



African Integration

Facing up to Emerging Challenges

ICTSD



International Centre for Trade
and Sustainable Development

Issue Paper

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TABLE OF CONTENTS

LIST OF ABBREVIATIONS	vi
LIST OF TABLES AND FIGURES	v
FOREWORD	vii
EXECUTIVE SUMMARY	viii
1. INTRODUCTION	1
2. CURRENT STATUS OF REGIONAL INTEGRATION	3
2.1 From the Abuja Treaty to the Launch of the TFTA	3
2.2 Factors Affecting Progress in African Integration	4
3. THE CHALLENGES OF FURTHER INTEGRATION	7
3.1 Addressing Development Concerns, Inclusiveness and Sustainability	7
3.2 Strengthening Intra-African Trade and Investment as an Engine of Structural Transformation	8
3.3 Fostering Regional Value Chain Integration and Upgrading	14
4. ENGAGING STRATEGICALLY WITH AFRICA'S TRADING PARTNERS IN SUPPORT OF REGIONAL INTEGRATION	24
4.1 Harnessing the Potential of South-South Cooperation	24
4.2 The Rise of Mega-Regionals and the Risk of Marginalisation	29
4.3 The Economic Partnership Agreements	32
4.4 The Africa Growth and Opportunity Act	35
5. CONCLUSIONS AND WAY FORWARD	37
REFERENCES	39

LIST OF TABLES AND FIGURES

- Table 1: Ambition and implementation timelines of RECs
- Table 2: Intra-REC foreign direct investment flows (2003-2005 and 2009-2011)
- Table 3: Sustainable development dimensions of GVCs and RVCs: evidence from the Lesotho apparel industry
- Table 4: Projected gains from trade facilitation
- Table 5: Trade facilitation provisions in ESA treaties
- Table 6: Key statistics on mega-regional RTAs
- Table 7: Estimated impact of the mega-regionals on welfare (percentage change in GDP over baseline by 2030)
-
- Figure 1: African regional integration process: key outcomes and milestones
- Figure 2: Coordination between African ministries responsible for regional integration and the private sector
- Figure 3: Trade intensity for select African RECs (2000-2014)
- Figure 4: Intra-African trade and intra-TFTA exports (2000-2013)
- Figure 5: Intra-African and intra-TFTA trade intensity (2000-2013)
- Figure 6: EAC exports by product and destination (2015, US\$ million)
- Figure 7: SADC exports by product and destination (2015, US\$ million)
- Figure 8: Sub-Saharan African exports by product category and destination (2015, US\$ million)
- Figure 9: FDI flows to Africa (2000-2014)
- Figure 10: Imports and exports of commercial services by African countries (2005-2014, US\$ million)
- Figure 11: Composition of top African services exports (2005)
- Figure 12: Composition of top African services exports (2014)
- Figure 13: Africa's main export destinations (2000 and 2013)

LIST OF ACRONYMS

ACP	African, Caribbean and Pacific Group of States
AFT	aid for trade
AGOA	Africa Growth Opportunity Act
ASEAN	Association of Southeast Asian Nations
AU	African Union
BRIC	Brazil, Russian Federation, India and China
C4	Benin, Burkina Faso, Chad, Mali
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
DFQF	duty-free quota-free
EAC	East African Community
EBA	Everything But Arms
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GSP	Generalized Scheme of Preferences
GVC	global value chain
ICT	information and communications technology
ITEC	Indian Technical Economic Cooperation
LDC	least developed country
LIC	low income country
MFN	most favoured nation
MMSZ	Madagascar, Mauritius, Seychelles and Zimbabwe
MNC	multinational corporation
NTB	non-trade barrier
OAU	Organization of African Unity
OCT	Overseas Countries and Territories
ODA	official development assistance
RCEP	Regional Comprehensive Economic Partnership
REC	regional economic community

RoO	rules of origin
RTA	regional trade agreement
RVC	regional value chain
S&DT	special and differential treatment
SADC	Southern African Development Community
SPS	sanitary and phytosanitary
TBT	technical barriers to trade
TFA	Trade Facilitation Agreement (WTO)
TFTA	Tripartite Free Trade Area
TISA	Trade in Services Agreement
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
UNECA	United Nations Economic Commission for Africa
USTR	United States Trade Representative
WTO	World Trade Organization

FOREWORD

Least developed countries (LDCs) and low-income countries, particularly in Africa, have been enjoying a sustained period of economic growth and macroeconomic stability. Nevertheless, most LDCs continue to suffer from a set of structural handicaps which affect their ability to achieve sustained economic growth, diversify their economies, create jobs and reduce poverty on a significant scale. A carefully crafted integration agenda could help foster inclusive and sustainable development in Africa.

The issue of regional integration is particularly prominent in Africa, where it has been estimated that the continent's current trade intensity barely stands above 12 percent. Africa's own agenda aims to boost intra-regional trade from the current level to 25 percent or more by 2022. This is an ambition that must be embraced by Africa's traditional and emerging trading partners considering the potential development benefits that could be derived from such a scenario.

But the integration agenda in Africa is rendered extremely complex due to the multiplication of processes. The African Growth Opportunity Act (AGOA) with the US, the Economic Partnership Agreements (EPAs) with the EU, the regional Tripartite Free Trade Area (TFTA) and the drive for a grand Continental Free Trade Area (CFTA) all have an impact on how each Regional Economic Community (REC) handles its integration agenda and priorities.

However, the TFTA marks a key milestone in the long and arduous economic integration process in Africa and this opportunity can be leveraged. It demonstrates a will to tackle several of the long-standing issues that have marred deeper integration efforts until now, including overlapping memberships, poor implementation of liberalisation commitments and a generally fragmented approach to integration.

This paper examines the key elements bearing upon regional integration in Africa. It argues that regional integration should not be an end in itself but rather a means to respond to the sustainable development aspirations of societies across the continent starting with concerns around poverty alleviation, food security and access to essential services. The paper presents the key motivations for deepened integration in Africa, provides a comprehensive overview of experiences to date at the continental level and proposes forward looking options.

The paper has been designed as the first of an ICTSD research series dedicated to regional integration and trade relationships in Africa. The series aims to look at how carefully crafted regional integration processes can act as a vectors for inclusive and sustainable development. We hope that it will provide a useful contribution to researchers, policymakers and trade experts.



Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

EXECUTIVE SUMMARY

Continental integration has been on the agenda ever since African countries gained political independence. The notion of pan-African integration even predates independence movements and the creation of nation states on the continent. Trade has traditionally been the motor of economic, social and political integration. The launch in June 2015 of the Tripartite Free Trade Agreement, followed by the official start of negotiations with a view to establishing a Continental Free Trade Area (CFTA) by 2017, marks a key milestone in this process.

Pursuing regional integration has, however, been challenging on the continent with many initiatives motivated more by political cooperation than by economic interest and trade, let alone sustainable development concerns. Besides concerns around the adverse impacts of tariff cuts on government revenue and local industries, the process has been affected by high implementation costs, institutional weaknesses and overlapping memberships. The private sector has been mainly absent, and, except for members of the East African Community (EAC), there is no specialised agency within government in a number of African countries to monitor regional integration.

In spite of these challenges, the economic gains from further trade integration are potentially large if integration contributes to economic transformation and inclusive development. Poverty is still a heavy burden in Sub-Saharan Africa, with 35.2 percent of the population living on less than US\$1.90 a day in 2015. Undernourishment affects close to 220 million people at a time when Africa is far from exploiting its agricultural potential fully. Most Africans have limited access to essential services, including education and health. The adult literacy rate is hovering around barely 60 percent, with deep ramifications in terms of inequality and economic competitiveness in the long term. Finally, it is estimated that Africa is experiencing a 2 percent loss in total Gross Domestic Product (GDP) each year because of insufficient and poor infrastructure. In all these areas, regional integration can generate significant improvements, either by creating employment opportunities through economic diversification, by creating regional infrastructure including roads and electricity or by boosting agricultural productivity and improving access to essential services.

The lack of trade complementarity among African countries, with most exports focusing on extractive industry or agricultural commodities, means that the natural markets for Africa are often external to the continent. But it also means that intra-regional trade tends to exhibit more diversified trade patterns and a higher concentration in manufactures and processed products. In 2015, more than 40 percent of intra-African exports consisted of consumer or capital goods. In other export destinations such goods generally account for less than 30 percent of total exports. This is not only true for goods but also investment flows and services. A first implication is that enhanced intra-regional trade as a result of regional integration may boost trade in more diversified and processed products. This in turn can be a significant driver of structural transformation of the continent's economies. Regional markets can also serve to help firms prepare and gain competitiveness before engaging internationally and competing with world-class businesses.

To achieve this, regional integration should focus on the emergence and development of regional value chains. The international fragmentation of production is creating new opportunities for African countries by eliminating the need to gain competency in all aspects of a particular good. Integration in international value chains is also frequently associated with enhanced foreign direct investment (FDI) and knowledge spillovers to the local economy. But taking advantage of those opportunities is not automatic. For countries willing to use the “global value chain (GVC) technology” as an engine of development, an open and predictable import regime for intermediate goods becomes more important, as competitiveness is increasingly defined by both country imports and exports. Minimising trade frictions such as delays in border clearance or low quality distribution facilities is

critical. Another key factor is connectivity, including transport, logistics services, and information and communications technology (ICT) networks.

Global value chains are essentially driven by investment decisions of multinational corporations (MNCs), through their outsourcing and offshoring activities. Yet, for African countries seeking to maximise benefits from their value chain participation, a major concern has been to capture a higher share of value added domestically to promote productivity gains, the deployment of new technologies, better employment opportunities or economic diversification. In practice, however, it is the lead firm who decides where to locate plants, where to invest and who to source from, based on its strategy to maximise profits. This may or may not offer participatory or upgrading opportunities for particular countries. In the absence of backward linkages with the rest of the economy, critics point to the footloose nature of efficiency-seeking investments or caution against the risk for resource exporting countries of being caught in the “resource trap” when FDI focuses on extractive industries. Others suggest that in the absence of active policies, African countries often lack sufficient absorptive capacity to benefit effectively from technology upgrading as a result of GVC integration.

African integration offers significant opportunities to address these concerns. Regional agreements formed among neighbouring countries seem to play an important role in the development of such regional value chains. Estevadeordal et al. (2013) estimate for example that, on average, countries will source 15 percent more of their foreign value added from members of the same regional trade agreement (RTA) than from non-members. Secondly, as firms unbundle their production processes, logistics costs and efficient border operations become crucial. Regional projects, such as one-stop border posts along the North-South Corridor, often offer the only viable approach to address these bottlenecks and reduce the cost of trade.

Regional integration, however, is not happening in a vacuum. With intra-regional trade still accounting for a relatively small share of Africa’s exports, the continent cannot ignore its traditional and new trading partners in the South. Moving towards deep continental integration would also ultimately require harmonising the different trade commitments made by African countries at the multilateral, regional and bilateral level. China is now Africa’s second most important export destination behind the EU, and India has surpassed the US to become Africa’s third largest export destination. The potential for the emerging economies to boost regional integration in Africa is significant. Empirical evidence suggests that Africa’s imports from the emerging economies, notably China and India, have been mainly in manufactured goods, including motor vehicles, machinery and equipment. To the extent that these products can be sourced at lower cost from the South, African countries can afford to import more of them, leading to greater productive capacity and, ultimately, increased trade. The links between emerging economies’ investment activity in Africa and intra-African trade are also critical in building the continent’s productive capacity—both directly, including through infrastructure projects, and through knowledge spillovers. Moreover, where such investment catalyses regional FDI, there will be a further boost to regional integration.

On the regulatory front, the rise of mega-regional agreements is posing new challenges. These deep integration arrangements tend to go beyond tariff liberalisation to focus on services, non-tariff barriers, regulatory cooperation and investment, with the risk for African countries that such agreements may raise the bar too high for non-members to access their markets, resulting in further marginalisation of the continent. Estimating the impacts of the mega-regionals on third parties remains a guessing game since only the Trans-Pacific Partnership (TPP) has been concluded—and at the time of writing ratification is facing growing uncertainties. The trade diversion effects are likely to be small since tariffs are already low. However, the exceptional treatment of agriculture, fisheries or textiles and clothing where high tariffs remain could be a cause for concern over

preference erosion for competitive African exporters. On the other hand, the harmonisation of standards, for example between the US and the EU, could benefit excluded parties as they only need to meet the standards in one market to qualify for export to the other. The mega-regionals may also have a “domino effect”, leading excluded parties to form their own bloc or strengthen existing mega-regionals, and, in the case of Africa, ultimately creating new momentum for the CFTA.

Such an effect may also result ultimately from the conclusion of the Economic Partnership Agreements (EPAs). While these agreements promised to strengthen regional integration in Africa, they arguably had the opposite effect, at least at the very outset, by pushing several countries to split away from their Regional Economic Community (REC) and go for an EPA alone or as part of a smaller configuration. However, an unintended by-product of the EPAs may be the realisation among African RECs that, unless they step up efforts to boost regional integration, they might end up offering more generous market access terms to the Europeans than to their regional partners. The EPAs may also provide for technical and institutional support towards regional integration, including in areas such as infrastructure projects and trade facilitation measures. Regional cumulation can also foster the development of regional value chains, which, in turn, can boost intra-regional trade. There is some evidence, for example, that flexible rules of origin for textiles under the US-led Africa Growth Opportunity Act (AGOA), has spurred the development of regional value chains in Africa with remarkable impact on jobs.

In short, regional integration offers significant potential; particularly if it goes beyond cooperation on trade and promotes economic transformation by expanding regional coordination to other areas, including investment, trade facilitation and infrastructure. Essential drivers for such an approach would include the use of intra-African markets as an engine of economic transformation through diversification, industrialisation and the promotion of regional value chains combining goods, services, investment, trade facilitation and infrastructure development.

1. INTRODUCTION

The Tripartite Free Trade Area (TFTA),¹ launched on 10 June 2015 at the Third Tripartite Summit, sets the tone for the grand free trade agreement (FTA) proposed by the African Union (AU) Action Plan for “Boosting Intra-African Trade and the Establishment of a Continental Free Trade Area (CFTA)” to be established by 2017 and, ultimately, the Continental Customs Union as envisioned by the 1983 Abuja Treaty, by 2019. In a show of political will to expedite the continental integration process, the AU officially launched the CFTA negotiations at the its summit in Johannesburg on 15 June 2015—within a week of the launch of the TFTA.

Continental integration has been on the agenda ever since African countries gained political independence. The notion of pan-African integration even predates independence movements and the creation of nation states on the continent. Trade has traditionally been the engine of economic, social and political integration for several centuries even prior to the establishment of the Organization of African Unity (OAU)—the predecessor of today’s AU—in 1963. From this perspective, the TFTA marks a key milestone in the long and arduous process of regional integration in Africa. It demonstrates a will to tackle several of the issues that have marred deeper integration efforts until now, including overlapping memberships, poor implementation of liberalisation commitments and a fragmented approach to integration based on a linear model. However, if the road travelled by African integration so far has been a long and bumpy one, the rest of the journey is unlikely to be smooth despite the destination being in sight. This is because the process of moving from the TFTA to the CFTA is fraught with external challenges which will impact regional integration more generally. While a number of opportunities exist and

others will likely arise along the way, a key challenge for African RECs will be to leverage these opportunities while effectively addressing current problems.

This paper examines the key elements bearing upon regional integration in Africa. It argues that regional integration should not be an end in itself but rather a means to respond to the sustainable development aspirations of societies in the continent, starting with concerns around poverty alleviation, food security or access to essential services. A second challenge when thinking about future integration is the relatively low level of intra-regional trade. This low level is of concern, not only because intra-regional trade should be the basis for future integration but also because intra-Africa trade appears to be more diversified and less concentrated around raw materials and unprocessed commodities, therefore offering opportunities to transform the economies in the region. While intra-African trade has increased over the past decade and a half, the share of exports to other African countries remains rather low at an average of 15 percent over recent years. By comparison, intra-Asia trade stands at around 55 percent and intra-EU trade exceeded 62 percent in 2013. Some African blocs have done better than others, for example the EAC and SADC. Even then, intra-bloc trade intensity has stayed well below 20 percent. Mevel and Karingi (2012) find that the CFTA will boost intra-African trade from 10.2 percent in 2010 to 15.5 percent in 2022. If this is true, then continental integration may well be the way to go. Regional integration must also reflect recent changes in the global economy and address some of the critical elements of twenty-first-century trade relations, starting with the emergence of global and regional value chains as the main vehicle for trade and investment flows or the rise in digital trade, to name but a few.

¹ The TFTA is formed by the coming together of the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Southern African Development Community (SADC)—the three RECs operating in southern Africa.

