



OCCASIONAL PAPER NO 32

EU–Africa Project

May 2009

Africa's Challenges in International Trade and Regional Integration: What Role for Europe?

Phil Alves, Peter Draper and
Nkululeko Khumalo

South African Institute of International Affairs

African perspectives. Global insights.

ABOUT SAIIA

The South African Institute of International Affairs (SAIIA) has a long and proud record as South Africa's premier research institute on international issues. It is an independent, non-government think-tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs with particular emphasis on African issues and concerns. It is both a centre for research excellence and a home for stimulating public engagement. SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond. Core public policy research themes covered by SAIIA include good governance and democracy; economic policy-making; international security and peace; and new global challenges such as food security, global governance reform and the environment. Please consult our website www.saiia.org.za for further information about SAIIA's work.

This paper is the outcome of research commissioned by SAIIA's European Union–Africa (EU–Africa) Project.

ABOUT THE EU–AFRICA PROJECT

SAIIA's EU–Africa project focuses on the evolving relationship between the EU, its member states and Africa. As the largest trading and development cooperation partner, the EU and its member states play an important economic, political and diplomatic role in Africa. Furthermore, one of the pillars of the EU's external engagement is the promotion of 'effective multilateralism', and Europe is a significant player in global governance debates. Although Africa is often a marginal player in these debates, it has to be more proactive in responding to the challenges that new global power realities present. Thus, the EU–Africa project aims to facilitate greater awareness and understanding in South Africa and Africa of the dynamics of the relationship between the two continents and debate on global governance issues through research, seminars and conferences, and collaboration among African and European think-tanks. SAIIA is a member of the Europe-Africa Research Network (EARN).

SAIIA gratefully acknowledges the Konrad-Adenauer-Stiftung in South Africa, which has generously supported the EU–Africa project and this series.



Project Co-ordinator and Researcher: Romy.Chevallier@wits.ac.za

© SAIIA. May 2009

All rights are reserved. No part of this publication may be reproduced or utilised in any form by any means, electronic or mechanical, including photocopying and recording, or by any information or storage and retrieval system, without permission in writing from the publisher. Opinions expressed are the responsibility of the individual authors and not of SAIIA.

ABSTRACT

The challenges that Africa faces in trade and regional integration are legion, and well-documented. In this brief we attempt to summarise them against the backdrop of Africa's broad development priorities. We then explore the 'demand' and 'supply' sides of Africa's trade problems, noting where and how the European Union may improve its efforts to assist. This is a wide-ranging discussion covering World Trade Organisation negotiating dynamics, official development assistance, trade facilitation, standards, infrastructure and so on. This necessarily limits the amount of detail we can offer on each area, but provides an important mapping of the problems.

The last part of the brief contains an assessment of the role of regional integration and Economic Partnership Agreements in bringing about an improvement in Africa's trade and broader economic performance. Regional integration in Africa is beset by massive constraints: Economic Partnership Agreements offer help in some areas, but threaten what progress is being made in many others.

ABOUT THE AUTHORS

Phil Alves, Peter Draper, and Nkululeko Khumalo are respectively the economist (July 2005–June 2008), programme head, and senior researcher in the Development through Trade Programme at the South African Institute of International Affairs.

AFRICA'S DEVELOPMENT PRIORITIES

Economists commonly argue that poor countries suffer from a 'vicious circle' that hampers their development. The predominance of subsistence production inhibits accumulation of savings; low savings mean low investment; low consumption further reduces investment; and because investment is low, economic growth is stagnant.¹ Many African economies fit this description.

According to this view, the problem is exacerbated by barriers to the markets of developed countries, which further diminish the incentive to invest in production, particularly for export, in such economies. Instead, African exports are commodity-dependent, which has until recently caused a long-term decline in Africa's terms of trade.² And supply-side deficiencies, principally poor physical and financial infrastructure and low levels of human resource development, are a further deterrent to investment. These problems are compounded by chronic balance of payments difficulties,³ which in turn inhibit the ability of the affected countries to import goods critical to domestic production and consumption, further entrenching the circle.

External financing alleviates balance of payments constraints in poor countries by supporting the current account. It also boosts domestic savings and investment, which places the economy on a higher growth plane. In the African context, however, the dominant source of external financing has historically been official development assistance (ODA). The Millennium Project, the United Kingdom's Africa Commission and the G8 have all prioritised boosting ODA flows to developing countries, especially those in Africa.

But, as Bauer argues, aid inflows, at present the dominant source of external financing for many African countries, are also attended by problems.⁴ Bauer identifies four. One, the assumption that poor countries cannot develop in the absence of Western largesse, is condescending and undermines domestic initiative. Two, aid creates a vicious circle of dependence (on the generosity of the West), which defeats its own objectives. Three, large inflows of aid can generate a 'Dutch disease' effect of exchange rate appreciation, which undermines domestic (and, probably, nascent) industrial development. And four, channelling aid through governments affords rulers extended powers of patronage. Central to Bauer's critique is a concern that in many poor countries, because domestic governance is part of the reason for underdevelopment, aid might only exacerbate the problem.

Furthermore, although sustained inflows of foreign direct investment (FDI) into Africa remain elusive, there is no shortage of capital being channelled into other parts of the developing world, especially Asia. The full range of reasons that FDI is at a much lower level in Africa need not detain us here. However, a description of the barriers to Africa's development, to which these reasons are closely linked, provides a backdrop against which the challenges Africa faces in trade and regional integration (RI), and Europe's contributory role in its current attempts to solve them, can be better understood.

