Chapter 3

Trade policies and regional integration in Africa

Africa has long sought deeper economic integration, and this chapter looks at trends and issues in trade and politics with an impact on progress being made at regional and continental levels. The chapter also examines the link between regional integration and spatial economic development, highlighting the impact of integration on industry location in Africa. Regional integration also generates spatial development, and regional institutions play a key role promoting spatial development and inclusion. Regional integration should help spread the gains from closer ties to a wider number of countries and regions. The key observations are intended to help policy makers focus on this, especially the need to help least developed and landlocked countries.

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In brief

Spatial economic development, how to overcome disadvantages imposed by a territory's space or geography, has been discussed for decades, particularly in Europe. Pulling down economic and institutional barriers to establish larger integrated markets reduces transport and transaction costs. Regional integration can help countries to overcome spatial disadvantages. A landlocked country or one without the natural resources that have helped some African states may not get the investment it desperately needs. The distance between markets may be extended by thick borders, with poor logistics and cumbersome customs procedures. Trade facilitation reforms can make those borders thinner and lower costs. Recent mega-trade deals, such as economic partnership agreements with the European Union, will also have an effect. But those deals could also lead to trade diversion and preference erosion.

Africa's regional groups and sub-regional institutions have sought integrated and geographically balanced development. Initiatives such as the proposed North-South transport corridor from Dar es Salaam to Durban could bring economic growth and better infrastructure and improve links between the eight countries it crosses. Space provides economic and geographical advantages and disadvantages which are considered by investors when they make decisions to enter a market. These factors also influence competitiveness, production and trade costs.

Certain trends will affect regional economic integration and trade in Africa

Africa is not immune to the shocks and changes in the world economy that could help or hinder its efforts to speed up integration, bring down borders and better use its space to boost its own economy. The World Trade Organisation (WTO) *World Trade Report 2014* identified four major trends from the last decade which have had an impact on African integration:

- The increasing impact of shocks to the global economy shows that open trade can spread the fallout but also help to reduce volatility.
- The phenomenal trade growth from the developing world led by emerging economies in Asia, Latin America and Africa, where it has been spurred by demand for commodities. The income gap between emerging and developed countries has narrowed, but Africa is lagging behind.
- The expansion of global value chains. The share in total trade of intermediate goods, services and components between developing countries grew from about 6% in 1988 to nearly 25% in 2013. However, African firms have struggled to participate meaningfully in the global value chains.
- The changing prices of commodities exports of fuels and mining products.

Africa's resource-rich countries face challenges pursuing development strategies due to the boom-bust cycle of commodity prices. In addition, two other notable trends will impact Africa's spatial development. Facilitation agreements aimed at bringing down trade barriers have advantages and disadvantages for those pursuing long distance commerce. And the new wave of mega-trade agreements involving major trading countries can divert trade and erode preferences.

Intra-Africa trade is growing, but intra-regional trade lags behind

From 2010 to 2013, intra-African exports grew by 50% from USD 40.9 billion to USD 61.4 billion (IMF Direction of Trade Statistics, n.d.). In 2013, the same exports grew by 11.5% from USD 55 billion in 2012 to USD 61.4 billion. However, the share of exports

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between African regions increased only from 11.3% in 2012 to 12.8% in 2013. This could indicate a lack of development of regional value chains and low levels of trade in intermediates between African countries.

Price volatility could cause problems for Africa's commodity producers. At the start of 2015, global commodity prices reached a five-year low. This is expected to have a significant impact on African trade, investment and economic growth as minerals and ores account for two thirds of Africa's merchandise exports. The continent's merchandise exports fell 5.8% between 2012 and 2013 to USD 602 billion (3.3% of world exports), according to the WTO. Imports, on the other hand, rose a modest 2.2% to USD 628 billion (3.4% of world imports). African merchandise exports were dominated by oil producers (USD 330 billion) and South Africa (USD 96 billion), pointing to the need for greater industrialisation, value addition and diversification.

There are encouraging signs that economic diversification is beginning to take hold, stimulated by increased foreign direct investment and improvements in the business environment. Manufactured goods now constitute nearly 40% of intra-African exports, compared with just 13% of its exports to the rest of the world. In 2013/14, sub-Saharan Africa surpassed other regions in terms of improved regulation, according to the World Bank's *Doing Business 2014 Report*. In Nigeria, where oil accounts for 95% of exports, services now constitute 60% of GDP. Likewise in Angola, Africa's second-largest oil producer, growth of 5%, about one third of government revenue in 2013, was derived from non-oil sources such as manufacturing, construction, fisheries and agriculture. A decade ago non-oil revenue was negligible in Angola.