Finally, regional integration is not happening in a vacuum. Many African countries have developed deep economic relations with non-African partners, including through comprehensive trade agreements such as the economic partnership agreements (EPAs). Others are beneficiaries of unilateral preferential schemes with their major trading partners including the US and, increasingly, emerging partners such as China or India. Moving towards deep continental integration would ultimately require harmonising the different trade commitments undertaken by African countries at the multilateral, regional and bilateral level. These cooperative arrangements are in constant evolution. While the future of multilateral negotiations remains uncertain, mega-regional deals are on the rise, often excluding African countries with potential

implications on their integration in the world economy.

Looking at these challenges, this paper explains the key motivations for deepening regional integration in Africa, surveys the experience to date and discusses the way forward. The paper is organised as follows: Section 1 reviews the current status of regional integration processes and explains, through a political-economy lens, key factors affecting progress. Section 2 focuses on key challenges and a number of external forces potentially impacting regional integration while section 3 assesses options to engage outside trading partners strategically in support of regional integration. The paper concludes with a critical analysis of the way forward.

2. CURRENT STATUS OF REGIONAL INTEGRATION

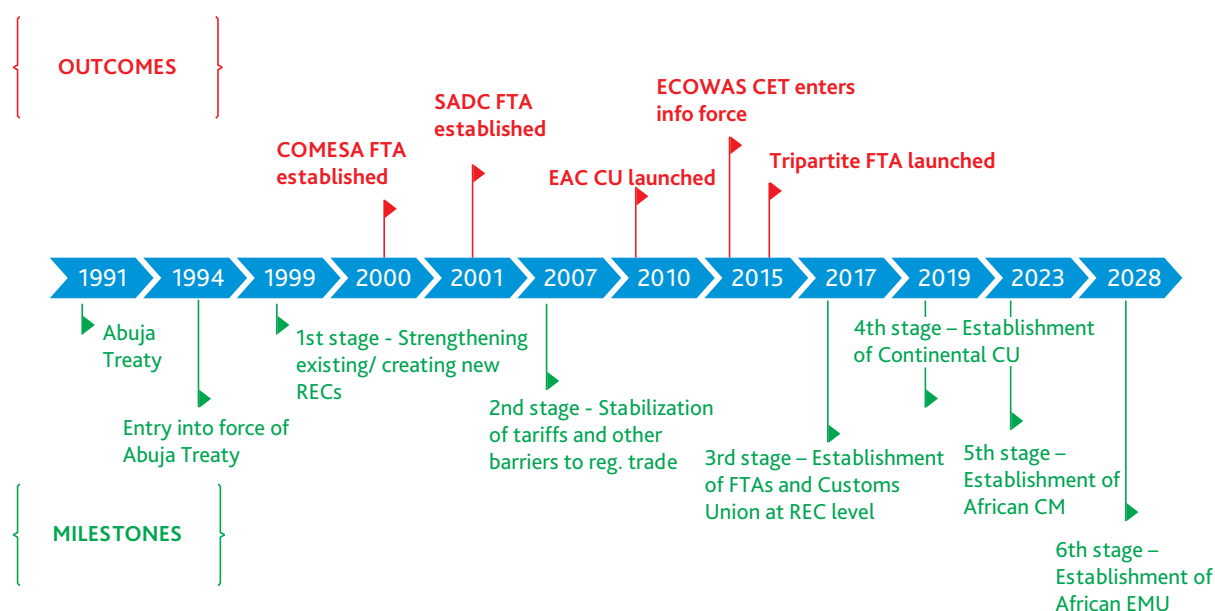
2.1 From the Abuja Treaty to the Launch of the TFTA

The Abuja Treaty, adopted by the African Union in 1991 and in effect since May 1994, sets out a roadmap for achieving an economic and monetary union in Africa through a gradual process of coordination, harmonisation and progressive integration of RECs over six stages spanning 34 years (Figure 1). Despite criticism of the Treaty's overly ambitious targets, it is reassuring to note that it is largely on track. For example, the Treaty envisaged the establishment of FTAs and CUs at the REC level to be completed at the end of the third phase, that is, by 2017. Although some RECs have struggled with customs unions, the fact is that a Tripartite FTA has already been launched—in June 2015, ahead of time. The AU now expects a continental FTA to be in place by 2017 whilst the Abuja Treaty envisaged a continental customs union by 2019. Whether these steps are feasible is yet to be seen.

The TFTA negotiations have been challenging, especially as regards liberalisation schedules

and rules of origin (RoO), both of which were incomplete at the time of the TFTA's launch. On market access, the goal is to liberalise 100 percent of tariff lines after allowing for “the usual general, specific and security exceptions” (Luke and Mabuza 2015). Yet so far member states have only agreed to liberalise 60 to 85 percent of tariff lines upon the entry into force of the TFTA, with the rest being negotiated over a five to eight year period. Rules of origin have been another bone of contention in the TFTA negotiations, and are likely to be so in the CFTA negotiations. Having agreed to negotiate product-specific rules, discussions have been held up by a few extremely sensitive issues (e.g. originating status of fish) as well as the as yet incomplete tariff schedules. Rules for just 25 percent of the product list had been agreed upon at the time of TFTA's launch, and Annex 4 on RoO, just like Annex 1 on tariff schedules, was missing. Some other provisions, such as for movement of people, may also prove to be a challenge. Finally, the future of the TFTA negotiations itself rests on sufficient funding being mobilised to get the process going.

Figure 1: African regional integration process: key outcomes and milestones



Source: ICTSD

The TFTA builds on the RECs—as will, eventually, the CFTA, and one may argue that its effectiveness will depend on the depth of integration achieved in each of the three blocks. So far, due to varying levels of ambition and achievement at the level of the REC, all eight AU-recognised RECs in Africa have registered delays in reaching key milestones (Table 1). However, four of the RECs—EAC, Economic Community of West African States (ECOWAS), COMESA and SADC—have made important progress at regional integration, while the remaining four are struggling with the very first step in the process (Sy 2014). Even among the more successful initiatives, however, making progress has been challenging. For example, after the launch of the SADC FTA

in August 2008, several milestones have been missed including SADC's vision to establish a customs union by 2010, a common market by 2015, a monetary union by 2016 and single currency by 2018.

The EAC, on the other hand, has made significant strides in a relatively short period. It launched its customs union in January 2005, within just five years of coming into operation in July 2000. Its Common Market Protocol entered into force in July 2010, and the protocol for the establishment of a monetary union was signed in November 2013. With an intra-regional trade share of about 17 percent, the EAC is clearly the best performer among Africa's economic blocs.

Table 1: Ambition and implementation timelines of RECs

RECs	Date of Establishment	FTA	Customs Union	Common Market	Monetary Union	Politarian Federation
AMU	1989					
CED-SAD	1998					
COMESA	1994					
EAC	2000 ^a					
ECCAS	1983					
ECOWAS	1975					
IGAD	1998					
SADC	1992					

Source: AfDB (2014)

Notes: Achieved (green), in progress (orange), planned (blue), and not planned (white).

^a EAC was first established in 1967, disbanded in 1977 due to internal conflicts among the member countries and reformed in 2000.

2.2 Factors Affecting Progress in African Integration

The main factors affecting progress in deepening integration in Africa have been amply documented, see e.g. Hartzenberg (2011), AfDB (2014) and various ARIA (Assessing Regional Integration in Africa) reports from the UNECA. Here, we focus on some of the key challenges from a political-economy angle. The genesis of regional integration in Africa can be traced to the continent's colonial legacy: a continent left fragmented, with geographically scattered, small populations and long distances between capitals, compounded by landlockedness and

inadequate infrastructure. This gave rise to a political rhetoric about rebuilding Africa, consolidating unity, achieving self-reliance and ensuring peace and security. Where the economic imperative was emphasised, it was through an endogenous development strategy calling for industrialisation based on import substitution, which effectively closed off national borders.

In this context, regional initiatives were motivated more by political cooperation than by economic interest and trade, let alone sustainable development concerns. Even though trade eventually found its way into regional treaties, member states remained nationalist

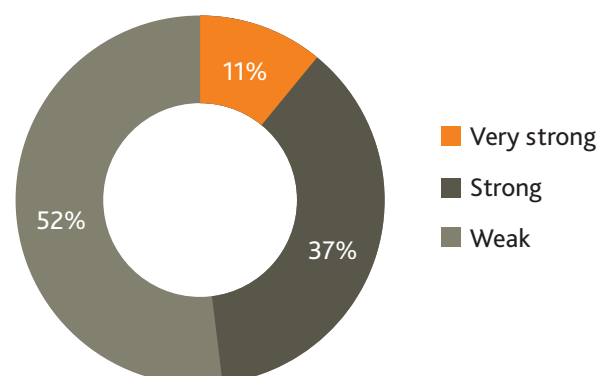
and often reluctant to cede sovereignty to a supra-national authority. This perspective explains why trade liberalisation commitments have not been followed through, or have been implemented partially and erratically.

Evidence from other regions which have successfully achieved a high degree of trade integration suggests that economic cooperation and trade were at the top of their integration agenda, and that commitments were enforced through self-discipline and sanctions. In Africa, because solidarity prevailed over economic interest, non-compliance went largely unpunished.²

Most countries have been concerned about the adverse impacts of tariff cuts on government revenue and local industries. This has added to their reluctance to implement liberalisation commitments. In some cases, countries have raised tariffs in violation of their agreement, under pressure from imports. In others, resistance to rapid trade liberalisation is reflected in the long list of exceptions and sensitive products factored into the agreements.

A constant challenge to integration is the lack of coordination at various levels of the integration machinery—between RECs, between RECs and national governments, between different government departments, and between the government and the private sector. This challenge is exacerbated by implementation costs, institutional weaknesses and overlapping memberships. Whereas trade agreements are signed between governments, it is the private sector that carries out trade and so is affected by the treaties. Principles of inclusiveness dictate that the government consults the private sector in preparing its negotiating position. Unfortunately, in most African countries, there is no consultation with the private sector, which results in the business community viewing trade agreements with suspicion or lobbying for certain commitments to be reversed because they are deemed to be against their interest. In a survey by UNECA, over half of the respondents qualified coordination between the private sector and the ministries responsible for regional integration as weak (UNECA 2012) (Figure 2).

Figure 2: Coordination between African ministries responsible for regional integration and the private sector



Source: UNECA (2012)

² A notable exception is the case of *Polytol v. Mauritius* filed with the COMESA Court of Justice in 2012 in which Polytol, a Mauritian company importing paint of the *Kapci* brand from Egypt, demanded that the Government of Mauritius refund the duties collected on imports of paint between 2001 and 2008 when these duties were eventually phased out. The Government of Mauritius raised a preliminary objection questioning the Court's jurisdiction to hear the matter. The Court ruled that regional integration within COMESA is pursued within a framework of community law, and unanimously agreed that the case was admissible. It later ruled against the Government of Mauritius which has appealed the decision (see Mwanza 2014).

Furthermore, African countries have received little direction from the centre, be it the REC to which they belong or the African Union Commission. Most often, “treaties and protocols outline what should be done but not how to do it” (AfDB 2014, 10). Most RECs and the AUC have rolled out ambitious plans, with milestones and deadlines, but they have neither monitored the process adequately to ensure conformity nor have they provided

clear guidelines on how to implement commitments. This reality is partly due to institutional weaknesses and lack of resources. Except for the EAC, where most member countries have a dedicated Ministry of EAC Affairs, there is no specialised agency within government in a number of African countries to monitor regional integration. Where such an agency exists, it is often poorly staffed and equipped.

3. THE CHALLENGES OF FURTHER INTEGRATION

The economic gains from further trade integration in Africa are potentially significant. Beyond removing tariffs, addressing technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) as well as rules of origin are expected to have a great impact on Africa's exports of agriculture and industrial products. Gains from boosting services trade, information flows and movement of labour will also have significant multiplier effects. As we move forward, however, realising those gains will require addressing a number of critical challenges. These range from the imperative to ensure that further trade liberalisation effectively contributes to addressing sustainable development concerns such as poverty eradication or food security, through the need to boost intra-regional trade as the basis for future value addition and diversification, to the need to reflect major changes in the world economy such as the emergence of global value chains or the rise of digital trade. The following sections provide an overview of these challenges and how they relate to further trade integration on the continent.

3.1 Addressing Development Concerns, Inclusiveness and Sustainability

Africa has experienced solid economic growth over the last 20 years, with an average annual GDP growth rate of 4.5 percent (Beegle et al. 2016). However, African countries, and particularly African least developed countries (LDCs) and low income countries (LICs), are still facing a number of serious development challenges that could be tackled in part through a carefully designed regional integration agenda. Regional integration in so far as it contributes to economic transformation and offers new trade opportunities can indeed help address prominent issues such as poverty, inequality, food insecurity, difficult access to health and education, infrastructure gaps and productive capacity hurdles more generally.

While the continent has made significant inroads as reported in the United Nations Development

Programme's 2015 *Millennium Development Goals Progress Report*, Africa is still plagued by serious development challenges, most of which have been directly reflected in the Sustainable Development Goals adopted in New York in September 2015.

Poverty is still a heavy burden in Sub-Saharan Africa, with 42.7 percent of the population living on less than US\$1.90 a day in 2012. While the share of the population living in poverty has significantly decreased since 1993, when 61.1 percent were living on less than US\$1.90 a day (World Bank data), rapid economic growth alone has not been able to eradicate poverty in the continent.

Closely related to poverty is the challenge of food security. African countries still rely heavily on agriculture as source of livelihood which contributes up to 32 percent of the continent's GDP and provides employment to 65 percent of its workforce (KPMG 2015). In spite of the prominence of agriculture, food security remains a salient issue in Sub-Saharan Africa. The Food and Agriculture Organization (FAO) estimates that in 2016 close to 220 million people are undernourished in Africa, 57 percent of whom live in eastern Africa (FAO 2015). Africa is far from using its full agricultural potential, not even in terms of land utilisation, with some estimates stating that as much as 400 million hectares of arable land are not exploited in Sub-Saharan Africa (Chamberlin et al. 2014).

Most Africans have limited access to essential services, including difficult and unequal access to education and health. Maternal mortality, for instance, remains extremely high in Sub-Saharan Africa, accounting for two thirds of all daily maternal deaths globally (WHO data). Following a similar pattern, Africa accounts for more than 62 percent of all new HIV infections, and 72 percent of all AIDS-related deaths (UNAIDS 2016). It is generally estimated that despite facing dealing with a quarter of total global cases of disease, Sub-Saharan Africa is home to only 2 percent of the world's doctors (Jimenez 2015). Generally

speaking, the mortality rate in Africa remains far above the rate observed in other regions, with 83.2 deaths per 1,000 live births (World Bank 2016).

On the education front, Africa still lags behind the rest of the world, with an adult literacy rate barely reaching over 60 percent (World Bank 2016), with deep ramifications in terms of inequality and economic competitiveness in the long run. In 2013, across the world 59 million children of primary school age were not enrolled in any education courses, 30 million of whom lived in Sub-Saharan Africa (UNESCO 2015).

Infrastructure, including access to electricity, communications systems and transportation, is a central element in fostering Africa's development, whether in terms of economic growth and trade, competitiveness or broader development objectives. Each year, it is estimated that Africa is experiencing a 2 percent loss in total GDP because of insufficient and poor infrastructure (Worldfolio 2014). Africa would need to invest US\$93 billion a year to address infrastructure needs, including maintenance, over the next decade (Foster and Briceño-Garmendia 2010). In 2013, barely half of this US\$93 billion estimate was covered, leaving Sub-Saharan Africa with more than a US\$50 billion financing gap to bridge every year (African Development Bank 2016). When it comes to sanitation, the situation remains dire, with less than 30 percent of Africans having access to improved sanitation facilities; the situation is similar with energy, as only 35 percent of Sub-Saharan Africa's population have access to electricity—a stark contrast to the 77 percent in South Asia and more than 96 percent in every other region (World Bank 2016).

Finally, Africa faces a serious unemployment issue, especially among young workers. Long-term unemployment among young people in Sub-Saharan Africa stood at 48.1 percent in 2014, while 61.4 percent of young workers are estimated to lack the level of education necessary to be productive, which relates directly to the education and training access issue (ILO 2015).

In 2015, 226 million Africans were aged 15-24, and estimates see this number doubling by 2055 (UN 2015); if the continent is not able to provide them with proper employment opportunities, along with adapted education and training, it will be faced with a real threat to sustainable development.

In all these areas, regional integration has the potential to generate significant improvements, either by generating employment opportunities through economic diversification, by creating regional infrastructure including roads and electricity or by boosting agricultural productivity and improving access to essential services. To achieve this, however, regional processes should go beyond a pure trade liberalisation agenda and integrate development and sustainability concerns so they are at the heart of the trade integration process, through coordinated and concerted action in areas such as agriculture, infrastructure, services, technology or innovation.