AFRICA'S RELATIVE POSITION IN GLOBAL TRADE AND FDI

Today's global economy is dynamic and increasingly interdependent. International trade and investment flows are of an order of magnitude never seen before, even if in relative

terms the global economy is not as interlinked as it was at the end of the nineteenth century. Integration (that is, the formation of relationships between states for mutual economic benefit) affords those countries that are linked into mobile flows of trade and investment the opportunity to leverage external resources for domestic development. The issue that faces each state is how to access external resources on a sustainable basis, in a manner that complements domestic development strategies. For as Stiglitz soberly reminded us in the aftermath of the 1997–1998 Asian financial crisis, opening up to these flows, especially on the financial front, is fraught with dangers, and therefore needs careful management.⁵

Crucially, successful integration requires strong states capable of supporting those markets among its members that are prone to failure, and of collecting and directing resources to areas where they are most needed. Unfortunately this is a prerequisite generally lacking in the African context, where governance problems and lack of capacity abound. Worse still, globalisation has largely passed Africa by. Far from having been over-exposed to this complex process, the continent tends to hover on its margins. Nowhere is this more evident than in trade and FDI flows.

The percentage of global trade contributed by Africa (including North Africa) is tiny. Further, the continent has, by and large, been incorporated into the world economy as an exporter of commodities, primarily to the European Union (EU), and an importer of capital equipment, manufactures and services. Of course this aggregate picture lacks nuance. Kenya, for example, its political problems notwithstanding, is emerging as a regional manufacturing hub for East Africa that exports increasingly substantial quantities of manufactures to its neighbours. South Africa is another country that does not fit the description given above, but the picture holds true for much of the continent.

Africa also captures a very low share of global FDI flows, which consistently fall into the region of 2–3% of the world total.⁶ Furthermore, the top 10 countries in Africa that receive such investment regularly account for more than three-quarters of FDI into the continent.⁷ This concentration also applies to source countries — 70% of FDI inflows in the period 1980–2000 came from only three (France, the United Kingdom — UK and the United States — US). This pattern is very different from what has taken shape in East Asia, especially China, which garners most of the world's investment in developing countries. The FDI directed towards the latter is both market-seeking and efficiency-seeking, and the source countries are more numerous and widely spread.

FDI inflows into Africa, on the other hand, are predominantly resource-seeking, which reinforces the commodity-dependent export profiles of the recipient countries.⁸ The World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD) in 2005 notes that this gives FDI into Africa a peculiarly 'enclave' character. Investment is predominantly greenfield and capital-intensive in nature; is not strongly linked to the domestic economy; and does not reinvest profits. The authors argue that this holds a further danger: states become vulnerable to powerful multinational corporation interests that are geared towards resource extraction, possibly at the expense of domestic manufacturing interests. This in turn tends to undermine domestic diversification strategies. There is also the risk that large-scale profit repatriation could worsen the balance of payments for the countries concerned.⁹

And to these economic troubles we must add a political dimension. Developmental conditions in Africa stand in stark contrast to those that prevail elsewhere, for example in

the developing states of East Asia. Two features stand out as inimical to progress in many African states: large geographic extent and small, dispersed populations. Taken together, these inhibit the establishment of strong governments that are capable of controlling their borders and supplying the means for social and economic development across the full extent of their territories. In those countries where the inhabitants are widely dispersed and ethnically diverse, there is also a pattern of continual political instability.

What then are Africa's options, and what role can the EU play? Africa cannot look inwards to build up its trading volumes. Its economies must be strongly outward-oriented, and must use exports to grow. Yet few countries have managed to sustain a high degree of outward orientation and rapid export growth unless they have opened themselves to foreign trade and investment. Also, the prospects of breaking into the global manufacturing supply chains have been substantially dimmed for most African countries by East Asia's ongoing economic growth. Beginning with Japan in the 1950s and 60s, and continuing through the first and second-tier 'tiger' economies in North and South-east Asia, and now experiencing the economic domination of China, the region has become a tightly-integrated manufacturing hub that is truly global in scale.

It is therefore critical that Africa's current and potential exports should have better access to rich markets. Also, the integration of regional markets has long been seen as important to improving Africa's supply-side capacity, mainly by generating greater economies of scale and scope, but also through more effective co-operation on infrastructure and other trade facilitation measures within geographical groupings. However, few analysts view RI in Africa as a means of raising demand for Africa's exports substantially, as the economies in the African countries concerned are often tiny or slow-growing.

Broadly speaking, therefore, Africa's mountainous demand- and supply-side challenges must be met by means of three interrelated strategies. African economies must globalise far more quickly than they have accomplished so far; they must manage the risks of doing so better than in the past; and they must exploit the resulting opportunities more effectively.

A BRIEF HISTORY OF AFRICA'S MULTILATERAL MARKET ACCESS AGENDA

While the importance of aid and debt relief for the poorest countries on the continent is acknowledged, analysts increasingly regard improved trade performance as the key to both sustainable economic development and self-sufficiency. Various studies have intimated that the aid Africa receives annually represents only a fraction of what the continent loses as a result of unfair trade practices in the markets of developed countries.

For a number of reasons (which are detailed below), African countries are generally dissatisfied with the way in which the World Trade Organisation (WTO) operates, hence the spirited calls — mainly by influential non-governmental organisations — for a rebalancing of the system. It is imperative to note that the need to address the real and perceived imbalances is acknowledged by the WTO itself, and particularly by its incoming director-general, Pascal Lamy.