African countries, in particular sub-Saharan Africa, suffer from low competitiveness in global markets due to low productivity and a lack of technological upgrading. More than 80% of the African workforce are in engaged traditional agriculture and the informal sector, both low productivity activities. Diversification, using commodities as a platform for value added growth, should lead to improved export competitiveness. Sustained trade facilitation reforms should lower production costs.

Intra-African greenfield investment projects take a growing role

Intra-African investment has a key role in the resources required to drive spatial economic development. Between 2007 and 2013, South Africa was the biggest African investor in the rest of the continent. South African projects in other African countries have grown annually at 44.2% since 2007. Data for 2003/14 shows that intra-African finance is also the most significant source of foreign investment in low-and-middle-income countries such as Burundi (79%), Namibia (42%), Rwanda (62%), South Sudan (64%) and Uganda (45%). Intra-African investment is especially important for countries that are not major commodity producers. Growing consumer markets are an important driver of intra-African investment. Improvements in the business environment and connectivity to markets also play a role. The key investment recipients were financial services, telecommunications, cement, food and retail, and oil and energy.

Africa's thick borders compound trade costs

Thick borders between two countries add to trade costs, like the geographical distance between markets. This abstract notion of "thickness" (Newfarmer, 2012) comprises elements such as cumbersome procedures and poor logistics that can be eased through policy changes and reforms, establishing a "single window" for customs clearance and reduced tariffs. Key factors that determine the thickness of borders are trade costs associated with transport and logistics to move goods. These constraints strongly influence an industry's decision to locate in a particular region.

By reducing the thickness of borders and deepening regional and global connectivity, trade costs decline, and greater opportunities to access global and regional value chains are created. Through trade facilitation reforms, regions that were once too costly for producers because of distance can become more competitive.

African countries, especially land-locked countries, have higher trade costs and thicker borders. In the World Bank's 2014 Logistical Performance Index, six of the ten lowest ranked countries are in Africa – Republic of the Congo (Congo), Djibouti, Democratic Republic of the Congo (DRC), Eritrea, Somalia and Sudan. In some instances the cost of crossing a border in Africa is two to three times higher than in other regions. Table 3.1 illustrates the additional trade costs related to inefficient borders in Africa which have a detrimental impact on industry location and competitiveness.

Table 3.1. **Time and cost of cross-border trade in selected sub-regions**

Region	No. of documents to export	Time to export (days)	Cost to export (USD per container)	No. of documents to import	Time to import (days)	Cost to import (USD per container)
Southern African Development Community	7.3	31.2	1 856.3	8.4	38.0	2 273.3
Common Market for Eastern and Southern Africa	7.2	32.4	1 915.3	8.2	38.3	2 457.5
Economic Community of West African States	7.6	27.6	1 528.1	8.1	31.6	1 890.9
Economic and Monetary Community of Central Africa (CEMAC)*	9.0	35.2	2 808.8	10.8	44.0	3 721.4
Middle East and North Africa	6.4	20.4	1 048.9	7.5	24.2	1 229.3
East Asia and Pacific	6.4	22.7	889.8	6.9	24.1	934.7
South Asia	8.5	32.3	1 511.6	9.0	32.5	1 744.5
Latin America	7.1	19.0	1 310.6	7.5	22.0	1 441.1
Eastern Europe and Central Asia	6.4	36.7	1 651.7	7.6	28.1	2 457.5
European Union	4.5	11.5	1 025.3	5.3	12.1	1 086.5
OECD	4.4	10.9	1 058.7	4.9	11.4	1 106.3

Note: *Aggregate data for CEMAC covers all members except Chad, because of the lack of reliable data.
Source: Ben Barka (2012).

Box 3.1. **Thick borders prevent potential spatial economic development between Kinshasa and Brazzaville**

Kinshasa and Brazzaville are only divided by the Congo River, yet their case epitomises the harmful effect of Africa's thick borders on trade and cross-border spatial development. Kinshasa in the DRC and Brazzaville in the Congo form Africa's third largest urban agglomeration. They are predicted to become Africa's largest metropolis by 2025 (Brülhart and Hoppe, 2011). The two cities, which are regional hubs in their own right, are separated by a border running through the Congo River. Standard trade theory would predict that the combined population of over 12 million and their strategic economic location as entry points to their hinterlands, ought to yield substantial economic benefits and foster regional spatial development. Yet only 1.1% of the Congo's imports come across the border (Brenton and Isik, 2012). The main constraints are poor cross-border transport infrastructure and cumbersome customs procedures. For example, crossing the border is costly. A return ferry ticket is about USD 40, more than 40% of the average monthly wage for a Kinshasa resident.

