BOOSTING INTRA-AFRICA TRADE THROUGH REGIONAL INTEGRATION

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OUTLINE

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- Synopsis of Africa’s trade direction and composition over the last decade
- Key issues and priorities to address in order to boost intra-African trade
- Recommendations
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Background

• The January 2012 African Union Summit of Heads of State and Government focused on the theme of “Boosting Intra-Africa Trade”.

• The choice of the theme was both appropriate and timely, given the challenges that were facing this trade, and the need to come up with strategies to improve the situation.

• The January 2011 AU Summit also endorsed the recommendation of the 6th Ordinary Session of the AU Ministers of Trade held in Kigali from 29 October – 2 November 2010 to fast track the establishment of a Pan-African Free Trade
Context

• It is against this backdrop, that a Paper was prepared to highlight Africa’s overall trade flows and the potential for boosting intra-African trade by addressing key priority areas for moving the agenda forward.

• We should note, that there is a need to enhance the level of intra-African trade, thereby making it an important driver of development and regional integration in Africa as is the case in other regions of the world such as the EU and ASEAN
• Regional integration helps develop larger markets, foster greater competition and improve policy stance in many areas of the development agenda. And indeed, the pressure of globalization is forcing firms and countries to seek efficiency through larger markets and enhanced competition.

• Pooling economies and markets together through regional integration provides a wide market space to achieve economies of scale possible.
• To this end, African countries have established the African Union, created various Regional Economic Communities (RECs), and have held at heart the ideals of the Abuja Treaty establishing the African Economic Community and the Constitutive Act of the African Union.

• In this context, the RECs are pursuing integration through free trade, and developing customs unions and a common market. Eventually, these efforts are expected to converge to an African Common Market (ACM) and an African Economic Community (AEC).

• Through such a platform, Africa can strengthen its economic independence and empowerment with respect to the rest of the world.
Rationale

• To expand intra-African trade by removing tariffs and non-tariff barriers and enhancing mutually advantageous commercial relations through trade liberalization schemes.
• However, despite Africa’s determination to dismantle trade restrictions in order to create a common market within the framework of regional and sub-regional agreements, barriers to intra-African trade persist and have impacted on the level of this trade.

• On an average over the past decade, only about 10 – 12 per cent of African trade is with African nations, whilst 40% of North American trade is with other North American countries, and 63% of trade by countries in Western Europe is with other Western European nations.
• Enhancing intra-African trade should help promote specialization amongst African countries and develop regional value chains to enhance diversification and competitiveness.

• African countries therefore need to aggressively pursue comprehensive and harmonized regional trade policies as part of their collective development and transformation strategy in the context of regional integration.
• In order to address this trend, African leaders are making landmark commitments to boosting intra-African trade. First was the landmark decision by COMESA, EAC and SADC to establish a single Free Trade Area. The launch of this tripartite FTA initiative covering 26 African countries, representing more than half of AU membership, with a combined population of 530 million (57% of Africa’s population) and a total GDP of $630 billion or 53% of Africa’s total GDP has galvanized interest towards a much broader Continental FTA.

• Accordingly, AU Ministers of Trade, at their 6th Ordinary Session in Kigali in November 2010, after due assessment of the progress made in the implementation of FTAs and Customs Unions in the various RECs, recommended the fast tracking of the establishment of an African FTA to unlock the trade potentials of the continent and position it adequately in the global trading arena.

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• The collaboration and cooperation of RECs through the Continental FTA should further improve regional infrastructure and consolidate regional markets through improved interconnectivity in all forms of transport and communication as well as promote energy pooling to enhance the regions’ competitiveness. Finally, the continental FTA will help fast track the realization of the Abuja Treaty’s vision of an African Common Market, and ultimately, the African Economic Community (AEC).
Synopsis of Africa’s trade direction and composition over the last decade

Giving a sense of the level of intra-African trade

Table 1 presents the major sources of Africa’s imports and their percentage shares. Furthermore, the major sources of imports to Africa lie outside the continent.