The extent to which the multilateral trading system fails to cater for African interests is partly because most of the developing countries involved did not participate fully in the negotiating rounds preliminary to the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor. GATT sought to establish consensus over the 'rules of the game' for international trade, and was narrowly focused on market access. However, despite these laudable intentions, under GATT the governments of developed countries continued to protect and intervene in significant sectors in their own economies (such as agriculture and textiles).

In the early 1960s, when many developing countries became independent of colonial rule and acceded to GATT, the efficacy and fairness of reciprocal most favoured nation (MFN) tariff liberalisation became questionable. Scholars like Raoul Prebisch pointed out the inequities consequent on subjecting countries at different levels of development to the same rules and commitments. The result was the adoption of the principle of special and differential treatment (SDT) at the end of the Tokyo Round. In terms of SDT, poor countries were not obliged to reciprocate in full concessions made by their rich counterparts. The matrix of carve-outs from GATT disciplines included exemptions from tariff liberalisation for developing countries, and the right to suspend concessions in terms of both the infant industry protection and balance of payments provisions (GATT Article VIII).

The tariff reduction negotiations covered industrial goods only, and were dominated by the developed countries, who exchanged concessions among themselves. The result was the exclusion of agriculture (an area in which African countries have a comparative advantage) from the negotiations until the Uruguay Round took place.

Apart from exclusions from some obligations, another aspect of SDT was the granting of preferential market access to developing countries by developed countries as an allowable departure from the non-discrimination principle underpinning GATT. For this and other reasons relating to the overall power distribution in the system, developing countries (including those in Africa) were not seen as equal partners in the negotiations. In addition, their reliance on preferences locked many African economies into long-term dependency on low value-added production for markets in developed countries.

The Uruguay Round, which resulted in the creation of the WTO in 1994/5, proved a turning-point for some developing countries, notably those in East Asia and Latin America. It marked a departure from the 'old-style' SDT culture and a transition to active participation in the negotiations for developing countries. The 'Tokyo approach' to SDT gave way to one that limited both flexibility in policy and exemptions from obligations for all except least developed countries (LDCs), whilst allowing for certain kinds of 'asymmetry' in the commitments of developing countries. This found expression in longer periods allowed for the implementation of agreements, less ambitious tariff and subsidy reduction commitments, and more favourable treatment than before in trade remedy cases brought by developed countries.

Importantly, agriculture and clothing and textiles were included in the ambit of WTO disciplines, albeit in a highly unsatisfactory manner. In return, the developing countries took on a range of new commitments (suggested by the developed countries), and made answerable to reinvigorated dispute settlement institutions. In this respect the Uruguay Round provided an intermediary phase in which developing countries were fully integrated into a single rules-based trading system, and negotiations were guided by the 'single undertaking' principle. A range of SDT provisions were built into the various WTO

agreements to mollify developing countries. However, these were largely hortatory and non-binding, and not subject to dispute settlement.

Therefore, even though most African countries are members of the WTO (two of them were among the 11 developing countries that were founding members of GATT), their participation in the system (as a group) has until fairly recently been highly ineffective. The more recent forays African countries' have made into regional and bilateral preferential trade agreements have not yielded much more.

AFRICA AND THE EU: MODERN BARRIERS TO MARKET ACCESS

The problems that the EU poses for Africa's access to markets abroad may be divided into three broad areas. These are the multilateral system; unilateral preference schemes that afford a price advantage to African exports into rich markets; and bilateral or regional relationships between Europe and Africa. All three spheres are interdependent, so that developments in one affect possibilities and priorities in the others. In other words, market access issues cut across all modes of engagement, and must thus be discussed (and addressed) in an integrated fashion.

African countries (in common with many other developing states in the rest of the world) did not welcome the results of the Uruguay Round. Together with their fellow G90 members they adopted a defensive, confrontational stance at the Seattle and Cancun WTO Ministerial Conferences. To emphasise their dissatisfaction, the African countries opposed the launching of the Doha Round, on the grounds that past 'injustices' should be addressed before a new set of WTO negotiations took place. It was only after a concerted diplomatic process that included the promise that the new Round would address their concerns that they finally relented.

Africa's modern market access agenda therefore begins with 'a fairer WTO'. The EU has a prominent role to play in these reform efforts, but success in solving some of the trading constraints in Africa might make other problems more severe.

In general, Africa has a strong actual and potential comparative advantage in *agriculture* and agro-processed products. However, high tariff and non-tariff barriers, and the subsidies that many governments of developed countries dole out to their own producers and exporters, depress the prices of farm commodities around the world, undermining the value of Africa's agricultural exports. Therefore, the significant liberalisation of agricultural trade in the Doha Round is critical to Africa's development. To its credit, the EU has tabled meaningful offers on domestic support, export subsidies, and tariff reform in the Doha negotiations. It has also made good progress in unilaterally reforming its farm support programmes, to make them less 'trade distorting'. But given the lack of progress made on the Doha Round, these initiatives, unsupported by multilateral organisations such as the WTO, will be insufficient to secure a deal beneficial to Africa.

Moreover, because the countries of Sub-Saharan Africa are not by any means homogeneous, agricultural reform in general presents a number of complications. Those economies that are most likely to benefit from the EU's 'better deal' include competitive agricultural producers (such as many in South Africa and cotton suppliers in West Africa) who can take advantage of the reductions in farm support, particularly when this means they can sell their output for higher prices. And in the longer term, many more African

countries could profit, as removing distortions in global agricultural pricing mechanisms would provide the right incentives for African governments to invest in improving agricultural production.