Regional trade agreements can reduce border thickness and the effects of distance. However, the impact of agreements has been limited in Africa, where addressing non-tariff barriers only recently began to attract the same level of attention as lowering tariffs. African regional economic communities are trying a range of trade facilitation

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initiatives. These include co-ordinated responses to infrastructure challenges; joint border operations to prevent delays and reduce road blocks, making it easier to use electronic documents at a single window and cross-border payment systems.

Trade facilitation reforms can underpin regional spatial development

The WTO's Trade Facilitation Agreement aims to provide new impetus for regional efforts to reduce trade costs. Following nine years of negotiations, the 159 WTO members adopted the landmark "Bali Package", which included a trade facilitation accord, at the Ministerial Conference in December 2013. The package contains measures to streamline trade and provide developing countries with tools to achieve food security. The measures also seek to promote trade, particularly among least-developed countries. Adoption of the package injected much needed momentum into the multilateral trading system, although conclusion of the Doha Development Agenda remains a long way off as negotiations move painstakingly slowly.

The Ministerial Conference Trade Facilitation Agreement (TFA) within the Bali Package contains provisions to expedite the movement, release and clearance of goods through more efficient customs procedures and through greater co-operation between customs and other relevant authorities. Table 3.2 highlights estimates that implementing the trade facilitation agreement could add USD 1 trillion of GDP gains to the world economy (Hufbauer and Schott, 2013; UNECA, 2013; Zaki, 2014).

Table 3.2. **Estimates of the gains by 2020 brought about by improved trade facilitation**
(selected economies)

	GDP gains*		Export gains**	
Country / Region	**%**	**USD billion**	**%**	**USD billion**
Brazil	0.37	5	4.38	7
Canada	1.41	22	5.00	20
China	1.45	124	8.83	187
Egypt	2.24	5	8.83	2
European Union	2.04	384	10.6	629
India	0.91	21	9.56	35
Mexico	2.47	33	11.79	49
North Africa	4.44	15	11.21	14
Sub-Saharan Africa	7.28	47	22.28	46
Other Asia	7.97	283	16.18	211
Other Latin America and Caribbean	3.07	40	16.20	40
South Africa	3.36	13	17.93	16
United States	0.55	90	3.90	61

Notes: *Zaki reports welfare gains, that include net income transfers as opposed to GDP gains.
**Dollar export gains calculated based on 2012 merchandise exports to GDP ratios, and include intra-regional trade where applicable.
Sources: Reproduced from the World Economic Forum (2014), *Global Enabling Trade Report*.
Zaki (2014), CEPII (2010) and World Bank (2013).

Implementation of the agreement and productivity improvements will help to ease some of the drawbacks of trade-related transaction costs, regional bottlenecks and fragmentation. This is particularly important to the success of regional spatial development initiatives and transport corridors like the Maputo Development Corridor, discussed elsewhere in this report. This will also complement the implementation of regional trade agreements and initiatives to create a continental free trade area by helping to reduce barriers to Africa moving into global value chains. The agreement should encourage Africa's industrialisation.

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Changing Africa's external trade relations will affect spatial development

Africa is looking to deepen integration between its regions and countries and get a greater foothold in the global economy, while at the same time strengthening trade and investment with major trading partners. The continent seeks to guard against the erosion of trade preferences in external markets. There are concerns that as tariff protection gradually declines, the entry of cheaper imports will harm African producers, and undermine efforts to achieve spatial development especially through regional industrialisation.

Developing supply capacity to produce goods that meet international market demands and attracting investment should be priorities for Africa in handling trade relations. Unfavourable changes such as loss of trade preferences can disrupt Africa's value chains and cause a loss in investment and jobs.