Average per cent share of import sources for the last ten years

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<th>REC</th>
<th>Africa</th>
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Economic Community of West African States, EC Central African States, Inter Governmental Authority for Development, Southern African Development Community, Union of Maghreb Arab, Community of Sahel-Saharan States
However, the continent appears to be well-endowed in the categories relating to beverages and tobacco, ores, metals and precious stones. It also appears to have a huge endowment in the fuels product category, where its world exports exceeded its imports by a significant margin. This implies that Africa is more than capable of supplying its import needs in fuel.
• Some key messages emerge on the analysis of Africa’s trade flows and patterns: Intra-REC exports and imports tend to be dominated by a few countries; the EU and USA are major export destinations for Africa; however, Asia in general and China in particular, are also important export markets for Africa;

• Major sources of imports to Africa remain outside the African continent;

• Community markets to create a larger Africa-wide marketplace, given that trading interests of countries are not necessarily confined inside REC borders;
Trends are captured in the 2012 COMESA Investment Report

1. COMESA inward FDI decreased by 49% in 2011 compared to its 2010 levels.

2. Countries that experienced the most noteworthy growth in FDI in 2011 were Rwanda (151%), Zimbabwe (133%), Ethiopia (117%), and Kenya (79%).

3. In terms of total COMESA FDI inflows, Sudan, Zambia, and Congo DR accounted for the highest shares of 29%, 21% and 18% respectively.
4. Egypt’s average FDI inflows for the period 2007-2011 from the COMESA region amounted to US$51.77 million. The majority of the FDI received by Egypt was contributed by Libya, especially prior to 2011.

5. Results from the Kenya 2010 Foreign Investment Survey point toward the fact that Mauritius and Uganda were the major COMESA investors in Kenya.

6. Average COMESA originating inflows into Uganda was close to 78.5 Million between 2007 and 2011.

7. Major outward investors in COMESA are Libya, Egypt, Mauritius and Kenya. Significant declines in FDI outflows were recorded in 2011 especially for North African COMESA Member countries.
Key issues and priorities to address in order to boost intra-African trade

• If Africa has to make a transformational progress on trade within the continent, it is imperative to put on the table and address all the various parameters that impinge on trade, bearing in mind that some of these priorities such as industrial capacity building and infrastructure development have been the subject of specific decisions and action plans by Africa’s political leaders.

• The second group of issues and priorities, though important, are also flagged out for consideration. However, actions in these areas could be addressed within a long term perspective. It doesn’t however prevent Member States, RECs and stakeholders to continue to address these issues within on-going and future initiatives.
FIRST GROUP OF ISSUES AND PRIORITIES

A. Broadening Africa’s economic and market space by fast-tracking the establishment of a Pan-African Free Trade Area

a. Overlapping membership to RECs continues to pose a big challenge towards negotiating and establishing a CFTA. Specifically, some countries belong to customs unions yet continue to negotiate towards establishing other customs unions. It is hoped that establishing a grand CFTA would serve as an effective route to resolve the issue of multiple and overlapping membership.

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b. Commitment to integration varies across countries. Some countries have not undertaken any liberalization within their respective RECs FTA. Accordingly, if they cannot commit themselves to a smaller FTA, it will be difficult for them to commit to a CFTA.

c. Some countries also remain skeptical of regional integration fearing domination by richer or more powerful states or ceding power to a supranational body. There is also the challenge arising from trade negotiations especially with some of the countries that are not in any form of FTA at the moment.
d. Limited human resource, financial and other enabling capacities undermine the viability and sustainability of institutional arrangements at national, regional and continental levels. A CFTA agreement would contain diverse areas that require commensurate manpower and institutional capacities with wide and deep knowledge across a spectrum of disciplines.

e. Finally, establishment of CFTA requires huge financial outlay to provide the facilitating and complementary infrastructure.
B. Addressing supply-side constraints and weak productive capacities

a. Addressing infrastructural bottlenecks.
b. Eliminating trade barriers through improved trade facilitation.
c. Enhancing opportunities for intra-African trade through trade information networks
d. Addressing financial needs of traders and economic operators through improved trade finance
e. Addressing adjustment costs associated with FTAs and trade liberalization to ensure equitable outcomes for Member States
SECOND GROUP OF ISSUES AND PRIORITIES

C. Addressing multiplicity and inconvertibility of currencies adding to business transaction costs

D. Promoting free movement of people as an important ingredient of cross-border trade

E. Enhancing trade in services as an emerging opportunity for intra-African trade

F. Addressing other important crosscutting issues that have a bearing on intra-African trade
Recommendations

- Assist RECs develop a Regional Framework for FAIR competition policy based on limitations.
- Assist Regional Economic Communities in developing regional frameworks for services in trade liberalization.
- Assist Member States in strengthening domestic regulations in specific services sectors in preparation for regional and continental liberalization.
- Assist RECs/Member States mainstream services into regional and national export strategies with focus on sectors with potential to enhance intra-African trade in services.
- Improve service trade statistics to aid policy analysis and formulation.
• In order to foster intra-African trade, investment and cooperation, the removal of impediments to free movement of people, labor and capital is important. African countries should remove restrictions on travel and right of establishment.