3.2 Strengthening Intra-African Trade and Investment as an Engine of Structural Transformation

One of the critical challenges facing further trade integration in Africa has been the traditionally low level of intra-regional trade. Figure 3 shows the trends in intra-REC trade intensity of four of Africa's major blocs.³ The averages for the period 2012-2014 start from 8.9 percent for ECOWAS and 9.3 percent for COMESA, up to 18.6 percent for SADC. With an average trade intensity of 18.9 percent, the EAC has been Africa's star performer. However, intra-EAC trade intensity has remained almost flat since 2000, and actually declined slightly since 2012 when it peaked at 20.6 percent. As a result, the EAC's lead has been challenged by SADC whose intra-regional share has soared from 10 percent in 2006 to 19.3 percent in 2014. Indeed, the intra-SADC trade intensity surpassed the corresponding EAC share in 2013, and, at current trends, SADC is likely to maintain its new lead position. The ECOWAS and COMESA are

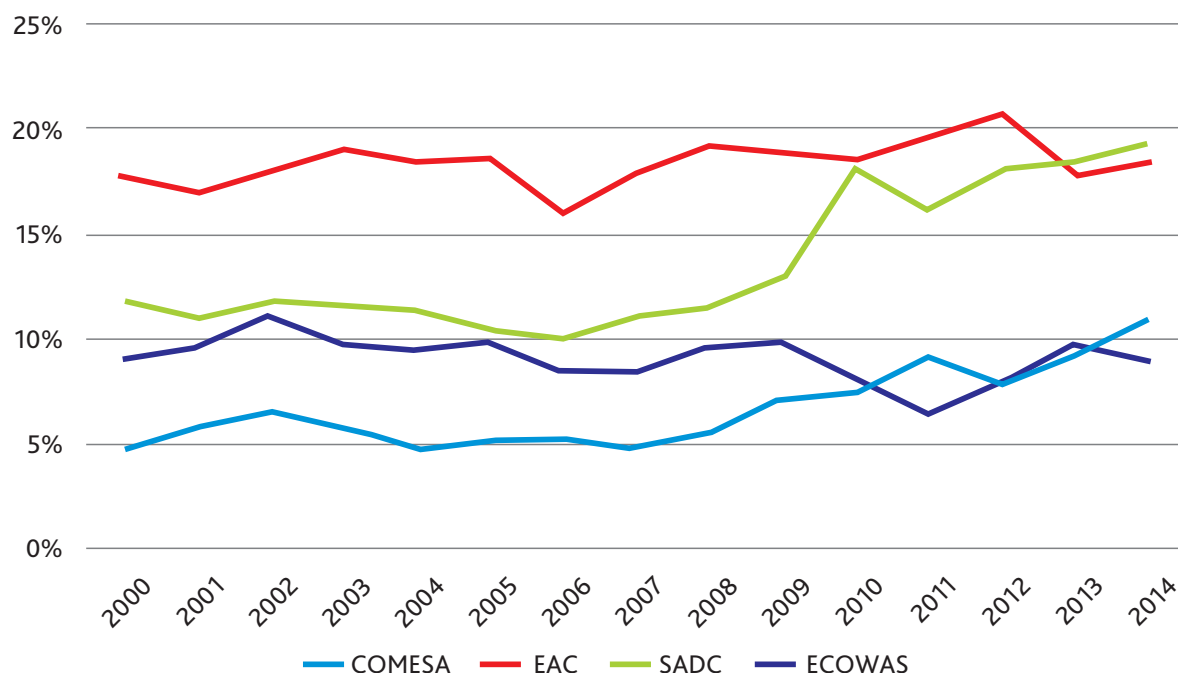
3 Intra-regional export intensities are calculated using data on regional trade from UNCTADStat.

clearly the laggards with trade intensities under 10 percent. Encouragingly, though, COMESA has shown steady, albeit slow, improvement since 2006.

The above numbers, even those at the high end, mask important variations across member-states. Not all countries participate equally in regional trade. In SADC, South Africa is the dominant player, accounting for over 60 percent of the region's exports in recent years. Indeed,

the sharp increase in the intra-SADC trade intensity noted above is due to a sudden hike in South Africa's exports to the region since 2010.⁴ In the EAC, the exports of Uganda, a landlocked country, represent a high share of the bloc's internal trade. In any case, these numbers are small compared to the trade intensities of some of the world's best performing trade blocs. The Association of Southeast Asian Nations (ASEAN), for example, had an export intensity of 26.4 percent in 2011.

Figure 3: Trade intensity for select African RECs (2000-2014)



Source: UN COMTRADE

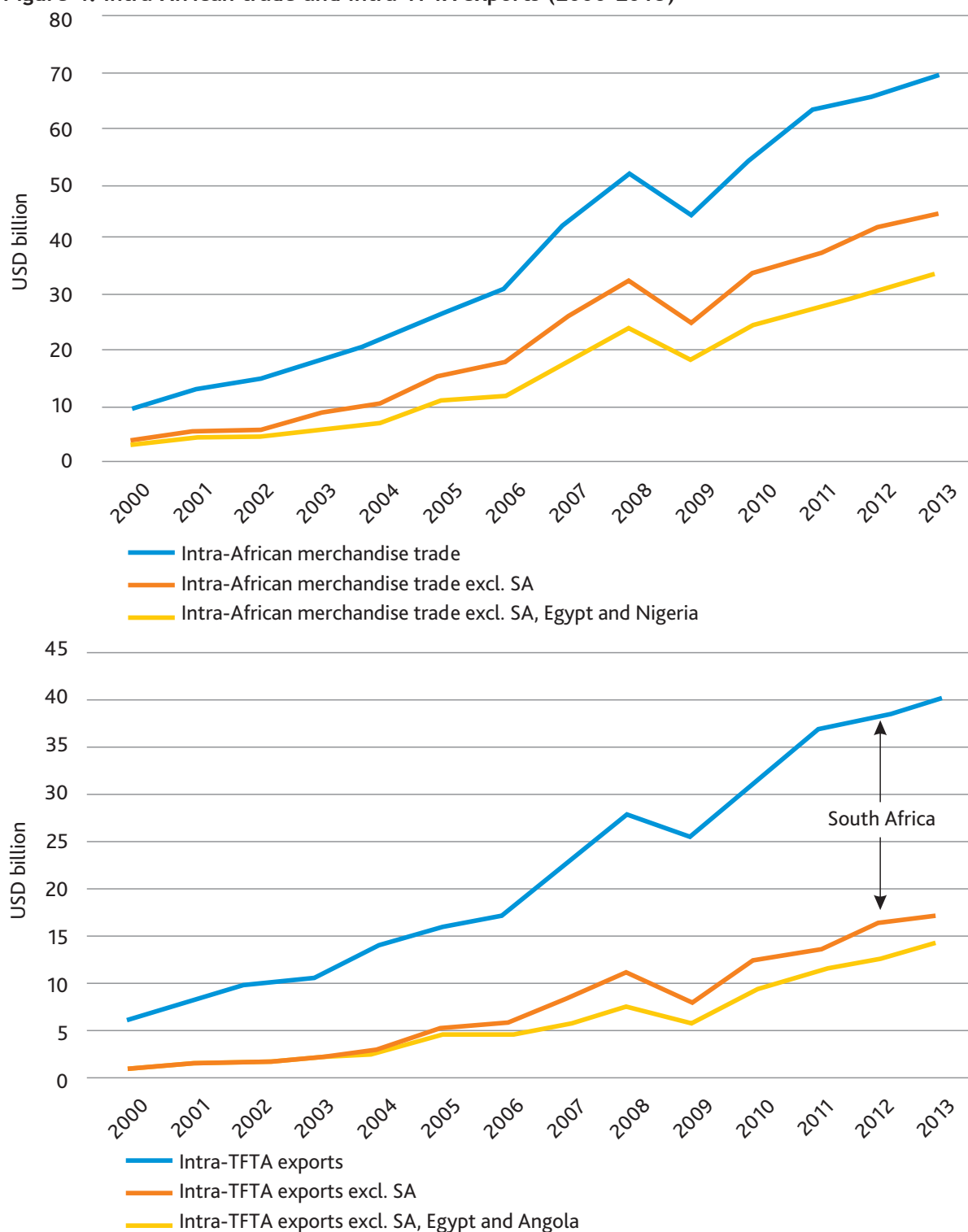
Figure 4a and 4b shows trends in intra-Africa and intra-TFTA exports over the period from 2000 to 2013.⁵ The two trends are strikingly similar. This is because the TFTA region includes major regional players like South Africa and, to a lesser

extent, Egypt and Angola, all of which dominate intra-African trade. Indeed, intra-TFTA exports represented 56 percent of intra-African exports in 2013. South Africa alone accounted for 57 percent of intra-TFTA exports.

⁴ South Africa's exports to the region more than doubled between 2009 and 2010, and have since remained high. The reasons for this sudden increase at that time are yet unknown and require further investigation.

⁵ The TFTA as a region is defined as all the countries belonging to one or more of the three RECs, i.e. EAC, COMESA and SADC.

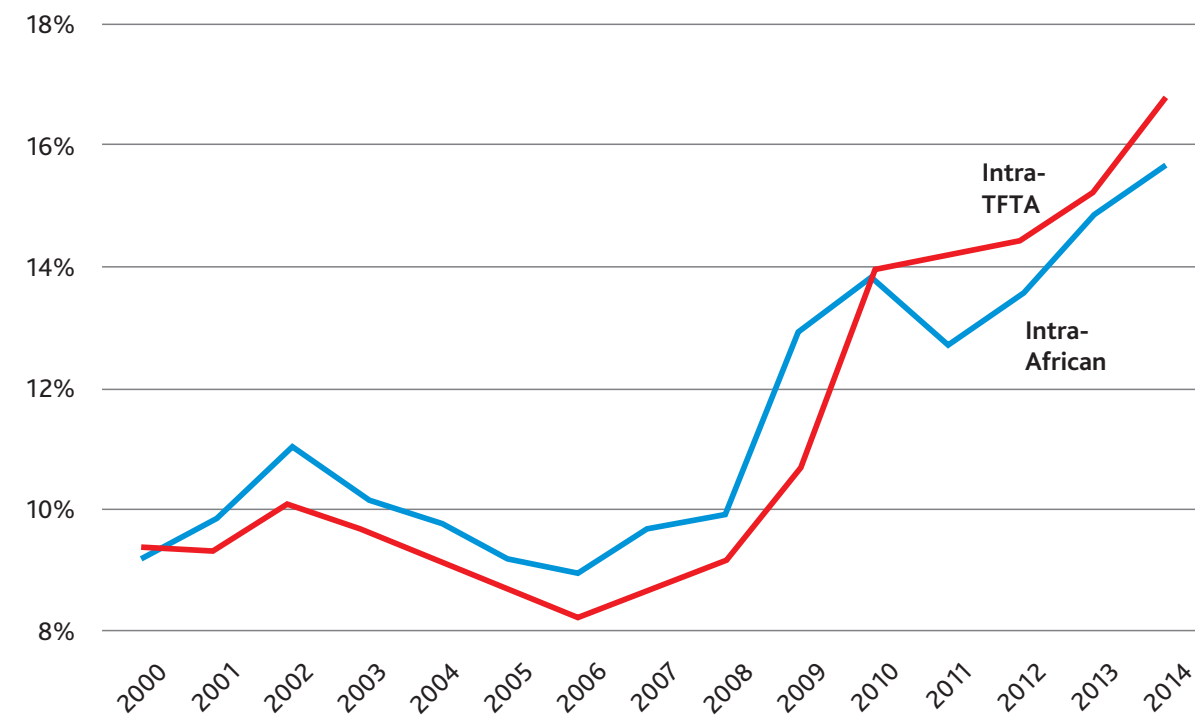
Figure 4: Intra-African trade and intra-TFTA exports (2000-2013)



Source: UN COMTRADE

Given the similarity in the intra-regional export trends for Africa and the TFTA bloc, together with the fact that the RECs with the deepest levels of integration, namely the EAC and SADC, are part of the TFTA, it is hardly surprising that intra-TFTA trade intensity follows the intra-African trade intensity

closely (Figure 5). Both have increased steadily from 2006. However, while the intra-African share lay above the intra-TFTA share during the earlier period, this relationship has reversed since 2010—a development which coincides with the sharp increase in SADC trade intensity, as noted.

Figure 5: Intra-African and intra-TFTA trade intensity (2000-2013)

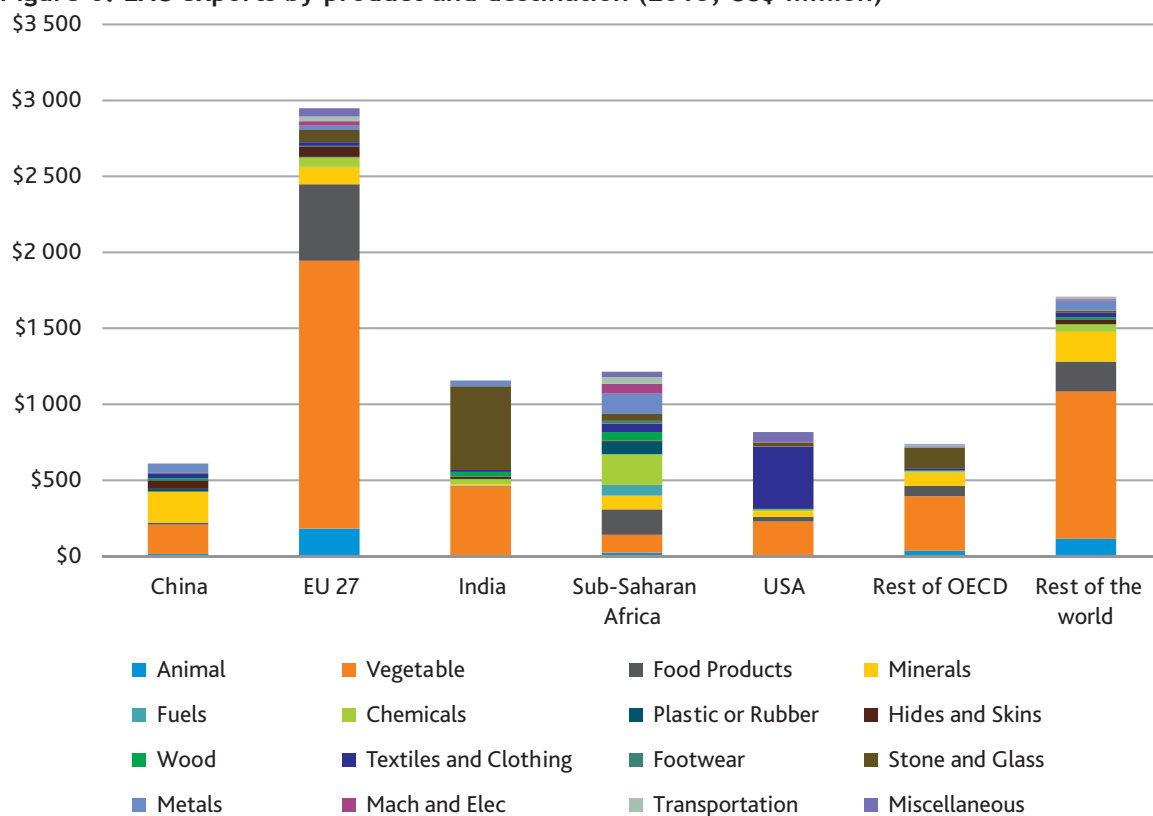
Source: UN COMTRADE

The intra-African export intensity of just 15 percent in 2013 compares rather unfavourably with other regions—27 percent in South and Central America, 52 percent in Asia and 63 percent in the EU (The Economist 2013). In addition to policy and institutional constraints, intra-regional trade has been affected by a number of factors including poor infrastructure, especially for landlocked countries in Africa. While the situation is improving with the operationalisation of the North-South Corridor and the construction of other corridors across Africa, complementary trade facilitation measures (e.g. one-stop border posts, customs cooperation, etc.) are required to make them more effective.