One example illustrates this point. The United States' decision to suspend Madagascar's preferential access to the US market under the African Growth and Opportunity Act (AGOA), after a coup in the island state in 2009 was a major blow to its economy. It vividly demonstrated the impact of loss of trade preferences and reversals for Madagascar's industrialisation (Andriamananjara and Sy, 2015). When it enjoyed AGOA eligibility from 2001 to 2009, Madagascar exported, on average, over USD 200 million per annum predominantly in the apparel sector. Exports reached a peak of over USD 300 million in 2004. The textile sector accounted for close to 8% of the country's GDP that year. Half of Madagascar's 150 factories, which employed 50 000 workers, served as major suppliers for large US stores and brands. When the suspension took effect, tariff rates on apparel exports returned to high levels averaging between 12% and 33%. In the five years to 2014 that eligibility was revoked, Madagascar's apparel exports fell to USD 35 million, cutting nearly 30% of jobs. When it won back preferred AGOA access in 2014, Swaziland lost its AGOA eligibility. This threatens to cut 20 000 apparel jobs from a sector which had previously averaged over USD 100 million a year in exports under AGOA.

Recent trends in African trade flows highlight a shift in trade dynamics and increasing competition from China for the African market. Africa's value of global trade has increased from USD 224 billion in 1995 to about USD 1.3 trillion in 2013, according to WTO figures. But between 2012 and 2013, Africa's exports declined by 6.3% to USD 599 billion (3.2% of world exports). Imports grew by 2.2% to USD 628 billion (3.3% of world imports). Europe remains Africa's largest trading partner. However, Africa's trade with Asia rose by 22% during this period, while trade with Europe grew by just 15%. Manufactured exports from Europe to Africa fell from 32% of the total in 2002 to 23% in 2011. On the other hand Asia's share in Africa's trade rose from 13% of the total to 22% during the same period. In 2009, China overtook the United States as Africa's largest single trading partner. Sino-African trade increased from USD 166 billion in 2011 to USD 210 billion in 2013 – more than two and half times the value of US-Africa trade (Information Office of the State Council [China], 2013). Figure 3.1 illustrates the evolution of trade flows between Africa and its major partners.

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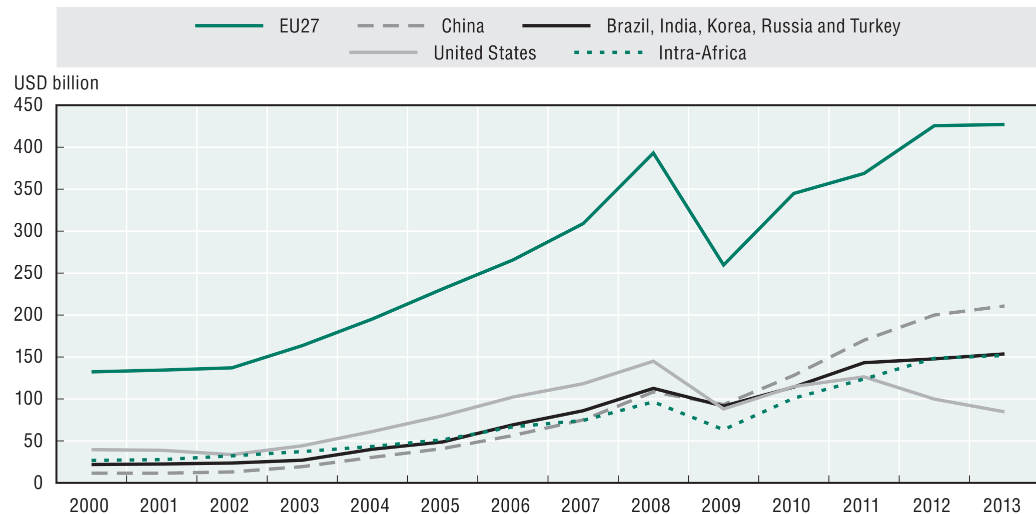
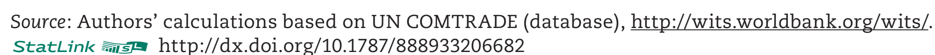
Figure 3.1. **Africa's total trade flows with selected and intra-African partners, 2000-13**



Source: Authors' calculations based on UN COMTRADE (database), http://wits.worldbank.org/wits/.


StatLink http://dx.doi.org/10.1787/888933206682

Sino-Africa trade moves beyond commodities

China's trade and investment with Africa has traditionally been concentrated by country and by products. However, recent evidence shows growing diversification towards services. Five resource-rich countries, Angola, Congo, DRC, Equatorial Guinea and South Africa account for about 75% of sub-Saharan exports to China. Likewise, six countries – Angola, Benin, Ghana, Liberia, Nigeria and South Africa – account for more than 80% of sub-Saharan Africa's imports from China. Greater exposure to trade and investment with China helped shield the region from the 2007-08 global financial crisis and reduced export volatility, particularly for resource-rich countries. Research (Drummond and Liu, 2013) shows that a 1% increase in China's domestic investment growth results in an average 0.6% increase in sub-Saharan export growth. A slowdown in China's domestic investment growth would adversely impact African economies that are heavily dependent on trade with China.