Yet the negative short-term consequences cannot be ignored. A reduction in price supports for farming in EU member countries could narrow the margins received for some African agricultural exports vis-à-vis more competitive producers. Therefore it is by no means certain that, in the short to medium terms, all or even most African countries will benefit from dismantling the protection regimes in developed countries. Worse still, food security in several African states depends on EU-subsidised food imports. The EU's commitment to eliminate export subsidies by 2013 will therefore present severe problems to those countries that are net food importers.

Therefore, some African countries find themselves on the cusp of a Faustian bargain with the EU. Neither Africa nor Europe wants to radically reform the other's common agricultural policy, unless it can be done in a way that mitigates shocks to basic food prices in Europe and does not threaten Africa's preferences. So for some African trade negotiators the maintenance of the status quo in agriculture is not necessarily a problem. And while subsidy reductions may promote the long-term comparative advantage of Africa's agricultural production, they could also induce substantial short-term pain. The recent world-wide crisis in food prices, which has already led to riots in many African countries, shows precisely why African politicians would be wary of the initial consequences of global agricultural reform.

Another obstacle, perhaps one of the largest facing African exporters, is tariff escalation on *industrial goods* (in terms of which tariffs rise as value addition increases).¹⁰ This effectively confines them to supplying raw materials. The non-agricultural market access (NAMA) negotiations in the Doha Round (if it ever concludes) should see substantial cuts in tariff escalation in both developed and key developing countries. This is likely to affect most of those sectors in which tariff peaks remain high (such as clothing and textiles, processed foods, automobiles and leather goods). Once again, only a few African states may benefit from this change in the tariffs over the short term — there are more competitive exporters in Asia, Latin America and eastern Europe.

Moreover, the quid pro quo could be tariff reductions for some African countries, a demand hitherto resisted in the negotiations owing to a continued desire on the part of the developing countries to protect infant industries.¹¹ At present the EU and the US are aggressively pursuing a NAMA deal that will realise 'new trade flows'. This necessarily means a package designed to cut currently applied tariffs as well as bound rates, and represents a significant and controversial departure from tradition. (The GATT negotiations focused on reducing bound rates, but relied on member countries to reduce their applied tariffs more rapidly on an individual basis.) Many developing countries, including some in Africa, have done precisely that, largely at the behest of the World Bank and the International Monetary Fund (IMF). Over time large gaps between bound and applied tariff rates have developed. However, for some states that gap is now small in certain sensitive sectors. An ambitious NAMA deal would result in applied tariff cuts and significant trade-induced disruption of weak industrial sectors.

This explains why many developing countries are resisting the NAMA proposals made by the EU and US. The former offer a two-pronged argument to support their position. First, these proposals will require developing countries to cut tariffs, whether bound or

applied, by proportionally more than developed countries will be obliged to. This would run counter to the fundamental concept of ‘less than full reciprocity’ enshrined in the Doha Round’s mandate, under special and differential treatment (S&DT). Second, the degree of ambition with which the EU and US are promoting the NAMA cuts is not carried over to the agriculture negotiations, where most of the EU’s and the US’s weaknesses lie. These two valid complaints led to the formation of the defensive NAMA–11 coalition led by South Africa, which is arguably the EU’s most important strategic partner in Africa.

However, assuming that deals are struck in the fields of market access for agricultural and non-agricultural products, Africa will face another difficulty. Most proposed reforms to existing tariffs, coupled with the proposed reductions in farm price supports inside the EU, will substantially erode the preference margins that many African exporters currently enjoy.¹² These preference schemes reserve access for African exports to markets at the expense of wealthier competitors like Brazil, India and China. Some economies, such as Mauritius and Swaziland (exporters of sugar) and Botswana and Namibia (exporters of beef) have come to depend on these preferences for export earnings and employment.

There are, broadly speaking, two views on this problem. Some economists argue that preference dependence is unsustainable, and has in any event not promoted growth and diversification in the recipient countries. They therefore suggest that stakeholders begin to look beyond preferences to what can be done in the short term to mitigate the negative impacts of preference erosion, and in the long term to improve export competitiveness in a preference-free world (the so-called ‘supply-side’ issues).

Taking a very different view, Paul Collier has recently argued that the threat of preference erosion makes the development of *effective* unilateral preferential access to Organisation for Economic Co-operation and Development (OECD) markets (of which the EU is the largest) all the more important.¹³ That is, if preference schemes can be made to work better, they still offer the best means to foster development. Moreover, because multilateral liberalisation is proceeding (however slowly), there is little time remaining in which to get them right.

Two major schemes offering preferences have been launched in Africa. These are the US’s African Growth and Opportunity Act (AGOA) and the EU’s Everything but Arms (EBA) initiative. However, a number of African countries do not meet AGOA’s qualification criteria, which are determined by the US Congress, and only LDCs have access to the EBA’s benefits. Furthermore, because the EBA is open to all LDCs across the world, some of them (for instance Bangladesh) are far more competitive exporters than most of Africa’s LDCs. To date neither scheme has been particularly effective in improving Africa’s export performance or encouraging export diversification. This is attributable to a combination of poor policy design (such as the exclusion of certain key products from the preference schemes); preference margins that are insufficient to overcome Africa’s lack of competitiveness; and Africa’s own difficulties in gaining access to, and taking advantage of, the preferences on offer.¹⁴

The clothing and textiles sector provides a good working example. Until 2005 global trade in these products was governed by a tightly-controlled quota system. Competitive Asian exporters would receive small quotas for exports into rich markets. The aim was to protect domestic producers of the same commodities in those markets, and also to provide ‘space’ for less competitive exporters, who would receive larger quotas. Preferential quota schemes work in precisely the same way as preferential tariff schemes.