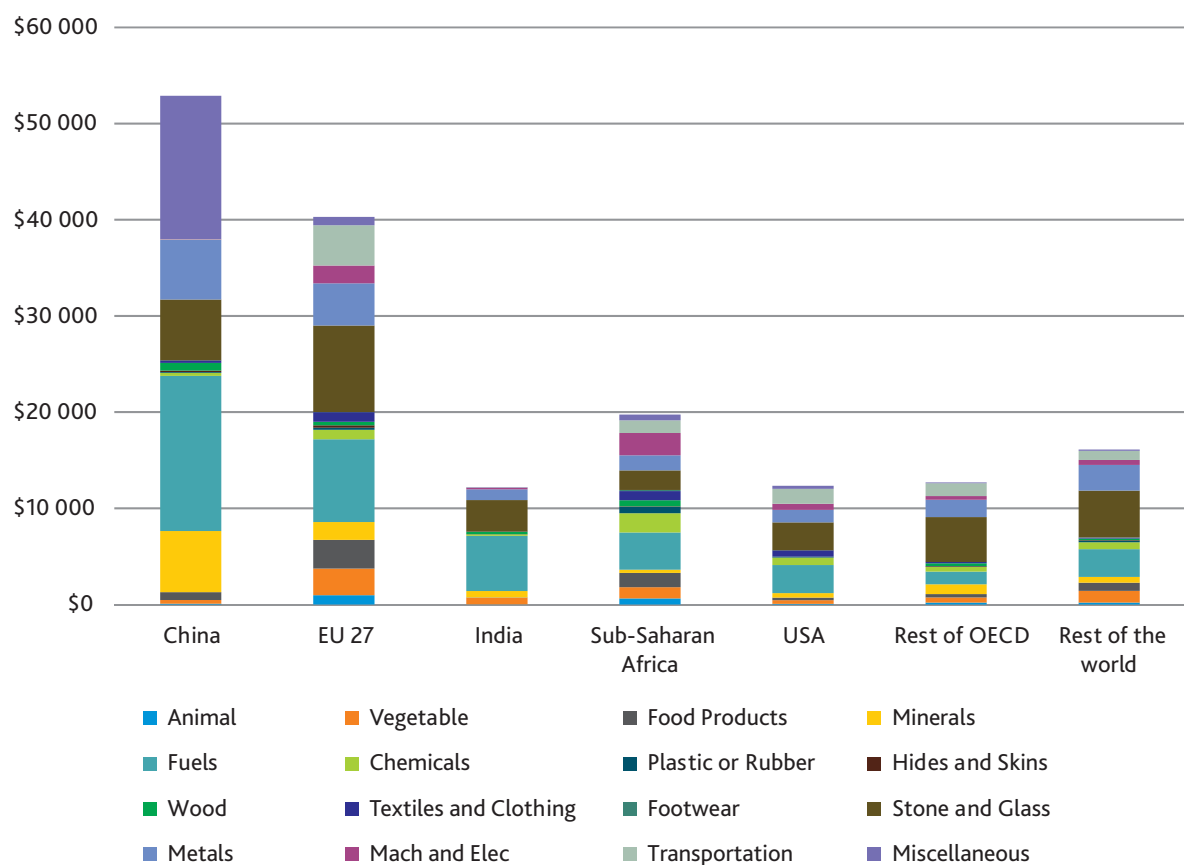
Finally, one factor is often ignored in discussions of barriers to intra-African trade: the lack of trade complementarity among African countries. Most African countries are commodity producers, whether hard (e.g. oil, gold, copper) or soft (agricultural products like coffee, cocoa, tea, fruit and vegetables, etc.). The markets for these commodities are often external to Africa.

This is both because of a lack of processing capacity (for example, oil refinery, diamond cutting/polishing, copper smelting, etc.) and a lack of industrial diversification. A corollary to this reality is that intra-regional trade is likely to exhibit more diversified trade patterns and higher concentration in manufactures and processed products than its trade with the rest of the world (UNECA 2012).

To illustrate this point, Figures 6 and 7 show 2015 exports of the EAC and SADC countries by product groups and major destination. In the case of the EAC, exports show a strong concentration on agricultural products in the EU market, on minerals in the Chinese market and on stone and glass in India, whereas textiles and clothing dominate exports to the US. By contrast, the export patterns towards Sub-Saharan Africa show a much more diversified profile. A similar pattern of diversification applies to the SADC where intra-African trade shows much less concentration on fuel, metals and stone and glass than is the case with other trading partners.

Figure 6: EAC exports by product and destination (2015, US\$ million)

Source: UN COMTRADE

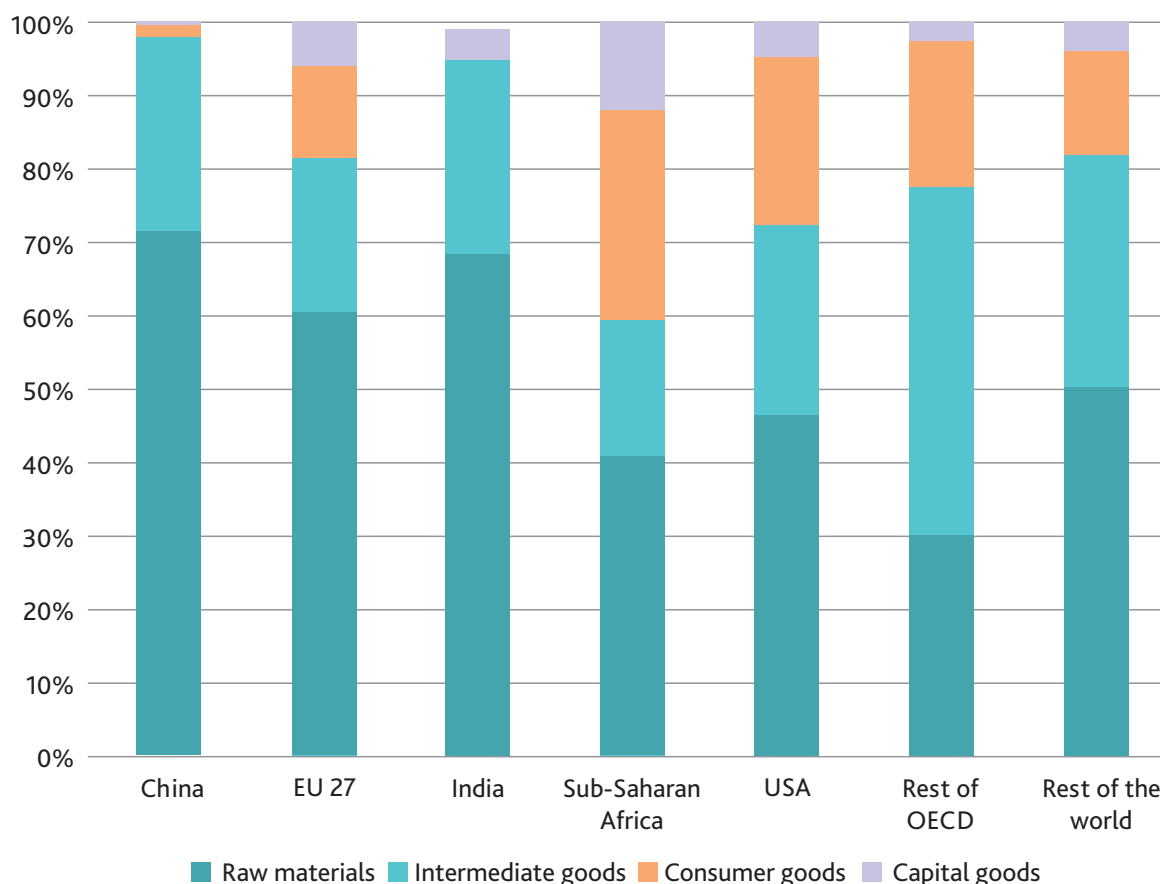
Figure 7: SADC exports by product and destination (2015, US\$ million)

Source: UN COMTRADE

As noted, in addition to being more diversified, intra-African trade also tends to concentrate more on processed products and less raw materials or intermediate goods. Using the UNCTAD classification of goods into the four categories of raw material, intermediate goods, consumer goods and capital goods, Figure 8 shows that in 2015 more than 40 percent of intra-African exports consisted of consumer or capital goods. In other export destinations such goods systematically account for less than 30 percent of total exports, including in the US

market where textiles and clothing make up an important share of African exports, not least because of the AGOA. A first implication from this is that enhanced intra-regional trade as a result of regional integration may boost trade in more diversified and processed products. This in turn can become a significant driver of structural transformation of the continent's economies. Regional markets can also serve to help firms prepare and gain competitiveness before engaging internationally and competing with world class businesses.

Figure 8: Sub-Saharan African exports by product category and destination (2015, US\$ million)



Source: UN COMTRADE

Besides trade, investment patterns also matter. In this area, there has been a significant increase in the volume—and in particular the share—of intra-regional FDI flows across the three Tripartite RECs—albeit from very low levels (Table 2). Intra-EAC flows, for example, have increased from almost zero in 2003-2005 to US\$1.4 billion in 2009-2011. This represents

an increase in the EAC's share of total FDI inflows from 2 percent to 14 percent. In the SADC, intra-regional FDI flows increased from US\$1 billion to US\$3 billion over the same period, raising the bloc's share from 4 percent to 10 percent. COMESA's share of intra-REC investment flows has shot up to 8 percent in 2009-2011 from a mere 1 percent in 2003-2005.

Intra-regional investment is driven by the cross-border operations of multinationals based in major African economies. While it is believed that a large chunk of such investment is related to M&A activity, it is encouraging to note that the intra-African share of greenfield FDI projects in total greenfield flows to Africa has tripled in the space of a decade—rising from 7 percent in 2003 to 21 percent in 2013

(AfDB 2014). As with trade, there is a significant degree of polarisation with investment flows too. South Africa is the largest investor in the region, with Kenya and Nigeria emerging fast as key regional players since 2008. These three countries accounted for about 60 percent of FDI flows into Africa between 2003 and 2013 (AfDB 2014). Major recipients include Nigeria, Ghana, Uganda and Zambia.

Table 2: Intra-REC foreign direct investment flows (2003-2005 and 2009-2011)

REC	Period	FDI inflows (USD billion)		Intra-regional share
		Total	Intra-regional	
COMESA	2003-05	17.9	0.2	1
	2009-11	34.0	2.6	8
EAC	2003-05	2.3	0.0	2
	2009-11	9.9	1.4	14
SADC	2003-05	23.0	1.0	4
	2009-11	32.0	3.2	10

Source: UNCTAD (2014)

Finally, as with trade in goods, intra-African FDI is focused on manufacturing and services rather than on extractives. FDI in the manufacturing sector has been targeted at agro-processing, building materials, electronic and electric equipment, and textiles. In the services sector, banking and financial services, telecommunications and retail trade have been the leading areas. The surge of cross-border banking is a positive indicator of financial convergence in the region—a key requirement for the economic and monetary union envisaged by the Abuja Treaty.

3.3 Fostering Regional Value Chain Integration and Upgrading

The international fragmentation of production—often referred to as GVCs—is a product of the lowering of transportation costs and the information technology revolution whose advances have given firms the ability to unbundle their production process across different geographical locations. A GVC usually involves a collection of firms located in different countries but jointly forming a production line. Participation in the line may either involve forward linkages—where a firm produces an output that is used in production

for export in another nation—or backward linkages where a firm uses imported parts or components used as input into production that is exported (Hoekman 2015).

Trade policy reforms, combined with falling transportations costs and the IT revolution, enabled the rapid expansion of GVCs in the 1990s. In the 2000s, however, this process decelerated with the average share of intermediate goods in world non-fuel exports having stagnated since then at around 50 percent. This slowdown in vertical specialisation seems to have affected the manufacturing sector in particular, but much less so services where fragmentation is only now beginning to happen. In a similar vein, ongoing information and communications technology (ICT) innovation may well result in further incentives for specialisation in the future.

From a development perspective, the international fragmentation of production is creating new opportunities for African countries by eliminating the need to gain competency in all aspects of a particular good. Integration in international value chains is also frequently associated with enhanced foreign direct investment (FDI) and

knowledge spillovers to the local economy. But taking advantage of those opportunities is not automatic. For countries willing to use the “GVC technology” as an engine of development, an open and predictable import regime becomes more important, particularly for intermediate goods, as competitiveness is increasingly defined by both country imports and exports. Minimising trade frictions such as delays in border clearance or low quality distribution facilities is critical. Another key factor is connectivity, including transport, logistics services, and ICT networks. From an FDI attraction perspective, policies have to address constraints that impede FDI entry while targeting, at the same time, first tier suppliers of lead firms and providing support for the creation of backward linkages. All this calls for more effective strategic collaboration between governments and the private sector. Regional integration can play a critical role in this equation. The following sections highlight some of the key challenges in this area.

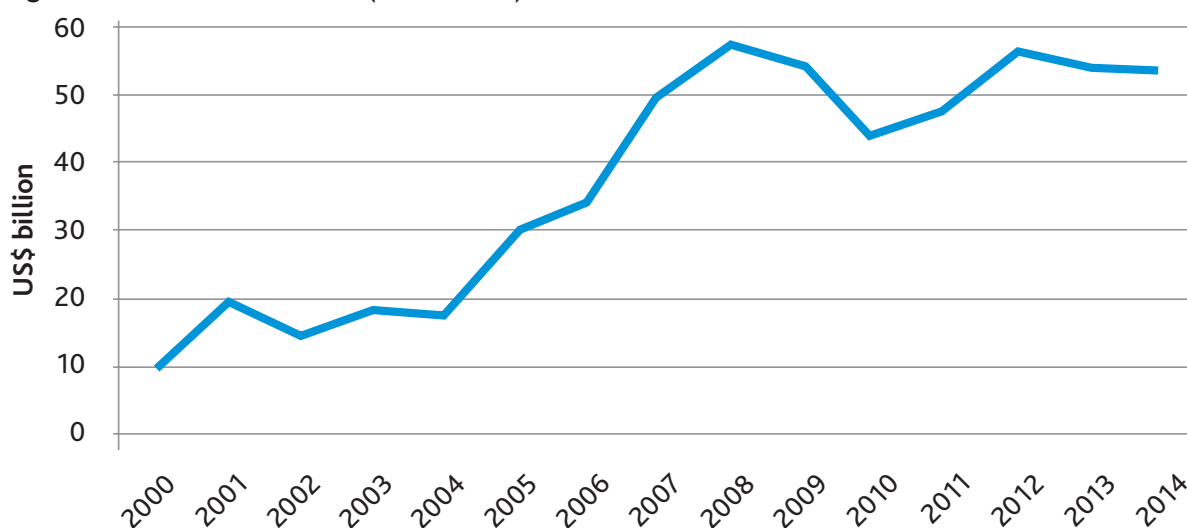
3.3.1 Foreign direct investment as the driver of GVCs

GVCs are essentially driven by investment decisions of multinational corporations (MNCs), through their outsourcing and offshoring activities. Some are created by research-driven companies looking for high research value added. Others are propelled by the need to source inputs in low-cost locations or by resource-seeking investment focusing on extractive industries and access to raw material.

Africa’s attractiveness as an FDI destination has improved in recent years. The lure of a young and flexible workforce, stronger economic fundamentals and a plethora of regional trade agreements, which provide preferential access to other African countries, to the US and to the EU, are undisputed pull factors. The discovery of oil and gas in Ghana and Tanzania, among others, the continued spread of global value chains, rising costs in China and the accelerated shift towards renewable energy will also boost FDI flows to Africa.

FDI flows to Africa have increased almost six-fold, from US\$9.6 billion in 2000 to US\$54 billion in 2014 (UNCTAD 2015). In recent years, however, FDI seems to have levelled off, after bouncing back from an intermittent low point in 2010 (Figure 9). Falling commodity prices, continued instability in parts of Africa, the Ebola pandemic and the economic slowdown in Europe, and now in China, may be the culprits. However, analysis of greenfield investments to Africa tells a rather different story. Greenfield investment grew 65 percent in 2014 over the previous year, reaching US\$87 billion—at a time of sluggish growth in global FDI flows. Much of the investment is market-oriented, with multinationals seeking to get a bite of Africa’s emerging middle class in sectors like real estate and communications (Mubila and Ben Aissa 2011). This suggests that the lower net FDI inflows are due to divestures, especially by developed-country multinationals.

Figure 9: FDI flows to Africa (2000-2014)



Source: UNCTAD (2015b)

A significant share of FDI is also resource-seeking: 38 percent of investment flows in 2014 targeted the coal, oil and natural gas sector, which remains the most important magnet for FDI. Yet announced FDI projects in the manufacturing sector in 2014 have doubled in value relative to the previous year, with major investments in food and beverages and in textiles and clothing. Moreover, the services sector continues to attract the largest FDI flows, accounting for 42.5 percent of greenfield FDI in 2014 and 48 percent of Africa's inward FDI stock in 2012. The construction sector saw its take of greenfield investment projects almost triple to US\$9.2 billion in 2014, that is, one quarter of total FDI in services. Unfortunately, business services, and transport and communications, witnessed sharp declines in new investment. Financial services, which accounted for 56 percent of the services FDI stock in 2012, remain by far the most attractive sector for FDI in Africa.

