasse in reconstructing integration for the regions on the continent.

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