African countries, generally speaking, do not have either integrated clothing and textiles production chains or the requisite economies of scale in production. Consequently, much industrial capacity in this sector is driven by foreign investment that is primarily motivated by 'quota-hopping' (especially in the case of Asian investors seeking to avoid quotas on exports from their home countries). But since quotas on Asian exports have largely disappeared, their incentive to relocate production to other countries has substantially diminished, as has been illustrated by the recent closure of some textiles and clothing companies in Lesotho and Mauritius.

However, most economists agree that AGOA remains critical to Lesotho (and other African states). Purely because of AGOA, Lesotho still has Africa's largest apparel export business. To be sure, this industry has suffered because of reforms to the global quota system, but tariffs in this industry remain high across the world, and preferential tariff treatment therefore remains valuable. Moreover, clothing continues to represent Lesotho's largest export by far. Almost 100% of its production goes to the US, and the sector employs thousands of people who would struggle to find alternative work.

In the clothing sector, the difference in effectiveness between AGOA and EBA is attributable to the differences in the rules of origin (RoO) for each scheme. AGOA's clothing rules are much more flexible than those in the EBA regime, allowing Lesotho exporters to use a greater proportion of imported inputs in the final product for export. The EBA does not allow equivalent latitude, and indeed, apparel exports to the EU have declined, despite being duty-free. This differentiation in RoO probably applies across the board, although the specific rule quoted above is significant in its effect on the clothing industry. In general, analysts argue that AGOA has been more beneficial to Africa than the EBA.¹⁵ The challenge for the EU is, therefore, to re-think the EBA, simplify, expand, and add greater flexibility to it, and market it more aggressively. This will be possible only if the Commission and member governments are able to face down powerful lobbies in their own constituencies, but such is the political economy of international trade.

What if truly effective preference schemes, which could apply to the majority of African countries, could be devised? What market-related constraints might then remain? The most obvious set of obstacles is represented by Europe's standards and regulations, and the related non-tariff barriers. Broadly speaking, these include food safety requirements, environmental standards, and animal and plant health and safety criteria. Most African exporters find these regulations difficult to meet.¹⁶ And the European Commission's *Global Europe* document makes it clear that European governments will not offer much leeway in this area. To the contrary, *Global Europe* seeks to promote the EU as the global leader in standards development.

Moreover, whereas to date standard-setting has been almost exclusively the purview of governments, so-called private standards, which have been introduced primarily by large retail chains (who are responding to customer preferences), have become extremely important. For example, European consumers who feel concerned over the so-called 'carbon footprint' entailed in transporting an African export to their own local markets may now choose to buy a domestic substitute, even if it is higher in price. No-one has yet made a careful study of the implications of this development for international trade, but the signs so far do not augur well for Africa. Yet another challenge African exporters face is the rising cost of transport itself, which further erodes their competitiveness.

Bearing these limitations in mind, the EU should take greater interest in improving the

capacity of African exporters to meet European standards. One simple potential solution would be to move EU testing stations to the point of departure in Africa rather than the point of entry into the EU. Another is that more money and technical expertise could be dedicated to co-operating with African governments and agencies who are trying to assist African farmers and manufacturers to improve their production processes. This in turn would require African constituencies to pressurise their governments into working more effectively with partners in northern countries. Often the attention of African governments is not sufficiently focused on the crucial economic principle of ‘how to get the basics right’. Finance for export insurance systems is also problematic, and more attention needs to be paid to improving transport and logistics infrastructure in Africa. We discuss that topic in greater detail below.

IMPROVING AFRICA’S EXPORT PERFORMANCE: THE SUPPLY-SIDE AGENDA

Despite the many barriers to improving African trade abroad noted above, market access is probably not Africa’s primary concern. There is a strong case for re-examining Africa’s supply-side constraints.

‘Supply-side constraints’ can and does become a catch-all phrase for everything that might be wrong with an economy. Examples include political instability, over-valued and volatile real exchange rates, a lack of capital depth, institutional weakness, poor bureaucratic capacity, poor-quality market intelligence and so on. In thinking about Africa’s trade and RI challenges it is therefore useful to limit consideration of the supply-side problem to those aspects that the EU could assist in alleviating. These are energy, transport, logistics, finance, technology and skills transfers, and bureaucratic efficiency. All fall under a broad ‘trade facilitation’ agenda.

Principal among these ‘treatable complaints’ is Africa’s woeful physical infrastructure, which includes energy, transport and communications.¹⁷ These basic prerequisites of business and trade are critical determinants of export performance. In particular, finding ways to reduce the costs involved in addressing these inadequacies would deliver significant short- and long-term benefits to all economic actors. The indirect benefits of improvements to the infrastructure would include a lower real exchange rate (if nominal rates can be kept stable), which in turn would assist export performance and encourage diversification.

Europe already plays a strong role in developing Africa’s infrastructure, primarily through the ODA in the form of finance and training (to improve technical capabilities). But, as noted earlier, little of this aid has proved effective beyond the initial (that is the construction) phases of specific programmes. Many projects undertaken in the 1960s and 1970s have now fallen into a state of disrepair, and since the 1990s the focus of donors has shifted to budget support and the supply of ‘soft’ infrastructure, such as schools and hospitals. China has recently become very active in funding projects to build physical infrastructure in Africa, but these are almost all based on providing project finance only. These could saddle the recipient countries with large external debts, at the very time when the Paris Club of donors has begun to write down Africa’s existing stock.