For African countries seeking to maximise benefits from their value chain participation, a major concern has been to capture a higher share of value added domestically to promote productivity gains, the deployment of new technologies, better employment opportunities or economic diversification. Yet these benefits are not automatic. As highlighted above, GVCs tend to be led by large multinational companies that decide where to

locate plants, where to invest and who to source from, based on their strategy to maximise profits. This may or may not offer participatory or upgrading opportunities for particular countries. In the absence of backward linkages with the rest of the economy, critics point to the footloose nature of efficiency-seeking investments, especially those operating in the lower value part of the value chains (e.g. clothing industry), which are constantly looking for cost savings and are willing to relocate rapidly. Critics also caution against the risk for resource exporting countries of being caught in the "resource trap" when the main purpose of FDI is to extract natural resources with limited incentives to invest in ancillary activities. Others suggest that in the absence of active policies, African countries often lack sufficient absorptive capacity to benefit effectively from technology upgrading as a result of GVC integration. Finally, some are concerned about a possible race to the bottom as countries compete to attract FDI by providing generous incentive packages such as tax holidays or even by eliminating regulatory requirements (e.g. environment, labour, safety).

Regional integration offers significant opportunities to address such concerns. These range from defining a coordinated approach at the regional level for the development of backward linkages, through the development regional infrastructure to cooperative

frameworks for investment to avoid competing incentives that lead to a race to the bottom. To achieve this, regional integration should not only facilitate intra-African investment flows but also establish a coherent regulatory framework to attract and benefit effectively from FDI.

3.3.2 Rules of origin and the development of regional value chains

Existing evidence tends to show that most production networks are regionally oriented and concentrated around three hubs: North America, Europe and East Asia. This is not to suggest the absence of truly global supply chains, but besides horizontal value chains focused on extractive industries, current evidence tends to support the claim that the majority of vertically integrated production networks are regionally oriented.

While this reality poses a challenge for countries located far away from industrial clusters, it also points to the opportunities to develop regional value chains (RVC) in Africa. Based on preliminary empirical evidence, regionally oriented value chains may even provide more promising opportunities for “homegrown” industrialisation in Africa than the more globally oriented chains. For example, recent work by ICTSD comparing the performance of a clothing value chain focusing on exports to the US market to that of a regional value chain with exports primarily to South Africa and regionally, both operating out of Lesotho, provides preliminary evidence that the RVC did better on Sustainable Development Goals 1 (ending poverty), 5 (gender equality/empowerment) and 8 (decent work)—the three SDGs on which the analysis focused (see Table 3).

Table 3: Sustainable development dimensions of GVCs and RVCs: evidence from the Lesotho apparel industry

SDG	GVC	RVC
Goal 1—Ending poverty	Strictly basic minimum wage; no incentive bonus	Minimum wage + 8.3%; productivity incentives
	On-site clinic with registered nurse; 30 Lesotho malotis per visit deducted from pay	On-site clinic with nurse and doctor; 10 Lesotho malotis per visit paid by employer
Goal 5—Gender equality/empowerment	No woman in managerial position	2/3 of managers are women
	No gender empowerment policy	No policy but gender empowerment promoted
	6 weeks maternity leave	12 weeks maternity leave
Goal 8—Decent work	Basic pay, no scope for upward progression	Better pay, production incentives, opportunities for promotion

Source: Compiled by Vinaye Ancharaz, ICTSD

Regional trade agreements formed among neighbouring countries can play an important role in the development of such regional value chains. The fact that trading across borders in the same RTA does not add extra duties creates an incentive to source part of the production process from countries that have formed a RTA. More specifically, Estevadeordal et al. (2013) estimate—after controlling for the effect of distance—that, on average, countries will source 15 percent more of their foreign value added from members of the same RTAs

than from non-members. This is largely due to the fact that strict rules of origin tend to disincentivise the use of parts and materials from third countries. While being a member of a trade agreement does not necessarily impede a country in developing supply chains with non-member countries, rules of origin have significant implications in how firms choose the location in which they fragment production, typically restricting outsourcing from countries with which the country in question shares a RTA.

In the case of Africa, although most of the value chains are still commodity-based, significant opportunities exist in agro-processing. Outside of commodities, apparel is an interesting example of vertically specialised value chains. Regional value chains in apparel were spurred in part by AGOA. For example, trousers produced in Madagascar use cotton from Zambia, fabrics from Mauritius and zippers from Swaziland. Jonssons, a South African firm based in Lesotho, produces clothing items for the South African market using threads and trims from South Africa, fabric from China and zips from Swaziland. Packaging and labelling are done in South Africa. EPA provisions on regional cumulation may also have supported RVC development, especially in ESA. For example, Kenya eyed the potential for its dairy sector when it insisted on regional cumulation provisions to be included in the EAC EPA. The possibility to cumulate with South Africa meant that Kenya could source milk from the SADC region to produce a variety of dairy products, such as yoghurt.

Building on those precedents, regional integration (including through the definition of a common set of rules of origin at the continental level) can play a significant role in further incentivising the formation of regional value chains.

3.3.3 Trade facilitation as the key to unlocking the potential of regional value chains

As firms unbundle their production processes, logistics costs and efficient border operations become crucial. This includes all aspects of clearance procedures, port operations, cargo handlers, storage facilities, as well as transport and trade-related infrastructure. The World Trade Organization's Trade Facilitation Agreement (TFA) concluded at the Bali Ministerial Conference in 2013 represents a significant step towards lowering the cost of doing business but its focus remains limited on simplifying customs procedures and making them more transparent. In this respect the TFA only addresses 'soft' issues related to procedures and policies—an approach

which contrasts with the broader definition adopted by organisations like the World Bank, according to which trade facilitation is meant to tackle a wider set of constraints to trade and trade competitiveness, including 'hard' infrastructure.

The potential gains for African countries from undertaking trade facilitation reforms are well known and have been widely discussed (see, for example, UNECA 2013). These gains are set to be significant since Africa, as a region, faces the highest trade costs in the world due to poor road and rail infrastructure, deficient port logistics, poor vehicle use, cumbersome customs procedures and inefficient border management. It is estimated that transport costs account for over 13 percent of the value of imports in Sub-Saharan Africa, compared to 9 percent for Asia (UNECA 2013). It takes 37 days, on average, to import a container into Africa—at a cost of US\$2,567, compared to 33 days and US\$1,736 for South Asia. The number of documents required for export and import places onerous demands on business; it takes 9 days on average to get an import permit (World Bank 2014), and delays at customs cause 12 lost days in Sub-Saharan Africa (compared to less than 6 in Asia). Landlocked countries face additional delays at border posts. For example, there are about 4 checkpoints per 100 km between Niamey in Niger and Ouagadougou in Burkina Faso (20 in total).

Implementation of the World Trade Organization's TFA, especially measures relating to border agency cooperation (Article VIII), transit formalities (Article X) and customs cooperation (Article XII), promises to deliver the biggest returns to African countries. Hufbauer and Schott (2013) estimate that Sub-Saharan Africa would witness an increase in exports of US\$30 billion if it implemented an ambitious package of trade facilitation measures, generating more than one million jobs in the process. Although the impact on intra-African exports is not singled out, it is conceivable that a significant share of the export gains would be at the regional level, where trade costs are the highest.

There should be little doubt that trade facilitation is the way to go for Africa. In a sense, implementation of the TFA is already happening, and it started independently of a binding agreement. The challenge for African

countries is to go the extra mile and implement the Agreement fully, ambitiously and on their own accord rather than as something that they are obligated to do.

Table 4: Sustainable development dimensions of GVCs and RVCs: evidence from the Lesotho apparel industry

	Sub-Saharan Africa	South Asia	Developing countries	Developed countries
Export gains (US\$ billion and percentage increase of total exports.)	30 (+13.5%)	5 (+1.5%)	569 (+9.9%)	475 (+4.5%)
Two-way trade gains (US\$ billion)	60	10	1,137	949
GDP increase (US\$ billion)	28	5	523	437
Number of jobs supported (thousands)	1,035	613	18,022	2,610

Source: Hufbauer and Schott (2013)

A number of trade facilitation provisions exist in most trade treaties. In Africa, the eastern and southern Africa region (ESA), and specifically the three constituents of the Tripartite FTA—EAC, COMESA and SADC—have explicit provisions on customs cooperation, use of international standards and simplification of formalities and procedures (Table 5). However, implementation has remained

patchy. Regional projects, such as one-stop border posts along the North-South Corridor, customs harmonisation and cooperation amply demonstrate the impact of trade facilitation on regional trade. This should encourage African countries to invest further in trade facilitation. One way this can be done is by designing “Aid for Trade” projects on trade facilitation and seeking funding for their implementation.

Table 5: Trade facilitation provisions in ESA treaties

COMESA	EAC	SADC
Customs cooperation	Customs cooperation, setting up of a customs databank, and adoption of the Harmonised Customs Documentation	Customs cooperation
Opportunity to comment and information before entry into force	Simplification of formalities/ adoption of common standards	Simplification of formalities/procedures
Rejected goods	Dissemination of information on trade and trade documentation	Harmonisation of regulations/formalities
Harmonisation of regulations/ formalities	Adoption of international standards	Use of international standards
Use of international standards		Exchange of customs-related information
Formalities and documentation requirements		
Publication: Importation, exportation and transit procedures and required forms and documents		
Special & Differential Treatment: Provision of assistance for capacity building		

Source: Compilation by Vinaye Ancharaz, ICTSD

3.3.4. The growing importance of trade in services

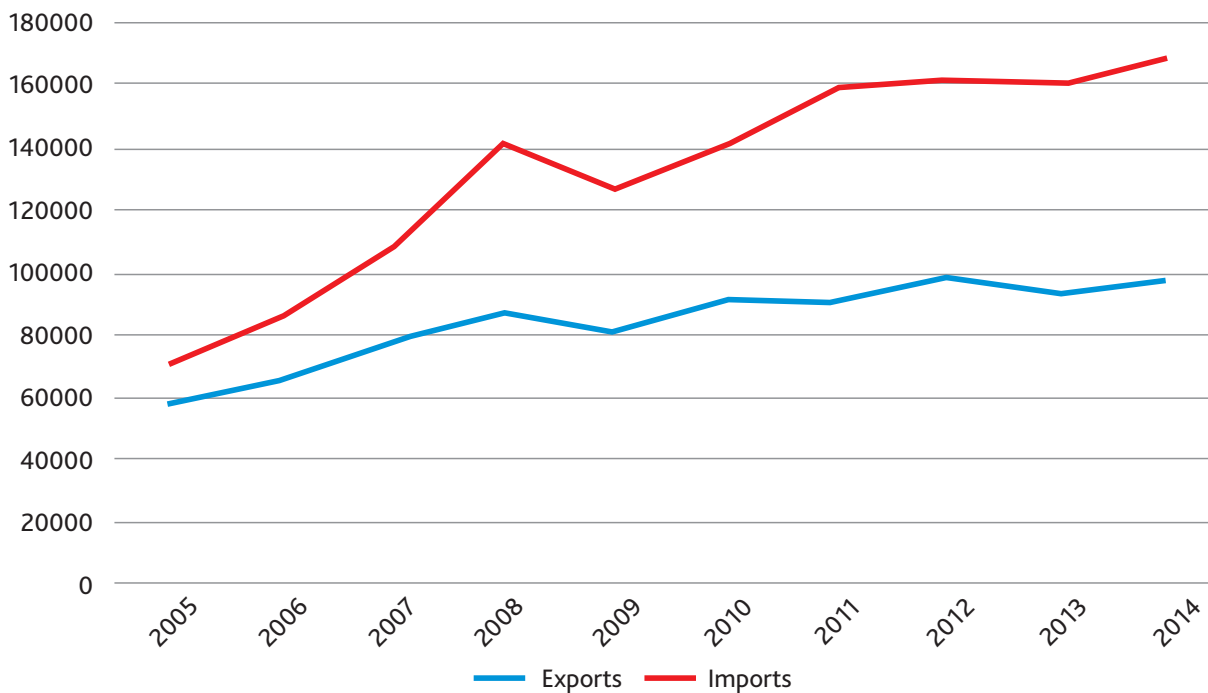
Services play a key role in the operation of international production networks. They often serve as inputs or “facilitators” in many production processes by providing connectivity or by enhancing the productivity of factors of production like human capital (e.g. education, health, research and development). Certain services, including transport, telecommunications, water, energy and financial services, also represent the key to addressing Africa’s physical infrastructure deficit. Finally, as a result of technological advances including in ICT and the emergence of vertically integrated value chains a number of services that were traditionally considered non-tradable can now be exported either directly or indirectly as part of value chain trade.

Between 2009 and 2012 the services sector in Africa grew at more than twice the world average rate, and it now contributes almost

half of the continent’s output. During this period, the share of services in real output was highest among exporters of manufactured goods, indicating that services are an important determinant of competitiveness in manufacturing.

The sector also has a strong poverty alleviation potential (Adhikari 2015). Between 2009 and 2012 it accounted for 32.4 percent of total employment in Africa (UNCTAD 2015). As the dominant sector in many African economies, it plays a critical role in supporting the process of structural transformation, the shift from low to high productivity activities and growing the share of manufacturing and modern services at the expense of agriculture output and employment. Africa has traditionally captured a relatively small share of global services trade—only 2.2 percent of the world’s exports—compared to other regions and has seen its services trade deficit grow significantly in recent years (see Figure 10).

Figure 10: Imports and exports of commercial services by African countries (2005-2014, US\$ million)

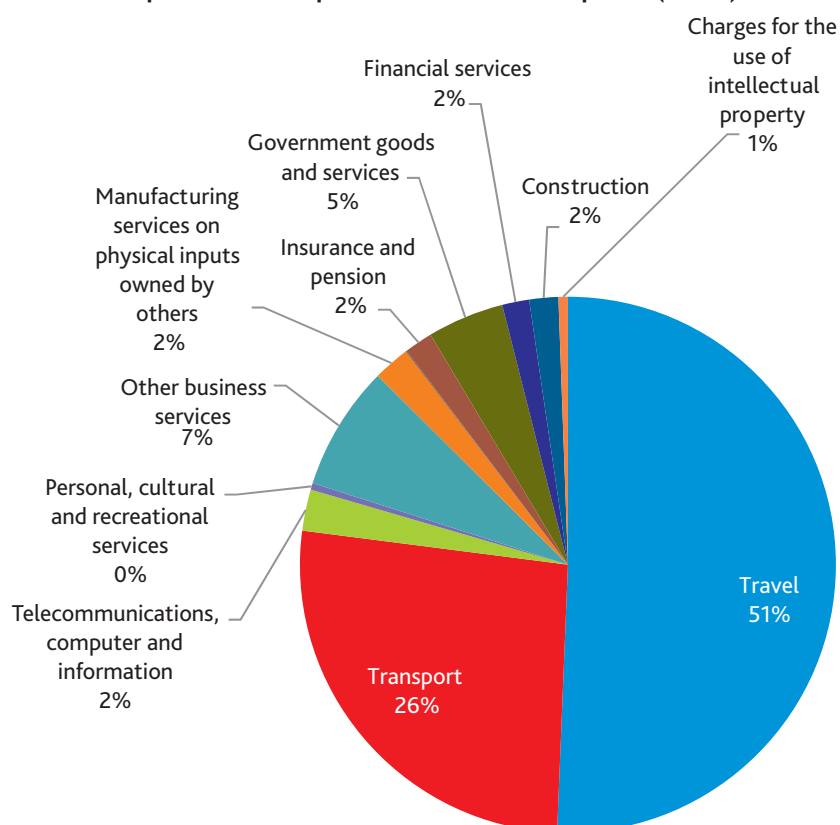


Source: ITC, UNCTAD, WTO joint dataset

This may reflect a lack of global competitiveness in the services sector and explain, at least partly, its limited integration in international value chains, besides forward integration in commodity exports as inputs in foreign manufacturing. The structure of

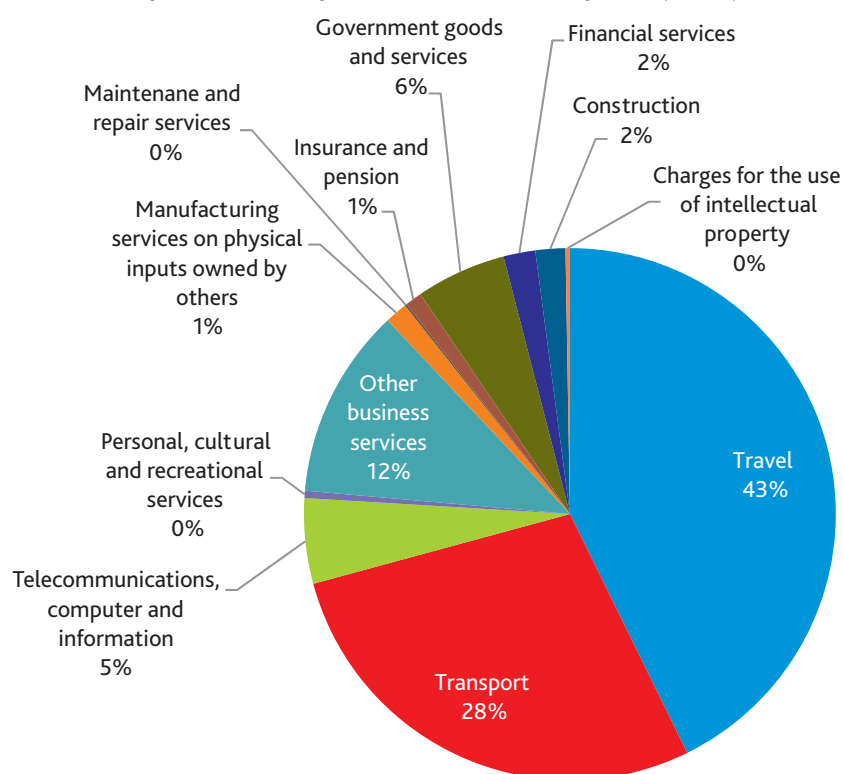
African exports of services has, however, evolved over the past few years as illustrated in Figures 11 and 12 which compare the export composition of the top African services exporters, accounting for 99 percent of total exports in 2005 and in 2014.