Africa must seize upon market access as Africa–EU economic partnership agreements are implemented

Negotiations on Economic Partnership Agreements (EPAs) between the European Union and 79 countries from Africa, the Caribbean and the Pacific (ACP) have dominated ACP–EU trade relations for the past decade. Despite 30 years of non-reciprocal preferential access to the European market, EU imports from ACP countries declined from 7% to 3% of total EU imports (EU Commission, 2014). In contrast to trade with China, African trade with the EU is more diversified. In addition to minerals, exports include base and precious metals, foodstuffs, beverages and agricultural products.

The EU decision to deny access from October 2014 to countries which do not show a clear intention to ratify the Economic Partnership Agreements (EPAS) added impetus to the negotiations. Talks with the five African regional groups are moving at different speeds however. There are also differences within the groups. Cameroon is the only country within the Central African group to have signed the interim EPA. Madagascar, Mauritius, Seychelles and Zimbabwe are the only members of the 12-country East and Southern Africa negotiating group to have begun putting the interim agreement into action.

Although the EPAS require both sides to lower tariffs on goods, there remain contentious issues on the terms between the EU and the five African negotiating groups. In West Africa – which accounts for 40% of ACP-EU trade – leaders from the Economic Community of West African States (ECOWAS) endorsed the EPAS for signature in 2014. This was despite reports of Nigerian reservations about potential tariff revenue losses, the region's weak supply capacity and the impact of imports on fledgling local industries.

Partnership accords will affect tariff revenues and intra-regional trade for countries reliant on EU exports

To illustrate the effects of the economic partnership agreements, one assessment (Maur et al., 2014) found that Nigeria would see a modest reduction in average tariff protection from 11.3% to 9.2%. Given the EU's relatively low share of Nigeria's imports (23%) and the exclusion by Nigeria of certain sensitive tariff lines, the tariff change would cause a moderate increase in imports of between 0.8% and 1.8%. Over the implementation period some trade diversion is anticipated in favour of the EU. Nigeria's imports from the EU were expected to grow between 6.9% and 20% displacing imports from the rest of the world and, to a smaller extent, other West African countries.

Nigeria is estimated to lose about 18% of total tariff revenues. The revenue losses are projected to reach roughly Naira 140 billion per year, equivalent to 0.8% of total fiscal revenue or 3.3% of non-oil revenue. Nigeria is required to align its trade policy with the ECOWAS Common External Tariff by 2020. Although the current tariff structure is already aligned to the common tariff, Nigeria will need to dismantle various trade policy instruments such as import bans and special levies on certain products.

EPA gains predicted for Nigeria at household and firm levels

At household level, tariff liberalisation is expected to cause a reduction in the price of the average consumption bundle of about 0.3%. The net effect is likely to favour higher income households over low income families. In terms of impact on competitiveness, the assessment projects that two thirds of manufacturing firms are likely to enjoy a net increase in profitability due to the EPAS, largely resulting from lower input prices. The remaining firms will likely face lower profits due to increasing import competition. Losses were found to be concentrated in four sectors (wood products, non-metallic mineral products, basic metals and non-machinery metal products). The majority of firms operating in these sectors already enjoy above average profitability and are expected to continue to do so even with the EPAS.

Like all countries engaged in the agreements, Nigeria must make up for revenue losses through reforms. One possible avenue, which would also benefit Benin and other neighbouring countries, is to collaborate on recovering the considerable tariff revenues lost due to widespread smuggling and the informal sector.

Trade barriers, especially between Benin and Nigeria, provide a strong incentive for smuggling into Nigeria. Smuggling has partly contributed to the development of entrepôt states in West Africa, particularly Benin, The Gambia and Togo (Golub, 2012) which have sought to become trading hubs. By retaining low import barriers and lowering importing and trans-shipment costs, these countries have become conduits for legal and illegal transit to landlocked and neighbouring countries in West Africa.

Goods subject to trade bans and high tariffs appear to be the most smuggled. These include food and processed foods like rice, motor vehicles and parts, fuel, textiles, and apparel. An estimated USD 5 billion worth of goods is smuggled from Benin, close to 10% of Nigeria's official imports. Lost tariff revenue on smuggled imports is estimated at USD 1.2 billion. Reforms to exemptions and domestic tax regimes could also result in improved revenue collection. These are areas where concerted regional action could result in positive financial changes and help to safeguard local producers.

