UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

No.34
JULY 2015

POLICY BRIEF

MAKING REGIONAL TRADE WORK FOR AFRICA: TURNING WORDS INTO DEEDS[1]

A well-known characteristic of the regional integration process in Africa is the multiplicity of regional trade agreements (RTAs). There is recognition by African leaders that RTAs have enormous potential to foster regional trade and development in the region. However, the low rate of their implementation has left this potential largely locked up. To realize this potential, national Governments, development partners and regional institutions need to boldly and creatively tackle the drawbacks to effective implementation of RTAs. This policy brief identifies some of the main barriers to implementation and proposes remedies for them.

Africa has a long history of attempts to promote trade and investment through regional economic integration. The Lagos Plan of Action for the Economic Development of Africa (1980–2000) and the 1991 Abuja Treaty are some examples of bold efforts by African Governments to promote integration on the continent. More recently, in January 2012, African Heads of State and Government renewed their political commitment to boosting intra-African trade with a decision to fast track the establishment of a continental free trade area in Africa. This is based on the conviction that regional trade has enormous potential to foster development on the continent, and it was this conviction and the desire to unlock the potential of regional trade for development that facilitated the establishment of regional economic communities (RECs) in Africa. The establishment of RECs has resulted in numerous RTAs aimed at facilitating and promoting intra-African trade. When properly designed and implemented, RTAs can reduce trading costs through the lowering of tariff and non-tariff barriers and other transaction costs associated with trade. They can also enhance export competitiveness, by offering better prospects for exploiting economies of scale through access to larger markets. Despite the multiplicity of RTAs on the continent, the evidence suggests that the actual level of intra-African trade is below the continent's potential, given its factor endowments and current level of development. Trade among African countries is also very low relative to the continent's total trade. For example, over the past decade, the share of intra-African trade in Africa's total trade was about 11 per cent. This is relatively low compared to 21 per cent for Latin America and the Caribbean, 50 per cent for developing Asia and 70 per cent for Europe.

When properly designed and implemented, RTAs can reduce trading costs and foster intra-African trade

There are several reasons for the low levels and shares of intra-African trade, one of which is the low rate of implementation of RTAs, which has made it more challenging for the continent to fully harness the potential of regional trade for development.[2] Africa has 17 regional trade blocs, of which the following eight are

Key points

- The low rate of implementation of RTAs in Africa is a major obstacle to fully harnessing the potential of regional trade for development.
- Being realistic in terms of setting objectives and deadlines for targets in RTAs is a necessary condition for enhancing the implementation of commitments in Africa.
- Due to the overlapping memberships of RECs, member States are faced with conflicting commitments, which make implementation challenging.

UNITED NATIONS
UNCTAD

1 This policy brief draws heavily from the UNCTAD *Economic Development in Africa Report 2013*, subtitled *Intra-African Trade: Unlocking Private Sector Dynamism*.

2 Other explanations for the low levels and shares of intra-African trade include lack of structural transformation, low export competitiveness, poor infrastructure, overlapping memberships of regional trade blocs and weak supply response to regional market opportunities due largely to low productive capacities.

officially recognized by the African Union: Arab Maghreb Union; Common Market for Eastern and Southern Africa; Community of Sahel-Saharan States; East African Community; Economic Community of Central African States; Economic Community of West African States; Intergovernmental Authority on Development; and Southern African Development Community. Although some of these trade blocs have set up free trade areas as envisaged in the Abuja Treaty, others have not yet reached this stage. Yet even among trade blocs that have established free trade areas (for example the East African Community and Economic Community of West African States), the low implementation of RTAs remains a major challenge. Against this backdrop, there is a need for African Governments to take proactive measures to enhance the implementation of regional agreements to foster regional trade and development. This policy brief identifies and examines specific policy measures that African Governments and their development partners should consider adopting to address the challenge of implementing RTAs in Africa.

Set realistic and feasible targets

African Governments often set ambitious targets in action plans, with unrealistic deadlines, given weak domestic and institutional capacities and binding human resource and financial constraints. Furthermore, action plans are developed without an effective mechanism for either mobilizing the required finance or enforcing implementation. An example is the well-intentioned minimum integration programme, covering projects or activities in 16 identified priority sectors, which member States and RECs had agreed to carry out to speed up the integration process. Although the first phase of the plan was for the period from 2009 to 2012, costing for it was only endorsed in January 2012 at a coordination meeting of the African Development Bank, African Union Commission, Economic Commission for Africa and RECs, leaving very little time for resource mobilization and implementation. There is a need for African leaders to take into account the feasibility of proposed RTAs, as well as the costs of implementation, before they are adopted and signed, in order to enhance the likelihood that they will be implemented by member States.