• A medium term objective should be adopted for sub-regional citizenship including sub-regional passports (as in the case of ECOWAS) as a stepping stone to a common African citizenship and African passport.

• Members States are particularly requested to abolish visa requirements for Africans traveling within the continent.
• In the short-term, we should put in place measures to establish clearing mechanisms to address the multiplicity of African currencies and exchange-rate arrangements (including their associated uncertainties), with a view to supporting the establishment of monetary union in the medium to long run.

• RECs should institute binding monitoring mechanisms of the macroeconomic convergence criteria which will encourage mutual convertibility of their national currencies within their territories
• Similar compensation mechanisms for affected countries need to be put in place in RECs that have not done so, and more importantly within the proposed Continental Free Trade arrangement, in order to enable countries to correct and/or absorb adverse short-term impacts on government revenues, and other facets of the national economy.

• Other mechanisms for ensuring government revenues during the integration process include shifting away from reliance on customs duties to other forms of taxation.
• Accelerate the establishment of the African Investment Bank to inter-alia support trade financing
• Foster greater awareness of trade finance opportunities available at the AFREXIM Bank.
• Establish strong and well funded finance institutions including cross border micro credit programs for producers and exporters.
• Encourage existing banking and financial intermediaries to promote in their portfolios issues such as export finance in terms of pre-shipment and post-shipment finance needs and import loans.
• Promote networking and information sharing among businesses and chambers of commerce. Rainfall/ Expected drought etc. This will help agro sector to plan proactively and make most of the opportunity at any given point in time.

• Promote the use of regular regional trade fares and sector specific expo’

• Promote access to and use of ICTs, including online information hubs for trade procedures, transport and customs documentation for and market access and web sites for businesses

• Promote the production of a continent-wide business directory and encourage the regular publication of regional market surveys.

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• Member States to develop strategies to accelerate the implementation of the AIDA and 3ADI Action Plans that are required to be implemented at the National Level;

• RECs to develop strategies to accelerate the implementation of the AIDA and 3IDA Action Plans that are required to be implemented at the regional level;
Conclusion

• Intra-African trade has consistently remained low averaging about 10 percent. The direction of Africa’s trade both in terms of exports and imports has been heavily influenced by traditional links with the rest of the world, in particular with Europe.

• Over 80 per cent of African countries’ exports are destined for markets outside the continent, and a similar amount of the continent’s imports comes from external sources. Initiatives and programmes on trade liberalization and development under the auspices of the African Regional Economic Communities, though substantial and laudable, have had limited impact in terms of raising the average level of intra-African trade to more than 15 percent.

• Intra-regional trade in other regions of the world such as in the European Union (over 63%) and in Asia (over 40%) are much higher than Africa’s.
Several reasons account for low intra-African trade. The production and export structures of most African economies are geared to primary commodities such as minerals, timber, coffee, cocoa, and other raw materials, for which demand is externally oriented.

There is the stark reality of the continent’s structural deficiency, which manifests itself in the dichotomy between the traditional and modern sectors, in the excessive dependence on external inputs, and in external rather than domestic market as the principal mover in the development process.

Low production frontier curves are exacerbated by infrastructural and other bottlenecks. Inadequate infrastructure remains one of the chief obstacles to intra-African trade, investment, and private-sector development. All of these problems produce adverse effects in terms of narrow and low productivity, which in turn circumscribes the range of products African countries can trade among themselves.
The main question, therefore, is how to increase this trade as much as possible, if not close to levels within other regions like the EU and Asia, at least up to 25 percent or more in the coming years.
If there is one single conclusion or recommendation to this end, it would be to emphasize that it is time to move from rhetoric to **ACTION**.

THANK YOU