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Ultimately, the debates on economic partnership agreements and Africa's regional integration have largely focused on potential losses in tariff revenue and protection. However, Nigeria's example highlights the need for African policy makers to discuss gains from better access to markets and inputs and also gains in competitiveness that would really assist firms to participate in regional and global value chains, generating much needed spatial development benefits.

The United States seeks to revitalise US-Africa trade

Since 2000, US-Africa trade relations have been driven by the Africa Growth and Opportunity Act (AGOA), which has stimulated US trade with sub-Saharan countries, particularly in oil, footwear, and motor vehicles and parts. The apparel sector in particular has contributed to some degree of sectorial industrialisation in countries like Lesotho and Swaziland. This has produced spatial development and social inclusion, especially for women who dominate the sector. Between 2001 and 2011, US-African trade grew fivefold with exports from sub-Saharan Africa to the United States reaching USD 79 billion. However, US-Africa merchandise trade has since taken a confounding downward trend, declining from a high of USD 125 billion in 2011 to USD 72.5 billion in 2014.

The weakening of US-Africa trade is partly due to the impact of the 2007-08 financial crisis on US demand. A number of African countries (textiles and apparel producers) were affected by uncertainty over the renewal in 2012 of an AGOA provision allowing producers to import fabric from a third country. Moreover, the drop in US oil consumption coupled with falling oil prices and a surge in US domestic shale production caused oil and gas exports from AGOA countries to the US to tumble from USD 60 billion to USD 20 billion.

AGOA is to expire in September 2015. Its renewal by the US Congress will dominate Africa's trade and regional integration landscape in 2015. There is general consensus that current trade and investment volumes do not reflect the relationship that should exist between the world's largest trader and one of the world's fastest growing regions. In 2012, just 0.7% (USD 31 billion) of US foreign direct investment went to sub-Saharan Africa. China put 3.4% of its foreign investment into the region in 2012. Moreover, US investment tended to concentrate in mining and extractive sectors across a few resource-rich countries like Nigeria and South Africa.

African countries need to attract US investment towards more diverse sectors, including services, whilst supporting a stronger supply side response. There are useful lessons to learn from countries like Vietnam, which has increased US bilateral trade from about USD 220 million in 1994 to USD 29.6 billion in 2013, becoming the second-largest source of US clothing imports (after China). It is also a major source for fish, footwear, furniture and electrical machinery (Martin, 2014). Vietnam has overcome many of the challenges now faced by African exporters seeking to access the US market with limited resources.

By contrast, AGOA countries, the Seychelles and the Comoros for example, did not use AGOA preferences in 2014. Moreover, while almost 900 different types of products were exported from sub-Saharan Africa, these are still fewer than the 6 400 product lines available under AGOA and the US Generalised System of Preferences. At least one-third of these product lines witnessed exports below USD 20 000.

Mega deals could divert trade and harm preferences

The conclusion of mega-bilateral trade agreements is a challenge to African integration and spatial development through the threat of trade diversion and preference erosion. The stalemate in the Doha Round of multilateral trade negotiations

has prompted some countries to seek alternative arrangements outside of the WTO. The largest of these mega deals is the US-EU Transatlantic Trade and Investment Partnership. The United States and the European Union together account for 60% of global GDP, a third of world trade in goods and 42% of world trade in services. Other mega-bilateral deals like the Trans-Pacific Partnership involves countries from the Americas and Asia. These countries collectively account for 40% of world GDP and one-third of global trade.

These agreements pose challenges for African integration. They could lead to further preference erosion across major markets, trade diversion taking investment away from Africa, and rules and standards being set without African countries. Together, these factors raise the threat of marginalisation for African countries which already find themselves on the periphery of the multilateral trading system and global value chains. The continent's approach to trade and investment with major partners needs to recognise the implications of these global developments.

Regional integration reduces cost of cross-border business

Africa's regional groups and sub-regional institutions use many techniques to facilitate integrated and geographically balanced development. Regional economic integration helps to reduce spatial transaction costs associated with engaging and co-ordinating activities across space.

Two distinct integration effects are identified: *i)* those brought about by larger markets and lower transaction costs; and *ii)* those brought about by increased competition. Different economic theories predict contrasting spatial effects arising from integration at different levels. Regional integration can entice foreign investment into new spaces targeting larger markets. It can also lead to concentration in large urban centres in pursuit of larger market potential. Increased competition created by regional integration may lead firms to locate processes offshore or outsource, creating new activities in peripheral spaces.