Figure 11: Composition of top African services exports (2005)



Source: ITC, UNCTAD, WTO joint dataset for top African services exporters, accounting for 99 percent of total exports

Figure 12: Composition of top African services exports (2014)



Source: ITC, UNCTAD, WTO joint dataset for top African services exporters, accounting for 99 percent of total exports

While travel and transport remain by far the most important export sectors, the share of telecommunications and other IT services, as well as exports of “other business services” including professional services or BPOs, has roughly doubled over the last 10 years. Both the ICT and business services sectors are closely associated with the development of value chain trade and seem to indicate improved competitiveness in those areas.

As with processed goods, intra-African trade in services appears to be more sophisticated than global trade and associated with a higher intensity of services components, highlighting the strategic importance of regional integration (UNCTAD 2015). While the limited nature of available statistics in trade in services makes it impossible to assess with certainty the share and composition of intra-regional trade in services, anecdotal evidence and qualitative analysis tend to confirm UNCTAD’s conclusions. For example, several African countries have managed to develop successful industries that supply services across the continent. These include financial and banking services in Mauritius and Nigeria, education services

in Uganda and Ghana, telecommunications services in Egypt or port services in Kenya (UNCTAD 2015). In this context, services clearly have the potential not only to boost regional trade by overcoming existing bottlenecks (e.g. in infrastructure services), but also to enhance competitiveness of the economy as a whole and the development of regional value chains (e.g. through ICT, finance, distribution or logistics).

All existing RECs have some form of services agreements, ranging from simple cooperation in some sectors to comprehensive trade liberalisation. However, unlocking the potential of Africa’s services trade still requires regional policies to be better aligned and policy shortcomings to be overcome. From a regional integration perspective, certain sub-sectors clearly have greater potential to facilitate intra-African trade and the development of regional value chains and should therefore be prioritised in future negotiations. As highlighted above, these include, among others, infrastructure services, distribution, telecommunications, finance, BPOs, tourism and ICT.

4. ENGAGING STRATEGICALLY WITH AFRICA'S TRADING PARTNERS IN SUPPORT OF REGIONAL INTEGRATION

Deepening regional integration is often seen as an effective means of reducing excessive dependence on foreign partners. A wide body of evidence links Africa's resilience to the financial crisis of 2008-2009 to the depth of regional trade and integration. For example, the East African Community—the most integrated of African regional blocs—was the least affected by the economic downturn (Brixiova, Meng and Ncube 2014). Yet, with intra-regional trade still accounting for a relatively small share of Africa's exports, the continent cannot ignore its traditional and new trading partners in the South. Besides addressing the challenges highlighted above, regional integration therefore also needs to take into account rapidly evolving trade relationships with its partners beyond the continent.

Moving towards deep continental integration would ultimately require harmonising the different trade commitments undertaken by African countries at the multilateral, regional and bilateral level. Most African countries are bound by their WTO commitments but many of them have entered into comprehensive trade agreement with outside partners, starting with the EU under the EPAs. In addition, most African countries are beneficiaries of unilateral preferential schemes with their major trading partners including the US and, increasingly, emerging partners such as China or India. At the same time, while the future of multilateral negotiations remains uncertain, mega-regional deals among major players are on the rise, and these tend to exclude African countries. In the following sections, these challenges and opportunities are explored from the perspective of their implications for regional integration in Africa.

4.1 Harnessing the Potential of South-South Cooperation

Africa has witnessed a major shift in its development relations since the turn of the century—away from its traditional partners (the

EU and the US) towards emerging economies: a wide range of South partners including, in particular, the BRIC economies (Brazil, Russian Federation, India and China). This eastward shift of the “centre of gravity” has spawned a large and growing literature on emerging economies' engagement with Africa, much of it focusing on China (e.g. De Grauwe, Houssa and Piccillo 2012; Eisenman 2012; Tull 2006; Zafar 2007). Following Jenkins and Edwards (2008), it has become conventional to analyse Africa's relations with its emerging partners in terms of trade, investment and aid.

4.1.1 *The rise of South-South trade*

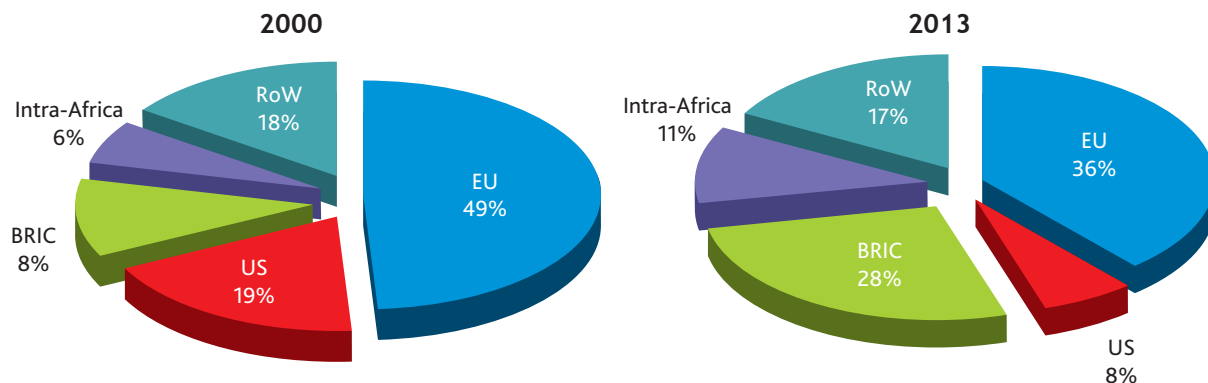
The rise of South-South trade is not a trivial development, considering the speed and intensity with which it occurred, and its potential to permanently alter the dynamics of global trade. The development has thrust several emerging economies into the global arena as dominant players. Developing countries saw their share of global output double from about 20 percent at the turn of the century to 40 percent in 2013 (Razzaque and Gosset 2014). Over the same period, their share of global merchandise exports has also doubled, reaching about 50 percent in 2013.

Some critics have argued that the increased trade of developing countries is mainly a China story. Aksoy and Ng (2014), for example, show that China alone accounted for over 70 percent of the market share gains by developing countries in both industrial and developing countries during the 2000s. Indeed, China is now Africa's second most important export destination behind the EU, and exports to it have continued to rise after 2009. Recent evidence suggests that a 1 percentage-point increase in China's domestic investment is associated with a 0.6 percentage-point increase in export growth from Africa (Drummond and Liu 2013). This means that China's economic slowdown could undermine Africa's export growth.

While China's dominance of South-South trade can hardly be disputed, it is important to recognise that several other emerging economies—notably Brazil, India, Korea, Turkey and the United Arab Emirates—have also become key trade partners for Africa. Developing countries, in the aggregate, accounted for 56 percent of Africa's exports in

2013, up from 51 percent in 2000 (Figure 13). The BRIC group of countries saw the largest increase in export share, from 8 percent to 28 percent, over the period. China alone accounts for two-thirds of Africa's exports to BRIC. India has surpassed the US to become Africa's third largest export destination.

Figure 13: Africa's main export destinations (2000 and 2013)



Source: UN COMTRADE

Emerging economies have also become significant suppliers to Africa, with the BRIC group alone accounting for 27 percent of the continent's imports in 2013. China's exports to Africa crossed the US\$100 billion mark in 2014 as a result of steady growth since 2009. India is trailing just behind the US whose exports to Africa have progressed slowly in recent years. At current trends, the US is likely to cede its third place as Africa's supplier to India. However, even as the increase in South-South trade continues to squeeze traditional partners' share in Africa, the EU remains by far Africa's most dominant trade partner, and the recently concluded EPAs could further consolidate this position into the future (see section 4.3. below). An important development following the WTO Ministerial Conference in 2005 has been the offer of trade preferences by some emerging economies to LDCs.⁶ India launched its Duty-Free Tariff Preference Scheme in August 2008, and published a revised scheme in April 2014. The current scheme provides preferential tariffs on 98 percent of Indian tariffs, including a number of products of key export interest to African LDCs. A series of country studies by ICTSD finds that the initial scheme had limited

impact on African exporters mainly because of a lack of awareness of among exporters and critical product exclusions. The revised scheme and greater initiative on the part of the Indian government to promote the scheme should, in principle, address these flaws.

China also came up with a preferential scheme in 2010, with an initial duty-free treatment on 60 percent of tariff lines, to be extended eventually to 97 percent. At the Asian-African Summit held in April 2015, China announced that the promise of a DFQF scheme would be fulfilled by the end of the year.

The potential for the emerging economies to boost regional integration in Africa is significant. The improved Duty-Free Quota-Free (DFQF) schemes by India and China can provide new opportunities for African manufacturing exports. As manufacturing capacity on the continent develops, trade complementarity between African countries will increase, creating further scope for intra-African trade. Moreover, where manufacturing takes place in regional value chains, any sustained increase in industrial

6 The Hong Kong Ministerial Conference called on "developing-country Members declaring themselves in a position to do so... [to] provide duty-free quota-free market access on a lasting basis for all products originating from all LDCs."

exports—whether to the South or to traditional markets—will also boost intra-regional trade in intermediates.

4.1.2 Investment by emerging economies

Besides trade, emerging partners' investment activity in Africa has raised many questions—and some controversy, particularly about China's investment. Such controversies might, however, been exaggerated. First, China is far behind the top investors in Africa. While greenfield investment by China shot up to US\$6.1 billion in 2014, placing the country third in the investors' league, that was rather exceptional given that FDI the previous year was a mere US\$289 million. A more reliable picture is presented by the FDI stock in Africa, which was estimated at US\$655.3 billion at the end of 2013. China, a late entrant into Africa's investment field, accounted for a mere 7.3 percent of this stock. The BRIC economies' share stood at 17.6 percent, much of it attributed to India's 10 percent stake. Brazil's FDI presence is small and has grown slowly in recent years, partly due to divestures. The Russian Federation's investment activity is negligible.

Secondly, there is a perception that Chinese investment in Africa is predominantly in the oil and mineral sectors. Yet Africa's mining sector accounts for a mere 29 percent of Chinese FDI flows. Smaller investment projects, and those that do not require the blessing of Chinese authorities, often go unrecorded. This suggests huge investment opportunities outside of mining. However, recent data suggests that Chinese investment in Africa fell by 84 percent to US\$568 million in the first half of 2015 compared to the previous year, probably reflecting the economic slowdown at home. Over half of this amount went into the extractive industry as Chinese investors shifted their focus back to raw materials. While it remains to be seen if this trend will continue into the future, it nevertheless suggests that Chinese investments outside of the extractive sector are particularly sensitive to China's own economic fortunes.

Moreover, critics have often confused aid for infrastructure investment with FDI per se,

leading to erroneous analysis and unjustified criticism. This confusion derives from a loose definition of investment, which does not distinguish financing from ownership and control. The distinctive feature of FDI is that it gives the investor a degree of control over the project's management and revenues. China's so-called "investments" in African infrastructure projects, such as roads, railways and ports, typically do not give the Chinese any ownership of the projects. The Chinese are simply financing these projects, not investing in them.

4.1.3 Aid by non-traditional partners

Aid is the third channel through which emerging partners are engaging with Africa. Aid flows to Africa from the South have increased massively alongside trade and investment. However, since such aid occurs outside of the Development Assistance Committee (DAC) framework, it is has proven difficult to measure accurately. There is also an issue about whether South aid is aid in the conventional sense. While it is usual to refer to it as "aid" in a blanket way, much of the financial assistance provided by the emerging economies to their African partners may not meet the minimum threshold of a 25 percent grant element to qualify officially as aid. There is little doubt that technical assistance, capacity building and scholarships constitute aid as commonly understood; but the same cannot be said of financial aid.

It appears that a significant portion of financial aid flows is in the form of lines of credit and other non-concessional loans that, strictly speaking, are not aid. Both China (through the China-Africa Development Fund and the Exim Bank) and India have provided large amounts of financing in this form. At the first India-Africa Forum Summit, for example, India offered lines of credit worth US\$7.4 billion to 41 African countries (UNECA and CII 2015). China has used a range of ingenious alternative financing instruments, including export credits, natural resource-backed loans and mixed credits (in which concessional and market-rate loans are combined), that have eluded any attempt to measure their aid component (AfDB et al. 2011).

However, it would be wrong to say that emerging partners' aid activity in Africa has been limited to loans, concessional or not. China's aid, for example, spans eight types, including technical cooperation, medical assistance, humanitarian aid and debt relief (Sun, 2014), but these are often left in the shadow of bigger financial deals partly because they are difficult to summarise in statistics. Where data is available, the scale of aid is very telling. For example, by the end of 2009, China had provided a total of US\$37.7 billion in aid globally, of which US\$15.6 billion (or 41.4 percent) was in the form of grants, US\$11.25 billion as zero-interest loans and US\$10.8 billion as concessional loans (Brautigam 2011).

In other cases, data is not readily available but this does not mean that the aid was less significant. At the UN Sustainable Development Summit in September 2015, for example, China's pledge to set up a US\$2 billion fund to assist poor countries in the areas of education, health and economic development received a great deal of attention. The Chinese premier also vowed to write off an undisclosed amount of debt due to be paid in 2015 by LDCs and small island economies. This offer of debt relief is of critical importance to a number of debt-saddled poor countries, but the fact that no official amount was announced made it less visible in the media.

A key distinction between traditional and emerging partners' aid to Africa is the direction of the resource flows. Whereas large doses of aid from traditional partners have been directed to the social and productive sectors, aid from emerging economies has specifically targeted infrastructure projects. Given the visibility of such large-scale projects, African politicians have welcomed aid from South partners. This has created the impression that emerging partners' aid is more "effective" than Official Development Assistance (ODA) from developed countries.

A number of critics, especially from the press (including The Economist 2011), have claimed that Africa's engagement with the South is shrouded in opacity and that it might harm good governance in the continent. This is partly due to the fact that Africa's financial deals with emerging economies have not been subject to the same scrutiny as

ODA from DAC donors. The lack of conditionality on loans as well as the growing popularity of oil-for-infrastructure deals, notoriously linked to Angola—even though the practice is more widespread, have been additional factors. China has specifically been singled out by traditional partners on account of its burgeoning relations with resource-rich African countries. Although the evidence does not support this view (AfDB et al. 2011), China's dominance in Africa will remain in the spotlight for years to come.

4.1.4 Assessing the impact of Africa's engagement with emerging partners

Each of the three vectors of influence discussed above can have an important impact on regional integration in Africa. There is a dearth of statistical evidence on the links between Africa's growing trade with the emerging economies and its own intra-regional trade; yet it is not hard to see that the two can be mutually reinforcing. Africa's trade with the South is skewed towards commodity exports whereas intra-African exports show a higher concentration in manufactures (AfDB et al. 2011). Whether this suggests any pattern or causality is yet to be established. Perhaps it is symptomatic of some kind of regional specialisation, determined—at least in part—by differences in demand. But whatever the reason for the underlying correlation may be, if maintained over time, it could become a boon to industrialisation in Africa: as the continent's trade with the South continues to increase, so will its regional trade in manufactures.

Finally, it is often assumed that the imports of capital goods and technology-intensive products from a country can facilitate the transfer of technology from that country to the import partner and its firms (e.g. Eaton and Kortum 2001; Caselli and Wilson 2004). The evidence suggests that Africa's imports from the emerging economies, notably China and India, have been mainly in manufactured goods, including motor vehicles, machinery and equipment (AfDB et al. 2011; Drummond and Liu 2013). To the extent that these products can be sourced at lower cost from the South, African countries can afford to import more of them, leading to greater productive capacity and, ultimately, increased trade.

The links between emerging economies' investment activity in Africa and intra-African trade are more tangible than they are for trade. Generally, foreign investment can contribute to building a country's productive capacity—both directly and through knowledge spillovers. This in turn can lead to increased exports, global as well as regional. Moreover, where such investment catalyses regional FDI, there will be a further boost to regional integration.