It would therefore be prudent for European donors and the European Commission

to reassess their ODA strategies. Ways must be found for donors to not only fund the development of physical infrastructure in Africa, but ensure that this support is sustainable after completion. This means that they should alter the ways in which projects are prioritised and designed, and involve as much 'local ownership' as possible. Furthermore, assistance with long-term maintenance should be contractually guaranteed. In sum, the well-known problems associated with ODA (poor co-ordination, inefficiency, and inadequate long-term planning) must be addressed.

Donor activity in Africa takes many forms, and has many sources. Perhaps the most recent contribution, and the most important for Africa's export performance is the WTO's 'aid for trade' (A4T) agenda. This was launched after the UK's Commission for Africa report, the Gleneagles G8 summit, and the spring meetings of the World Bank and IMF in 2005. The *idea* behind A4T is of course not new. The Integrated Framework process was established in 1997 to assist LDCs in trade capacity building, and involves the World Bank Group, the IMF, two United Nations (UN) agencies, the International Trade Centre, and the WTO. Yet the mere existence of the A4T agenda in the WTO's deliberations suggests that to date the Integrated Framework has not been particularly successful in its current form. Europe and Africa should therefore seek to co-operate in shaping the thinking behind the A4T, as it presents a good opportunity to start afresh.

However, A4T cannot be separated from the negotiations over a trade facilitation agreement in the WTO. These have been a source of considerable friction between African countries and the EU (and other OECD countries). This is unfortunate, since a well-considered trade facilitation agreement could yield major dividends for developing countries. The resistance of Africa's states to negotiations over trade facilitation, one of the four 'Singapore issues', is a direct result of their ongoing struggle to implement their obligations under the Uruguay Round, particularly in areas like standards and the protection of intellectual property rights.

The African delegates opposed negotiations on all four Singapore issues, the first being the trade facilitation agreement. The remaining three concerned transparency in government procurement, competition policy and investment. Only trade facilitation remains on the agenda of the Doha negotiations. Its inclusion in the July 2004 Framework Agreement (which is the real foundation of the Round) occurred only after, in a bid to rescue the talks, all parties had been persuaded to make serious compromises. The EU, along with the US and the other OECD countries, supported the inclusion of all four issues.

It is not yet clear what a trade facilitation agreement might involve. In principle it could form the perfect framework for a legally binding set of commitments aimed at assisting African and other developing countries to solve some of their most pressing trade facilitation problems. But this will be possible only if a number of necessary conditions are met. First, the political differences between the negotiating parties would have to be set aside; and second, the agreement would have to focus on efficient implementation, skills transfer and improvements in technical capacity in the recipient countries. Third, the agreement would have to harmonise with the myriad donor co-ordination processes that were instituted after the OECD's Paris Declaration on Aid Effectiveness in 2005. Fourth, doing so would require an unparalleled degree of co-operation between international organisations, particularly the World Bank, World Customs Organisation, IMF, various UN organisations and the WTO. Fifth, the support of private sectors and donor and recipient

governments should also be harnessed. Can this be achieved? The obstacles encountered by the Integrated Framework should not be ignored.

WHAT ROLE CAN REGIONAL INTEGRATION AND ECONOMIC PARTNERSHIP AGREEMENTS PLAY?

Formal regional integration, in which neighbouring states negotiate a path towards deepening their economic and political ties, is commonly touted as an essential tool for raising growth and reducing poverty in Africa. European governments have long promoted this ideal, citing their own experience with the EU to support their case. Yet there are significant problems, at the conceptual, political, policy and implementation levels, in using this model in Africa. And the EU's newest involvement in African RI processes — through the Economic Partnership Agreements (EPAs) — is making them worse. This is why Europe and Africa urgently need to re-examine Africa's RI project.

Regional integration is supposed to increase trade between member states; enlarge their markets and expand their production capabilities (economies of scale and scope); and allow them to develop common laws and regulations that improve the region's institutional strength. This is precisely what has happened in the EU, the most advanced formal integration arrangement in the world.

Empirically, however, there is no evidence to suggest that formal RI amongst *developing* countries improves their individual or collective economic performance. The world's most successful developing region in the 20th and 21st centuries, East Asia, eschewed such processes. Integration there was driven by unilateral trade and investment liberalisation, significant inflows of Japanese and Western capital, and the dynamics of Cold War foreign policy. This has resulted in 'Factory Asia', especially now that China has become a full member of the process. Only after all this had happened did East Asia begin to negotiate such formal arrangements as regional free trade agreements, as it is doing now, to lock in the gains made. The 'model' employed, to the extent there was one, was unequivocally open in character — there was no attempt to create regions open only to certain countries among themselves, but protected from the rest of the world.

One explanation of the lack of applicability of RI to developing countries is that there are few obvious complementarities in trade between countries that are all at the same stage of development. This is especially true in Africa, although South Africa might be considered diversified enough economically to play a 'northern' role in regional trade in southern Africa. However, and this is the second major reason why 'fortress-style' integration cannot work in Africa, no region contains a set of economies large enough to support and sustain high growth among all their members. For example, the 14 member countries constituting the Southern African Development Community (SADC), which includes Africa's largest economy, South Africa, collectively produce about as much as Turkey does annually. Turkey certainly does not consider itself capable of 'going it alone'; why should SADC?

The third major drawback to RI in Africa is conceptual: it tends to benefit the stronger members only. This argument, first proposed by Anthony Venables, is now well established, and Paul Collier has recently summarised it elegantly.¹⁸ In essence, it holds that when the cluster of countries in an RI arrangement contains economies performing well above the

global average (such as Germany in the EU), the forces of convergence will prevail. In other words, the weaker members will 'catch up' as resources flow from countries like Germany to those like Portugal, Greece and now the states of what was once the eastern bloc. But when a group contains no globally strong economies, the forces of agglomeration will prevail. Resources will flow from the weakest in the group to the strongest, where it is relatively cheaper and easier to do business, and where there are better-developed connections to global export markets. The relatively stronger economies will grow at the expense of the weaker members in the RI arrangement.