Regional integration can raise incomes through sector specialisation as regional value chains develop and open up market access through tariff liberalisation to low-cost imports. The extent to which these processes take place and determine the location of investment, production, job creation and economic growth differs substantially. Across Africa, these differences are amplified by internal geography and trade costs that hamper or enhance the ability of interior regions to participate in regional and world markets.

Regional integration impacts economic development through the spatial effects that it generates through the "spatial transaction costs" associated with engaging in activities across several countries. This includes the cross-border flows of goods, services and capital, coupled with decreasing tariffs, and shrinking physical and economic distance among actors.

Deepening and broadening integration is essential for Africa's inclusive development. However, regional integration can also generate inequalities between two countries and regions based on their heritage and factors such as infrastructure availability, skills and geography (landlocked or coastal). Similarly, domestic and regional markets are concentrating around growing African cities, which can serve as major drivers for regional trade in goods, services and economic growth. Through improved spatial planning, national and regional policy makers create conditions to unlock economic value, even from marginalised groups or regions, towards national development. This creates more social and economic inclusion between regions and countries.

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Border regions gain from regional economic integration

Theories on regional economic growth dating back to the 1950s and 1960s sought to understand how an economy grows to achieve higher rates of productive output, increased per capita income and overall wealth, while reducing unemployment.

While initially "space" was thought of as representing homogenous territorial areas, a changing understanding of "space" allows economic activities and production factors, demand and sectoral structure, to be regarded as spatially heterogeneous within a region thereby shedding new light on integration across borders. This perception of space allows policy makers to analyse and apply the concept of agglomeration economies to help local development become regional development.

Trade policy has a major impact on the location of industries (Kuroiwa and Tsubota, 2013). Where a country, for example, raises high trade barriers this may raise import costs and drive export-oriented industries elsewhere. Mexico switched in the 1980s from a protectionist policy of import substitution toward trade liberalisation. Mexico gradually emerged as a manufacturing hub for component producers from North America. Moreover, a lot of manufacturing activities relocated from Mexico City to be closer to the Mexico-US border. Similarly, in Southeast Asia, following their accession into the Association of Southeast Asian Nations (ASEAN) countries such as Cambodia, Lao PDR, Myanmar and Viet Nam are increasingly integrated into the regional economy and can anticipate increasing industry location in their territories, provided the right incentives and accompanying enabling environment are in place.

There are contrasting views on the influence of regional integration on spatial development both based on new economic geography and its impact on industry location (Krugman and Livas Elizondo, 1996). One school of thought contends that integration will gradually disperse industry away from an agglomerated area resulting in development of frontier regions that can connect to international markets at lower cost. A contending view argues that Europe's integration has increased the regional concentration of economic activities. Despite this conflict, which is due to the different assumptions used by the two sides, both views highlight that border regions, gateway ports, and their hinterlands and other frontier regions will gain location advantages ahead of internal regions or landlocked areas due to the lower cost of accessing foreign markets.

In examining regional specialisation and manufacturing concentration in Eastern Europe (Bulgaria, Estonia, Hungary, Romania and Slovenia), researchers found that proximity to the larger EU market and factor endowment in these countries influenced industry location (Traistaru, Nijkamp and Longhi, 2012). This has supported backward and forward linkages related to production and consumption and ultimately shifts economic activities from a predominantly inward-orientation to a more outward-orientation.

Further research is required into such changes in African regional communities, which tend to be dominated by one or two large economies. Many coastal or frontier countries in Africa have struggled to attract industry, and this points to additional weaknesses such as poor infrastructure, the absence of adequate skills or an enabling environment. The World Bank's *Doing Business 2009 Report* says that reducing inland travel time in sub-Saharan Africa by one day increases exports by 7%. This further highlights the importance of dealing with transport and transit issues to reduce costs, to make internal regions and land-locked countries more attractive to industry.

Governments struggle to spread benefits of growth

Productive infrastructure, industry and economic output in Africa tends to be concentrated in big cities and provinces. This is especially true in the more developed and emerging economies. For example, the Gauteng region (which includes Johannesburg) in South Africa, Cairo in Egypt and Lagos in Nigeria are the economic hubs of their countries. Gauteng is South Africa's smallest province, accounting for only 1.4% of the country's size but 40.6% of its manufacturing output and more than one-third of its GDP (Gauteng Provincial Treasury, 2014). This translates into 7.7% of Africa's GDP.