China's investment abroad is bound to increase as Chinese labour-intensive industries seek cheaper production sites abroad. Already some African countries—like Ethiopia—are welcoming large injections of FDI as China carries out its plan of building nine special economic zones in seven countries (Brautigam and Xiaoyang 2011) in the initial phase. These industrial zones are designed to succeed where Africa's previous attempts have failed (Farole 2008). Although the developmental impacts of the zones on the host economies are debatable (Ancharaz 2013), the fact that at least some of the zones' output will be exported to other African countries points to their scope in boosting intra-regional trade. Moreover, if the industrial parks generate technological spillovers or cultivate backward and forward linkages in the host country or with other regional economies, then the impact on intra-African trade would be multiplied.

Emerging evidence from Africa suggests that South partners' investments in Africa are helping build domestic productive capacity and regional value chains. For example, a Taiwanese textile firm based in Lesotho sources 95 percent of its cotton from southern Africa, and some from West Africa; does 100 percent of its packaging in the region; and relies predominantly on South African logistics for shipping to the US. Chinese firms in Ethiopia are growing some of their cotton requirements in the country itself as well as sourcing from other African countries. This could be a boon for cotton-producing countries like Zambia and the C4 (Benin, Burkina Faso, Chad, Mali). Suppliers of accessories can also benefit.

African countries are making great efforts to attract Indian firms to their shores. While Chinese investment in the continent is often seen

with suspicion, African policymakers show much appreciation for Indian investment. To quote former Ethiopian Prime Minister, Meles Zenawi: "India brings some unique intangibles to the table. We need private sector investment. The Indian private sector is accustomed to working in situations like ours. Therefore, it makes it easier for them to operate in Africa. They have the technology and resources we need."

Indian investments in Africa can be of added benefit to African firms because of India's reputation for transferring state-of-the-art technology and know-how to host countries. A number of Indian companies—such as Cipla (pharmaceuticals), Tata (automobiles, IT), Mahindra Group (automobiles, IT), Ashok Leyland (automobiles), Essar Group (power, steel, mining, telecommunications, construction), Bharti Telecommunications (Airtel), Karuturi Global (commercial agriculture) and Godrej (consumer products)—are already seizing emerging business opportunities in Africa. The third India-Africa Summit, held in October 2015, promised to energise African-Indian relations. In this, the Indian private sector can play a crucial role, with investments that could create spillover benefits beyond the host country to the region through trade and further investment.

Finally, regarding the developmental impact of aid, there has been a flurry of research recently on this, particularly aid for trade (AFT) (see Cadot et al. 2011 for a review of the evidence). The evidence is mixed. For example, Cadot and de Melo's (2014) preliminary analysis suggests that countries that received larger AFT flows diversified less than countries receiving smaller amounts of AFT. Conversely, Cali and te Velde (2011) claim that AFT disbursements on economic infrastructure have reduced trading costs and boosted exports in a significant manner. Ancharaz, Ghisu and Bellmann (ICTSD 2013), however, have argued that AFT impact assessments have been plagued by a number of data and methodological issues and suggested that the best way to measure the effectiveness of aid is at the project level. Using this approach, and drawing on a series of country-level case studies, the authors conclude that AFT generally

works when a set of conditions are present: when the host country has the appropriate institutions and human resources to absorb aid; when the aid programme enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities.

There is much less evidence about the impact of emerging economies' AFT flows on Africa's export growth, and on intra-African trade in particular. One reason could be data issues and the definition of AFT, which is still largely seen as a developed-country affair. However, if the financing of infrastructure, whether hard or soft, includes a component of aid, then it is not hard to see that such aid can facilitate intra-African trade by enhancing regional logistics and reducing trade costs across borders. Physical infrastructure facilities, such as railways, roads and ports, are visibly promoters of regional integration; however, efficient border controls, customs cooperation and other trade facilitation measures that are less tangible might be equally impactful.

There is a presumption that emerging economies' aid projects are largely limited to hard infrastructure projects, including compliance infrastructure (such as labs and quality assurance mechanisms), which is crucial for the export of processed agricultural products. Yet emerging economies have provided aid in other areas as well. For example, the Indian Technical Economic Cooperation (ITEC) programme has provided training, technical assistance and project cooperation to a number of Commonwealth member countries since 1964. Training of African researchers and cooperation for institutional strengthening are key components of the more recent India-Africa Science and Technology Initiative, and several countries are already

benefiting from these activities. These initiatives could boost productive capacity and trade competitiveness over the long term and spark larger exports from African beneficiary countries to other African countries, as well as to the rest of the world.

4.2 The Rise of Mega-Regionals and the Risk of Marginalisation

RTAs have flourished since the 1990s, with the cumulative number of RTAs in force increasing from 50 in 1990 to over 400 by the end of 2015. There is thus nothing new about the mega-regional trade agreements, some of which are still under negotiation. Yet they define a new reality for the global economy and the world trade system by virtue of their sheer size (whether in terms of population, output or trade volume), scope (the extent to which WTO-plus issues are covered) and geographical coverage (the RTAs span across oceans and continents).

The Trans-Atlantic Trade and Investment Partnership (TTIP) between the US and the EU is the biggest in terms of GDP, representing nearly half of global income; the Trans-Pacific Partnership (TPP—between the US, Canada, Chile, Mexico, Peru and seven Asia-Pacific countries, including Australia and Japan) is the largest in terms of trade (about 40 percent of world merchandise trade); the Regional Comprehensive Economic Partnership (RCEP) is the most populous (accounting for roughly half of the world population) (Table 6). To these may be added the Trade in Services Agreement (TISA), a plurilateral agreement currently under negotiation among 23 countries, including the world's major economies, which collectively account for over 70 percent of global trade in services. If China joins these negotiations, the initiative will become the largest on all accounts.

Table 6: Key statistics on mega-regional RTAs (2016)

	Number of countries	Total population, million (% of world population)	Total GDP, US\$ trillion (% of world GDP)	Total trade (% of world trade in goods)
TTIP	29 (US and 28 EU countries)	827 (12%)	34.6 (46%)	33%
TPP	12	811 (11%)	28.0 (37%)	40%
RCEP	16 (including 10 members of ASEAN)	3,400 (48%)	23.1 (31%)	30%

Source: compiled by authors.

The mega-regionals are deep integration arrangements that go beyond tariff liberalisation. In fact, in the case of the TPP and TTIP, there are few meaningful tariffs that need to be eliminated; the focus in these initiatives is on services, non-tariff barriers and regulations relating not only to goods and services trade, but increasingly to investment as well.

Estimating the impacts of the mega-regionals on third parties remains a guessing game since only the TPP has been concluded, and even then only recently—in October 2015, and at the time of writing, ratification is facing growing uncertainties. The contents of TTIP and RCEP are yet to be finalised, and only speculative information is available on them since the negotiations are conducted behind closed doors. Moreover, assessing the impact on Africa is complicated by the fact that the continent is not a monolithic bloc.

The theory of FTAs suggests that the effects on African countries can be both positive or negative. The net effect will depend on the balance of the trade creation and trade diversion effects, which itself is determined by the structure and level of trade between the mega-RTA members and their trading partners, the relative levels of tariffs and non-trade barriers (NTBs, including, in particular, standards and regulations) and the depth of coverage of issues beyond trade in goods.

The trade diversion effects (that is, imports by a member country diverted from an excluded country to one within the bloc which now

benefits from lower tariffs) of TTIP are likely to be small since tariffs in the US and the EU are among the lowest in the world. Moreover, most African countries benefit from duty-free treatment for their exports to the EU under the recently concluded EPAs or under the Everything But Arms (EBA) initiative for LDCs, and quasi-duty-free treatment for exports to the US under AGOA. However, the exceptional treatment of agriculture in both the US and the EU could be a cause for concern for competitive African exporters that are denied the same tariff treatment that applies to other products. For example, reduced tariffs for American fish exporters under TTIP could harm Ghanaian fish exports (Reiter 2015).

Under TPP, there is a danger that the elimination of tariffs on textiles and apparel diverts trade away from African clothing producers exporting to the US, such as Lesotho, Kenya and Mauritius, to the benefit of Vietnam. However, some relief may come from the restrictive rules of origin that limit the amount of inputs sourced from outside the region (Elliott 2015). RCEP includes a larger number of LDCs and several competitive developing countries, and therefore represents a potentially bigger threat to African exports. The impact on African countries will depend on the scale of tariff liberalisation and the extent to which RCEP member states and African countries trade in similar products. On this count, it appears that the negative effect will be limited: Africa's exports to the region are not only small, they consist mainly of commodities that the mega-RTA members are known not to be competitive in.

The intra-bloc trade creation effect may have positive spillovers on excluded countries, including African economies. As trade in the mega-regional RTAs expands, there will be increased demand for raw materials and intermediates, some of which will be sourced through global value chains from countries outside the blocs. The precise magnitude of this effect is, however, difficult to estimate.

There is widespread agreement that the most important potential effects of TTIP would arise from greater regulatory cooperation. Standards are a major barrier to Africa's agricultural exports. For example, Murina and Nicita (2014) estimate that the EU's SPS measures result in a loss of about US\$3 billion to low-income countries, representing 14 percent of their agricultural exports to the EU. There is a risk of negative spillovers arising from elevated labour and environmental standards in TTIP. This would further raise compliance costs for capacity-constrained countries, thus hurting their exports. On the other hand, the harmonisation of standards between the US and the EU could benefit excluded parties as they only need to meet the standards in one market to qualify for export to the other. However, genuine harmonisation of standards is believed to be unlikely (Reiter 2015), leaving TTIP parties to address NTBs through mutual recognition agreements, which may be discriminatory vis-à-vis third parties.

In simulations of the impacts of TTIP, full harmonisation of standards has usually been described as "optimistic" or "ambitious." Its effect is to raise aggregate welfare gains or reduce losses. For example, Francois et al. (2013) estimate that the GDP of low-income countries would increase by 0.2 percent under the "ambitious" scenario, twice as much as in the "less ambitious" case. There are few studies that have modelled the impacts of all three mega-regionals on Africa. A notable exception is the recent study by Ciuriak and Xiao (2015), which also takes into account a future Trade in Services Agreement—albeit implicitly in that TISA's effects would be captured by TPP and TTIP.

Table 7 summarises the main estimated results for Africa from three scenarios in terms of implementation of the mega-regionals. In addition to various assumptions about tariff liberalisation and reduction of NTBs on services, the base scenario assumes harmonisation of standards as per the stated objectives of the US and the EU, but at an ambitious level. The optimistic scenario builds in positive spillovers, assuming specifically that the harmonisation of standards will reduce compliance costs for excluded countries and boost their exports. The negative scenario incorporates the stated aim of TPP and TTIP to raise standards relating to labour and the environment.

Table 7: Estimated impact of the mega-regionals (percentage change in GDP over baseline by 2030)

	"Optimistic" (positive spillovers) scenario	Base scenario	"Negative" scenario
Sub-Saharan Africa	-0.36%	-0.47%	-1.75%
Africa	-0.39%	-0.44%	-1.61%
World	0.22%	0.16%	0.04%

Source: Adapted from Ciuriak and Xiao (2015)

As is clear from the above, Africa loses in all scenarios; the impact is a matter of magnitude, with the welfare loss being smallest in the "optimistic" scenario and largest—close to 2 percent of GDP—in the "negative" scenario. While the world as a whole will likely gain from the conclusion of the mega-RTAs, there is a risk that they will impoverish the already poor.

Paradoxically, the mega-regionals may have a positive effect on African integration. In some ways, this effect is already being witnessed: the launch of the Tripartite FTA in June 2015, which promises to expand into a continental FTA by 2017, was partly in response to the rise of mega-RTAs from which Africa has been excluded. This is a classic example of the "domino effect" that

suggests that the formation of large RTAs creates “pressures for inclusion” that lead excluded parties to form their own bloc or strengthen existing ones (Baldwin 1993).

The impact of harmonisation of standards is mixed. On the one hand, higher standards can constrain African exports to the EU and the US. This, in turn, could either cause intra-African trade to increase—as underutilised trade capacity is diverting to meet regional demand—or decrease as a result of the knock-on effects of reduced demand for intermediates in regional value chains. On the other hand, lower compliance costs of harmonised standards can boost both trade to the EU and the US as well as intra-African trade in intermediates. Overall, the rise of mega-RTAs heightens the urgency for deepening regional integration and for completing the continental FTA at the earliest. However, beyond such agreements, it is crucial for African countries to work to promote real integration by addressing impediments at the most basic level.

4.3 The Economic Partnership Agreements

One of the main features of the Cotonou Agreement signed in 2000—and subsequently revised in 2005 and 2010—was to replace unilateral trade preferences granted by the European Union (EU) to the group of African, Caribbean and Pacific (ACP) countries since the first Lomé Convention in 1975, with WTO-compatible reciprocal trade agreements called Economic Partnership Agreements (EPAs) by 2008. The overarching objectives of these agreements are to promote sustainable development and poverty reduction, boost regional trade and economic cooperation and support the progressive integration of ACP countries into the world economy. While the EPAs were meant to be comprehensive, encompassing services and WTO-plus areas such as investment, competition and the environment, in the end—with the notable exception of the CARIFORUM-EC EPA, signed in October 2008, these were left to be addressed in the future by means of a convenient “rendez-vous” clause. All three of the African

EPAs are limited to goods only, following the linear model that has characterised regional integration on the continent so far. The agreements include special and differential treatment (S&DT) provisions and a chapter on development cooperation that, for long, was a sticking point in the negotiations.

All three African regional economic communities—namely the SADC, EAC and ECOWAS—concluded their EPA negotiations by October 2014, although the EAC missed the October 1st deadline set by the EU and thus saw its market access preferences temporarily suspended. The negotiating process has been more complicated in Africa for various reasons, including the fact that African countries differ in size, levels of economic development and the level of reforms needed, which meant that the EPA process could not follow a one-size-fits-all approach. In addition, the least developed countries (LDCs), which automatically qualify for DFQF market access to Europe under the EBA initiative, had little interest in the EPA, which is why so few of them have signed up. The declining share of the EU in Africa’s exports due to the rise of South-South trade—and China, in particular—probably had an influence as well.

The negotiations spawned a large literature on the impacts of the EPAs on African economies, much of which was heavily critical of the agreements as proposed by the EU. Critics pointed out that the EPAs, by their very design, were at odds with the fundamental principle of S&DT since they required countries at a much lower level of development to match the market access preferences offered by the EU under the then-Cotonou Agreement. Since the EU was already providing almost 100 percent duty-free access to its market, the burden of liberalisation needed to comply with General Agreement on Tariffs and Trade’s Article XXIV would fall on the other party—the African countries negotiating the EPAs. As such, the economic impacts of the EPAs on these countries were bound to be negative, especially when measured against the narrow yardstick of fiscal revenue loss and impact on local industry.

A number of simulation studies have found that the net welfare effects on Africa from implementing the EPAs would generally be negative. These effects vary with underlying assumptions: on average, the greater the extent of tariff elimination, the more efficient the post-EPA tax collection, the larger the exclusion list and the shorter the length of time under consideration, the smaller the overall welfare impact will be.

Another reason for the delay in the negotiations is that the groupings of countries negotiating the EPA did not necessarily reflect existing regional arrangements. For the purposes of the negotiations, the 77 ACP countries were grouped into six regions—namely, West Africa, Central Africa, Eastern and Southern Africa (ESA), SADC and the Caribbean and Pacific. However, the negotiations ended up fragmenting the groups in Africa. Only West Africa managed to conclude an EPA as a bloc (but Nigeria later refused to endorse it). The ESA negotiating bloc split into two groups—the EAC and the MMSZ group (including Madagascar, Mauritius, Seychelles and Zimbabwe), which decided to pursue the negotiations separately due to irreconcilable differences of interest. The MMSZ group ended up signing the first EPA in the continent—albeit an interim one—in August 2009. In the SADC-EPA group, Angola and Mozambique stayed in the negotiations until the final days but did not sign the agreement reached in July 2014. Finally, in Central Africa, only Cameroon has signed an (interim) agreement with the EU. Gabon, the only other non-LDC from the region, is currently trading under most favoured nation (MFN) status with the EU, having lost eligibility for the new Generalised Scheme of Preferences (GSP) scheme as of 1 January 2014.

Thus, while the EPAs promised to strengthen regional integration in Africa, they had the opposite effect from the very outset. They pushed several countries to split away from their REC and go for an EPA alone or as part of a smaller configuration, or not to sign at all. The resulting disarray among REC members may affect pan-African plans for a continental customs union in which all participating

countries, whether or not they have signed up to an EPA, will need to adopt a common set of tariffs with respect to trade with the EU.