Fourth, economic integration requires willingness at the political level in the states involved to pool their sovereignty. It is not clear whether the members of any of Africa's regional economic communities (RECs) are prepared to do this. Furthermore, it is well-known that many African countries are unsure which REC offers them the greatest benefits, so a number of member states are 'hedging their bets' by joining more than one regional body. The 'overlapping membership' dilemma, to which there is no obvious solution at present, is well-documented. Other political barriers to successful RI are the endless policy, capacity and implementation shortfalls in member states. No African REC apart from (perhaps) the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) is anywhere near establishing comprehensive free trade internally, even if some of the other trade agreements look good on paper. The EAC and the Southern African Customs Union (SACU) have established functioning customs unions (but not comprehensive internal free trade), but both are about to be subsumed by their greater regions, COMESA and SADC respectively. Only COMESA is likely to meet the goal of launching a customs union and a common market within the proposed deadlines.

Most of the initiatives described above were started soon after the countries concerned gained independence. Progress is slow because politicians at the national level do not prioritise economic integration, even if their regional and African Union-level counterparts do. Also, the regional secretariats face severe financial and technocratic constraints, and lack any real political authority. Perhaps the most important reason is that many regions contain pockets of serious political, economic, and social instability (for instance Zimbabwe in SADC). Similar dynamics play out across central and west Africa.

The EPA processes should be seen against this backdrop. EPAs have two stated aims. The first is to maintain the levels of market access into the EU enjoyed by signatories of the Cotonou Partnership Agreement before 2008, which are far more advantageous than those available under the Generalised System of Preferences or Europe's MFN tariffs.¹⁹ The second declared objective is to foster and accelerate regional economic integration among the parties to the EPA contracts, and to harmonise the trade and investment relations of these regions with the EU. This means that the EU is negotiating with groupings of African, Caribbean and Pacific countries.

In Africa, there has been no effort to match the alliances of countries taking part in the EPA negotiations with existing REC memberships. Just as some African countries belong to more than one REC, so many of those involved in the EPA talks have switched between negotiating groups. The SADC cluster has been the biggest loser, because many SADC members have joined the Eastern and Southern African (ESA) partnership in the expectation of securing a better deal. (This is why we now talk of a 'SADC minus' group — only the SACU countries, Mozambique and Angola remain.)²⁰ This leaching-away process accelerated after South Africa joined the SADC negotiating alliance, despite the

EU's assurances that South Africa would be treated differently from the rest of the SADC members in the matter of market access. Although the membership problem is not of the EU's creation, it is questionable what role the EU is playing in trying to rectify the situation.²¹

Africa's terminally weak integration processes are a historical problem. The continent's long-held dream of creating an integrated African economic community has failed to materialise. Its inability to make progress on this front, combined with the EU's heavy-handed approach to EPAs, has cast a dark shadow over the future of RI in Africa. The African Union (AU) has placed a moratorium on the establishment of new RECs, in an attempt to rationalise the now very cluttered picture, and to accelerate the integration processes already in hand. It has officially recognised only five of these: SADC (subsuming SACU); COMESA (subsuming the EAC); the Economic Community of West African States; the Economic Community of Central African States; and the Arab-Maghreb Union. A Conference of African Ministers in charge of Integration has already met three times to find means pressurise national governments into taking economic integration more seriously.

The EPAs will force some sort of order to emerge in REC membership, as will the AU's own rationalisation process (in time). This will improve the situation in some problem areas, but the EPA talks will move faster than the AU's efforts. Once the EPAs are in place, Africa could be left with a very different regional configuration than at present. The EPAs will not make it part of the contract that each region should pursue internal integration to the same degree that it will be required to with Europe (although this will happen to some extent). However, since Europe will be the main trade partner of each region, it will make little sense to retain the old REC groupings alongside the new EPA regions.

Furthermore, the EPAs could encourage more investment (preferably private) in Africa's backbone infrastructure sectors, such as transport and communications. The proposed chapters on services and investment, if they can be tailored to the needs of each region without compromising their efficacy as legal documents, should assist FDI. And even if the negotiations fail, the experience gained may stimulate more active attempts by African governments to forge regional compacts over economic policy. At the very least, the EPA talks will spark more interest in increasing competition in certain service sectors, which in Africa remain dominated either by the state or by recently-privatised and poorly-regulated monopolies.

But in southern and west Africa it is clear that currently the political-economy aspects of the EPA process are most dominant. There is now an alarming degree of animosity between the European Commission on the one hand, and South Africa and Nigeria (amongst others) on the other. This tests the strength of the relations between these two regional powerhouses and their neighbours, and also the durability of the ties between Europe and Africa. The EPA negotiations are supposed to be concerned with growing trade and deepening integration, but have morphed into unsightly political battles.

CONCLUSION

Africa needs to embrace economic globalisation. It needs to import and export more, and increase its share of the global FDI pie. And these processes need to run parallel to the myriad

others that are necessary if all Africa's developmental challenges are to be addressed.

The market access agenda and the supply capabilities of African economies constitute the two broad 'work programmes' to which every stakeholder must pay attention. This breaks down into the following tasks: making meaningful progress in the Doha Round; improving preferential access to global markets for African countries; altering the structure of protection in the OECD to encourage a move away from raw material dependency; and engaging in an open discussion of standards. The question of meeting standards takes us into the supply-side issues, of which there are many. To improve Africa's trade performance, the supply-side constraints to be addressed most urgently should be limited to essentials like physical infrastructure and trade financing. These should form the basis of constructive negotiations over trade facilitation and aid for trade, which brings us full circle, back to the WTO.