For national and regional policy makers, the challenge is to achieve greater dispersion in economic development, especially for the landlocked and less development countries and regions. Regional integration impacts on spatial development through its effects on trade, investment, growth and job creation. Essentially, regional integration will help create larger, more attractive markets, link landlocked countries to international markets and support intra-African trade. Larger markets will in turn attract more investment seeking to optimise economies of scale and drive competitiveness.

More private involvement will spur the economy

The small size of the private sector and firms in many African countries has limited the continent's ability to drive and benefit from spatial development. According to research (Stampini et al., 2011) based on national accounts and labour market data, countries with small private sectors include oil-exporters such as Angola, Equatorial Guinea and Libya and some of the least-developed countries such as Burundi, Burkina Faso, Guinea-Bissau, Mali, Sao Tome and Principe, and Zambia. They have few enterprises able to play the role of "lead firms" dealing with small and medium-sized companies. Lead firms such as large regional retailers are better able to achieve a sustainable impact and scale and give support to regional market actors, bolstering competitiveness in a region.

Regional institutions can play a lead role in spatial economic development

Several initiatives involving regional institutions have sought to address the "thickness" of national borders to reduce transport costs and improve Africa's regional connectivity. They have also been involved in the planning and development of productivity-enhancing regional infrastructure such as regional power pools. They also try to co-ordinate incentives to promote factor mobility and fiscal convergence to prevent a race to the bottom of incentives and promote regional industrialisation and the development of regional growth corridors.

For example, West Africa remains one of the least industrialised regions in Africa. The ECOWAS *Regional Integration for Growth and Poverty Reduction in West Africa: Strategies and Plan of Action* (2006) highlights priority sectors to spur economic development. These include infrastructure, industrial, financial, trade and agriculture sectors. Proposed road, rail, port, information technology and air transport infrastructure projects all aim to boost regional connectivity and create different centres of economic development linked by transport corridors and regional ports. Such initiatives are further aimed at averting the marginalisation and exclusion of some parts of the region by encouraging the full use of socio-economic facilities and infrastructure on each side of a border.

The 2010 West African Common Industrial Policy builds on infrastructure initiatives and reforms implemented by ECOWAS states by seeking to step up industrialisation. Each country has continued implementing its own national industrial policy with consultation at regional level. This has proved inefficient, despite the economic, social, industrial and commercial development initiatives supported by development partners.

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It has resulted in duplication, the establishment of competing production facilities in the region (e.g. breweries, cement factories) and relatively low levels of value added exports.

As demonstrated by ECOWAS, weaknesses at national and regional policy levels, as well as limited resources, have been major constraints to effective implementation of regional spatial economic development initiatives. Many well-intentioned initiatives have only been partially implemented or only partially achieved the anticipated objectives.

At a continental level, in 2008 and African Union summit adopted an *Action Plan for Accelerated Industrial Development of Africa* which seeks to tap into growing interest among African regional organisations and development partners in the concept of development corridors and spatial development initiatives. A 2006 study undertaken for the New Partnership for Africa's Development (NEPAD) examined the status and potential of continent-wide development corridors, focusing on 12 new spatial development initiatives across Africa. This study forms the basis of the AU's resource-based African industrialisation and development strategy (RAIDS Plan of Action).

Policy makers should focus on dynamic regional corridors to attract investment for economic development

Spatial development initiatives are a unique way of addressing spatial inclusion development, especially within regional integration. Spatial initiatives enable clustering of economic activities and infrastructure development in new locations and along transport corridors. While these activities support deeper integration between communities – within countries or between countries – they also provide an opportunity for inclusive development. In East and Southern Africa, the North-South Corridor traverses the Common Market for Eastern and Southern Africa, East African Community and Southern African Development Community Tripartite Free Trade Area. The spatial development potential of this and similar corridors requires closer examination by regional and national policy makers, learning lessons from initiatives like the Maputo Development Corridor (see Chapter 7). The trans-Africa North-South Corridor links the East African port of Dar es Salaam to the port of Durban in South Africa, the continent's biggest port. At over 8 000 kilometres, the corridor traverses Botswana, the DRC, Malawi, Mozambique, South Africa, Tanzania, Zambia and Zimbabwe and offers great potential for growth and linking the entire tripartite region. With the emergence of global and regional value chains, policy makers will have to deploy more innovative solutions to lock in economic activities and development across the national and regional space.

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