A major blow to regional trade comes from the displacement effects of the EPAs. As tariffs on EU imports are lowered relative to countries in existing blocs or third parties, there is a risk that trade will be diverted from more efficient producers in Africa in favour of European exporters. This trade diversion effect is welfare-reducing. However, most partial equilibrium studies of EPA impacts on ACP countries (as referenced in Perez and Karingi 2007) tend to underestimate these second-round price effects and generally conclude that the net effect of the EPAs will be positive, that is, the trade creation effect—which reflects the gains to consumers as tariffs fall—exceeds the trade displacement effect.

Analysis based on computable general equilibrium modelling paints a more realistic picture of the EPAs' impacts. Perez and Karingi (2007), for example, estimate that a “genuine FTA”, with complete elimination of tariffs on ACP-EU trade, will reduce aggregate welfare by US\$584 million, or about 0.2 percent of ACP-Africa's GDP. Much of the loss is attributed to the displacement of intra-African trade—amounting to US\$787 million, or a decline of 18 percent relative to the baseline. As expected, the welfare effect improves under scenarios that assume less ambitious tariff liberalisation. For example, when ACP countries are assumed to eliminate tariffs on only 80 percent of EU imports—a scenario closer to the average negotiated quantum across the three African EPAs, the welfare effect on ACP-Africa switches to a US\$211 million gain.

Simulation models, however sophisticated, fail to take into account a number of factors that can help accommodate a shock. Even the most dynamic of these models have a static element to them: they cannot precisely account for economic adjustments to the shock that will dampen its effects. Most of the eventual policy responses may not be known at the time the simulations are run, but even if known, few of

them are amenable to modelling. Moreover, EPA provisions on development cooperation, trade facilitation and regional integration have the potential of generating greater benefits to African economies. Unfortunately, since these are not easily quantified, they are not factored into the analysis. For these reasons, the simulations tend to overstate welfare losses.

There are several other ways in which the EPAs could help deepen regional integration in Africa. An unintended by-product of the EPAs is the realisation among African RECs that, unless they step up efforts to boost regional integration, they might end up offering more generous market access terms to the Europeans than to their regional partners. This spectre has encouraged a flurry of initiatives recently to strengthen integration on the continent, including the launch of the tripartite FTA and negotiations towards the continental FTA. More directly, the EPAs can have a positive impact on regional integration in other ways, as set out in the following sub-section.

4.3.1 Explicit provisions on strengthening regional integration

The objective of fostering regional integration and increasing intra-regional trade is shared across all African EPAs. The degree of emphasis, however, varies. For example, only the West Africa EPA includes explicit articles on regional integration (Articles 32 and 42); in the other agreements, this objective is subsumed under the chapter on economic and development cooperation. The agreements actually commit to strengthening regional integration in Africa by providing dedicated financial support and technical assistance, such as through the Regional EPA Fund for West Africa. They reflect a will on the part of the EU to see real progress in economic integration, both as an end in itself and as a means of helping African countries integrate into the global economy.

- *The development chapter of the EPAs*

All the EPAs have a chapter on development cooperation that pledges to assist African countries in implementing the EPA. Title IX of the SADC EPA talks of a “compensatory framework” to help address the challenges of tariff liberalisation. Specifically, the EU will support fiscal reform and provide transitory financial aid to their African partners to help them deal with revenue losses. The West Africa EPA goes further by committing EUR 6.5 billion (US\$6.98) to the Development Programme for the period 2015-2019. The EPA development matrices outline a number of infrastructure (corridors, railways, pipelines, etc.), port development, quality infrastructure and related projects to be implemented regionally, at borders or nationally. These projects will likely contribute to building trade capacity, thus boosting both intra-regional trade and external trade, including with the EU.

- *Customs and trade facilitation*

The SADC and EAC EPAs include an entire chapter on customs and trade facilitation whereas the West Africa EPA contains specific articles on cooperation in this area. The need for trade facilitation in Africa cannot be emphasised enough. Whilst a number of studies have shown that developing countries stand to benefit most from the implementation of the TFA,⁷ many poor countries see the financial burden of implementing the agreement as the main constraint—even though the evidence does not justify this view (Ancharaz 2015). For example, UNCTAD (2013) estimates the full cost of implementing the TFA at less than US\$10 million. The EPAs provide for technical and institutional support in delivering a range of trade facilitation measures that are central to the EPAs’ implementation whilst promoting “harmonisation of customs legislation and procedures” at regional level (EU and SADC EPA

7 The World Bank estimates that potential gains would be in excess of US\$1 trillion, with approximately 60 percent of the benefits accruing to developing countries. Surveys by the OECD (2005) suggest that trade costs could range from 2 percent to 15 percent of the value of traded goods, with costs higher in landlocked countries.

2016, Art. 41(b)). Several of the provisions—such as exchange of experience and best practice on combating corruption and fraud, customs modernisation and capacity building for customs officials—go beyond the WTO TFA. Hence, the EPAs are a key ally of the TFA in Africa; in this role, they will help deepen regional integration on the continent.

- *Rules of origin*

Rules of origin were one of the few contentious issues that delayed conclusion of the SADC and EAC EPAs. In the SADC, the issue was around fisheries whereas the EAC was more concerned about the EPA provisions on regional cumulation, which were deemed to be crucial to industrialisation through the development of regional value chains. Both issues were resolved—even if not to the entire satisfaction of the African partners.

The EPA rules of origin are based on the EU GSP rules, with added flexibility for LDCs. Following their reform in late 2010, the GSP rules have become simpler, more development-oriented and, indeed, a global reference for RoO-making in trade agreements. The EPAs feature a more expansive approach to cumulation, including (asymmetric) bilateral cumulation with the EU, diagonal cumulation with other EPA States and Overseas Countries and Territories, cumulation with respect to materials that are subject to MFN duty-free treatment in the EU and cumulation with any country having an FTA with the EU. Regional cumulation, in particular, can allow African non-LDCs to move into higher value-added processing by sourcing materials and semi-finished goods from qualifying countries in the region or beyond. It can foster the development of regional value chains, which, in turn, can boost intra-regional trade.

The EU/EPA rules of origin can guide the design of RoO in the TFTA, which, at the time of its launch in June 2015, lacked some important annexes and text, including on RoO. Some provisions from the EU Agreements have already found their way into the draft Tripartite RoO instrument (Naumann 2011). Indeed, South Africa's insistence on departing from

the EPA rules on originating fish—a key reason for the lack of progress on the Tripartite RoO negotiations—is a clear indication that TFTA negotiators are referring to EU rules.

The EU RoO could serve as a common denominator across Africa—for three reasons. First, the EPAs encompass the largest number of African countries in a binding agreement (39 of the 54 African countries have signed up, with others still negotiating). Secondly, EPA rules of origin are very similar across groups, and, thirdly, they are widely regarded as a model of development-friendly rules. Going forward, the TFTA could adapt EU RoO to its specific context, while the CFTA negotiations could build on the TFTA rules.

4.4 The Africa Growth and Opportunity Act

The AGOA was adopted by the US in 2000 as a means of helping African countries increase their exports to the US. It offers duty-free access on 1,835 tariff lines on top of the 9,000 tariff lines that are zero-rated under the US Generalized System of Preferences. This means that an eligible African country benefits from duty-free treatment on 86 percent of US tariff lines, the remainder being subject to MFN tariffs. AGOA was renewed in May 2015 for another 10 years.

The impact of AGOA on Africa's exports to the US has generated some controversy. For example, speaking of the impact of the renewal of AGOA, an official from US Trade Representative (USTR) stated: "Africa should be able to quadruple its exports, literally without a lot of trouble, creating another 500,000 new jobs." (VOA 2015) However, most analysts and African exporters are less upbeat about AGOA. AGOA exports have increased from US\$7.6 billion in 2001 to US\$24.8 billion in 2013, although they had peaked at US\$56.1 billion in 2008. There is some evidence that AGOA exports of textile and clothing have spurred industrial growth in, and exports from, countries like Kenya, Lesotho, Mauritius, Kenya and Swaziland (before it lost eligibility as from January 2015). For example, comparing the "AGOA years" (2001-2009) with the "sanction

years” (2010-2014),⁸ Andriamananjara and Sy (2015) show that Madagascar exported US\$231 billion worth of apparel and clothing each year during 2001-2009, compared to a mere US\$35 million a year during 2010-2014. The impact on jobs has also been remarkable, although far from the scale suggested by the USTR official.

As usual, however, the devil lies in the detail. Closer analysis of Africa’s AGOA exports reveals heavy concentration both in terms of products and countries. The bulk of AGOA exports (68 percent in 2013 but above 80 percent in some previous years) consists of oil, and oil-exporters like Nigeria, Angola and Chad are the dominant players. Excluding oil, over two-thirds of AGOA exports originate in South Africa; Kenya is the next biggest exporter, with 5 percent of AGOA exports in 2014.

AGOA’s flexible rules of origin for textiles, including the third-country fabric derogation that allowed countries like Mauritius to continue to source low-cost fabric from Asia, were a catalyst for clothing exports to the US. However, AGOA has failed to stimulate manufacturing beyond clothing. A key reason for the lack of diversification is the structure of tariff preferences under AGOA. The scheme excludes a number of products in which African countries are known to be competitive. Agricultural products like sugar, peanuts and tobacco are subject to tariff-rate quotas, with prohibitive out-of-quota tariffs. Restrictions on sugar and dairy content have prevented agro-processing (e.g. cocoa).

There is some evidence that AGOA has spurred the development of regional value chains in Africa. Lesotho’s clothing industry is a case in point. The main investor in the industry is of Taiwanese origin. The firm in question produces mainly basics, which it supplies to retailers like The Gap, The Children’s Place, Walmart and Levi’s. It sources the bulk of its

cotton (about 95 percent) from southern Africa and some from West Africa. All packaging is done in South Africa. Transport and logistics, and utilities, are domestically supplied. This indicates significant backward linkages with the local economy and in the region as part of an extended value chain.

However, because AGOA exports from Africa have been limited to oil (which offers limited scope for linkages) and clothing, regional value chain development has been slow. To leverage AGOA’s potential to boost intra-African trade, there is a need for AGOA-eligible countries to diversify their export base. This calls for closer analysis of products where export opportunities exist, as well as a shift of exporter focus, and of associated logistics, away from the European market, which has historically been Africa’s primary export destination.

The recent renewal of AGOA was hard fought for by Africa collectively. However, the battle is only half-won. Fifteen years after AGOA was enacted, the scheme has barely improved. This means that the product exclusions and tariff preferences that initially confined African exporters to simple manufactures and traditional commodities will continue and it is unlikely that the Act will be renewed in its current form beyond 2025.

This leaves African countries 10 years to take advantage of US trade preferences. Over this time, they must build productive capacity, improve their competitiveness and attract larger flows of investment in new sectors. AGOA beneficiaries can also press the US for better and more targeted Aid for Trade that would allow them to cultivate a competitive advantage in emerging sectors, including aid to help them comply with onerous standards. With the right policy mix, AGOA can be leveraged to boost African exports—both to the US and to the region.

8 Madagascar lost AGOA eligibility in 2010 but regained it in 2015.

5. CONCLUSIONS AND WAY FORWARD

Continental integration has been on the agenda ever since African countries gained political independence. The notion of pan-African integration even predates independence movements and the creation of nation states on the continent. The launch in June 2015 of the Tripartite Free Trade Agreement, followed by the official start of negotiations with a view to establishing a Continental Free Trade Area by 2017, marks a key milestone in this process. These initiatives silenced many critics who saw the African Union integration plan as overly ambitious and unrealistic. In fact, the plan is well on target, and, at current trends, the ultimate goal is within reach.

In this paper, we have argued that regional integration should not be envisaged as an end in itself, but rather as a way to overcome some of the fundamental challenges facing the continent and to contribute to inclusive and sustainable development. Envisaged from this perspective, regional integration has the potential to meet some of the fundamental aspirations of societies in Africa by creating employment opportunities through economic diversification, by building regional infrastructure including roads and electricity or by boosting agricultural productivity and improving access to essential services. The lack of trade complementarity among African countries with most exports focusing on extractive industry (e.g. oil, gold, and copper) or agricultural commodities (coffee, cocoa, tea, fruit and vegetables, etc.) means that the natural markets for Africa are often external to the continent. But it also means that intra-regional trade tends to concentrate naturally on more processed and diversified products.

As illustrated in previous sections, this is not only true for goods but also for services—a sector that plays a critical role in supporting the process of structural transformation and the shift from low to high productivity activities. Here again, intra-African trade tends to show a higher-intensity-of-services component. In a similar vein, intra-African FDI is focused on manufacturing and services rather than on extractives. Such

FDI in the manufacturing sector has been targeted at agro-processing, building materials, electronic and electric equipment, and textiles. In services, banking and financial services, telecommunications and retail trade have been the leading sectors. In this context, enhanced intra-regional trade as a result of regional integration may represent a significant driver of structural transformation of the continent's economies. The regional market can also serve to help firms prepare themselves and gain competitiveness before engaging internationally and competing with world class business.

To achieve this, regional integration should focus on the emergence and development of RVCs. Preliminary empirical evidence tends to show that such regionally oriented value chains may provide more promising opportunities for “home-grown” industrialisation compared to the more globally oriented chains. Regional agreements can play a significant role in promoting such regionally oriented value chains. On average, countries tend to source 15 percent more of their foreign value added from members of the same RTAs than from non-members, not least because of strict rules of origin which disincentivise the use of parts and materials from third countries. Regional integration, including through the definition of a common set of rules of origin at the continental level, can therefore play a significant role in further incentivising the formation of regional value chains. Using the “GVC technology” as an engine of development will require, however, addressing a number of critical barriers. Besides an open and predictable import regime, particularly for intermediate goods, minimising trade frictions such as delays in border clearance or low quality distribution facilities is critical. In this area, the potential gains to African countries from undertaking trade facilitation reforms are bound to be significant since the continent faces the highest trade costs in the world due to poor road and rail infrastructure, deficient port logistics, cumbersome customs procedures and inefficient border management.

Connectivity is therefore a key factor, including transport, logistics services and ICT networks, an area where services can play a significant role and which highlights the imperative of carrying out parallel negotiations on both goods and services instead of using a sequential approach. Finally, from an FDI attraction perspective, policies have to address constraints that impede FDI entry while targetting, simultaneously, first-tier suppliers of lead firms and providing support for the creation of backward linkages. All this calls for more effective strategic collaboration between governments and the private sector.

At the same time, regional integration is not happening in a vacuum. Many African countries have developed deep economic relations with non-African partners. Moving towards deep continental integration would ultimately require harmonising the different trade commitments undertaken by African countries at the multilateral, regional and bilateral level with these traditional and new partners. Africa has witnessed a major shift in its development relations since the turn of the century—away from its traditional partners, the EU and the US, towards emerging economies, in particular India and China. So far, trade with these emerging economies has been skewed towards commodity exports, whereas imports from the emerging economies, notably China and India, have been mainly in manufactured goods, including motor vehicles, machinery and equipment. To the extent that these products can be sourced at lower cost from the South, African countries can afford to import more of them, leading to greater productive capacity and, ultimately, increased trade. At the same time emerging evidence suggests that South partners' investment activity in Africa has helped build domestic productive capacity and regional value chains.

Besides emerging economies, the rise of mega-regional agreements is posing new challenges with the risk that such agreements, increasingly focusing on deep integration and regulatory cooperation, end up raising the bar too high for non-members to access their markets, resulting in further marginalisation of African economies. Paradoxically, the mega-regionals may have a

positive effect on African integration by creating “pressures for inclusion” that lead excluded parties to form their own bloc or strengthen existing ones, as illustrated by the launch of the TFTA and the CFTA. Such an effect may also result ultimately from the conclusion of the EPAs. While these agreements promised to strengthen regional integration in Africa, they arguably had the opposite effect from the very outset by pushing several countries to split away from their REC and go for an EPA alone or as part of a smaller configuration. However, an unintended by-product of the EPAs is the realisation among African RECs that, unless they step up efforts to boost regional integration, they might end up offering more generous market access terms to the Europeans than to their regional partners. Secondly, the EPAs provide for technical and institutional support in favour of regional integration including in areas such as a range of trade facilitation measures that are central to the EPAs' implementation. Regional cumulation can also allow African non-LDCs to move into higher value added processing by sourcing materials and semi-finished goods from qualifying countries in the region or beyond. It can foster the development of regional value chains, which, in turn, can boost intra-regional trade. In a similar vein, there is some evidence that AGOA has spurred the development of regional value chains in Africa; Lesotho's clothing industry is a case in point.

In summary, regional integration offers significant potential, particularly if it goes beyond cooperation on trade only and promotes economic transformation by expanding regional coordination to other areas including, investment, trade facilitation and infrastructure. The overarching objective of this “developmental regionalism” should be to build a more coherent and synergic regional community through new networks and expanded regional markets that can deliver for every member. Essential drivers of such an approach would include the use of intra-African markets as an engine of economic transformation through diversification, industrialisation and the promotion of regional value chains, combining goods, services, investment, trade facilitation and infrastructure developments.

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