Europe and Africa must set aside their ideological differences and get down to work.

ENDNOTES

- 1 UNCTAD, 'The Least Developed Countries Report, Overview'. Geneva, May 2004. See especially pp. 2–3. Paul Collier's celebrated book, *The Bottom Billion: Why the poorest countries are failing and what can be done about it*. New York: Oxford University Press, 2007, is the most accomplished elaboration of the 'trap' argument.
- 2 The recent commodities price boom, which has been driven by China, has begun to reverse this process, but only for African countries that are commodity-rich. To the extent that resource-poor African economies import these commodities, like all other countries in the same position, they have to pay higher import prices. This is especially true of basic foodstuffs, the prices of which have risen considerably in the past 18 months.
- 3 As with recent changes in terms of trade, the external accounts of many African countries are currently performing better than they have done for many years. Again, however, this only applies to those able to benefit from higher commodity prices.
- 4 Bauer P, *From Subsistence to Exchange and Other Essays*. Princeton: Princeton University Press, Chapter 5, 2000.
- 5 Stiglitz J, *Globalization and its Discontents*. London: Penguin, 2002.
- 6 China's newfound interest in Africa's resources may be about to change this figure, but China's outward investment globally remains relatively insignificant. Also, in many African countries China remains a 'junior partner'.
- 7 UNCTAD, *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*. Geneva, 2005, p. 7.
- 8 *Ibid.*, p. 9.
- 9 UNCTAD, *World Investment Report: Transnational Corporations and the Internationalisation of the R&D*. New York: United Nations, 2005.
- 10 This is also a serious problem in agriculture. The WTO Agreement on Agriculture covers HS chapters 1–24, which include most processed/manufactured food products (with fish as the notable exclusion). These attract higher tariffs in rich markets than basic farm commodities do.
- 11 LDCs will be exempt from most commitments, including tariff reductions, in the Doha Round.
- 12 Note that with the recent advent of unilateral Chinese and Indian preference schemes for African LDCs, preference erosion is no longer a problem only in OECD markets. However, the overwhelming

majority of Africa's exports still go to Europe, making this a less significant concern.

- 13 Collier P, *op. cit.*
- 14 Many studies find this a startling result. It is up to African governments and business organisations to make exporters more aware of the preferences on offer, and more able to utilise them effectively.
- 15 See for example Brenton P & M Hoppe, 'The African Growth and Opportunity Act, exports, and development in sub-Saharan Africa', *World Bank Policy Research Working Paper 3996*. August 2006.
- 16 Standards are therefore in and of themselves another reason why more advanced developing countries that can meet Europe's standards will capture most of the short-term gains offered by multilateral reforms.
- 17 The transport costs (including storage and handling) in African countries are on average higher than in any other developing economies in the world. See Broadman H, *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC: The World Bank, 2006. See also Naude W & M Mathee, 'The Significance of Transport Costs in Africa', *UNU Policy Brief, 5*. Helsinki: United Nations University, 2007.
- 18 Collier, *op. cit.*
- 19 Cotonou unilaterally grants highly preferential market access to most of Europe's former colonies, which includes a number of non-LDCs. But it is WTO-illegal, since it discriminates against other developing countries. (The only discrimination of this kind that is legal is in favour of LDCs exclusively, hence the existence of the EBA.) The CPA has thus operated under a special waiver from the WTO, which expired at the end of 2007. To preserve Cotonou market access and comply with the WTO, Europe must negotiate reciprocal trade agreements (EPAs) between the EU countries and various former colonies, in which both sets of contracting parties make concessions. Many economists have cautioned against Africa's further liberalisation vis-à-vis the EU. This, however, is not our primary concern in this brief.
- 20 The ESA group has itself split into an East African Community EPA, and another for the remaining ESA members. The EAC EPA comprises Kenya, Uganda, Tanzania (a SADC member), Burundi and Rwanda.
- 21 Draper P, 'EU–Africa trade relations: The political economy of economic partnership agreements', *Jan Tumlir Policy Essay, 2*. Brussels: The European Centre for International Political Economy, 2007.

SAIIA'S FUNDING PROFILE

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being co-funded by AusAid, the Bradlow Foundation, the Department of International Development (DFID), the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the European Commission, the Finnish Ministry for Foreign Affairs, the Ford-Foundation, the Friederich Ebert Stiftung (FES), the Graduate Institute of International Studies (GIIIS), the International Development Research Centre (IDRC), the International Institute for Sustainable Development (IISD), INWENT, the Konrad Adenauer Foundation, the Organisation for Economic Co-operation and Development (OECD), the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the South Centre, the Swedish International Development Agency (SIDA), the Sustainable Development Policy Institute (SDPI), the United Nations Conference on Trade and Development (UNCTAD), the United Nations International Research & Training Institute for the Advancement of Women (INSTRAW), the South African Department of Foreign Affairs, Trade and Industrial Policy Strategies (TIPS), the Department of Environmental Affairs (DEAT) of South Africa and the South African Revenue Service (SARS).

In addition SAIIA has 49 corporate members which are mainly drawn from the South African private sector and international businesses with an interest in Africa and a further 53 diplomatic and 11 institutional members.

South African Institute of International Affairs
Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339-2021 · Fax +27 (0)11 339-2154
www.saiia.org.za · info@saiia.org.za



South African Institute of International Affairs

African perspectives. Global insights.