Monitor implementation of trade agreements

At the World Economic Forum on Africa in 2012, the President of the African Development Bank noted that the “most dangerous thing is to confuse an action plan with action”. This statement brings into perspective the importance of translating the words of agreement that constitute RTAs into action through implementation. Being realistic in terms of setting objectives and deadlines for achievable targets in RTAs is a necessary condition for enhancing the implementation of commitments in Africa. Yet there is also a need for a monitoring framework and monitoring tool, such as the internal market scorecard of the European Union and the scorecard of the East African Community Common Market. The former scorecard measures the extent to which member States of the European Union have transposed regional trade rules into national laws by an agreed deadline, while the latter scorecard tracks East African Community compliance in the movement of capital, services and goods. Such scorecards are important tools for establishing the rate of compliance with regional rules and compelling member States to take appropriate actions. One way to make effective use of such scorecards is for the African Union to mandate regional institutions such as the African Development Bank and East African Community to compile and report on these indicators every two years, with the results presented at the African Union summits.

Reduce overlapping memberships of regional economic communities

Rationalizing RECs or harmonizing agreements across existing communities needs to be considered, as this can reduce compliance costs for members and make the implementation of commitments easier. Many African countries belong to more than one REC and, more often than not, these have different tariff reduction schedules, rules of origin and ambitions regarding regional integration. Consequently, member States are faced with conflicting commitments, which make implementation challenging even in situations where the political will to fulfil commitments is present. The African Union has attempted to address this issue by recognizing only eight

RECs, but this has not eliminated the problem of overlapping memberships. In this context, the tripartite free trade arrangement between the Common Market for Eastern and Southern Africa, East African Community and Southern African Development Community is an essential and timely step in dealing with the challenge of the overlapping memberships of RECs, and could serve as a model for communities in West, Central and North Africa. This will set the stage for a continent-wide free trade area, which is one of the objectives of the African Union.

Obtain the support of relatively large and wealthy African countries

Relatively large and wealthy countries such as Algeria, Egypt, Nigeria and South Africa should continue to play a lead role in fostering integration in Africa, but also have to be more proactive in addressing the fundamental challenges of poor regional infrastructure, insecurity, lack of export capacity and the concern of smaller economies that integration will result in domination of their economies by larger ones. With their relatively better productive capacities and stronger resource base, these four countries can facilitate the integration process in two important ways: they can provide funding to build export capacity in smaller countries that may lose from integration in the short term; and they can commit more resources to the development of regional infrastructure that is sorely needed to jettison the 40 per cent drag on regional trade attributed to poor infrastructure. Funding for such critical interventions can be found if these countries voluntarily commit a small percentage of the value of their intra-African trade to setting up a dedicated fund. Another source of funding could be the sovereign wealth funds that have been set up by several countries in the region. Of course, this requires leaders and policymakers in these countries to take a longer term view of these interventions, as investments for the future benefit of all. Furthermore, such gestures by large and resource-rich countries will enhance confidence by sending a clear signal to other African countries that they are committed to promoting regional integration for the good of all and not pushing for integration to advance national priorities over regional priorities, as they also cannot achieve sustained growth and development while the rest of the continent experiences economic retrogression.

Reduce dependence on aid and make development partnerships more effective

The increase in the number of bilateral agreements with development partners has also contributed to the low rate of implementation of RTAs and is a burden on African countries both in terms of human and financial resources. Such partnerships encourage a race to the bottom and create an incentive for African Governments to pursue short-term national interests over regional priorities. In this way, Africa's development partners, perhaps inadvertently, undermine efforts to strengthen regional integration. Development partners have indicated that they are supportive of the African regional integration agenda. Now is the time for them to take concrete actions to strengthen integration in Africa by striking a good balance between their national interests and African development needs, for it is only by achieving such a balance that they can lay the foundation for a long and mutually beneficial partnership with Africa. The African Union Commission is beginning to address the issue of the multiplicity of partnerships as part of its strategic plan over the period 2013–2063. At the twentieth African Union summit in January 2013, the Chair of the African Union Commission, in a statement to the Executive Council, stated that Africa should impose a moratorium on new partnerships with development partners.

African Governments must also strengthen efforts to reduce the dependence on aid for the implementation of regional programmes and projects. In 2013, development partners accounted for 56 per cent of the total budget of the African Union Commission, estimated at $277.1 million. The figure is much higher if the focus is on the programme budget, of which development partners account for 97 per cent and African countries for 3 per cent. Dependence on donor resources presents challenges for the implementation of regional agreements because donors often prefer to deal with national authorities rather than regional authorities. The key reason for the excessive dependence of African regional organizations on donor resources is that many member States have not met their financial obligations to the organization. At the time of the nineteenth African Union summit in July 2012, for instance, only 11 out of 54 countries had fully met their financial obligations. There is a need for African Governments and leaders to strengthen efforts to meet their financial commitments to the African Union.

In 2011, the African Union set up a high-level panel on alternative financing sources for the African Union, chaired by a former President of Nigeria. Two of the sources of financing recommended by the panel have been accepted by the Assembly of the African Union for implementation, with pilot programmes already operating in some countries. These sources consist of a hospitality levy of $2 per stay in a hotel and $10 per air ticket for flights originating from Africa or with a destination in Africa. Doubtless, the effective implementation of these recommendations will require collaboration between Governments, the central banks of African countries and airline companies. It is therefore important that all parties strengthen efforts to ensure the success of this initiative, which is expected to reduce dependence on aid in the medium to long term.

Increasing consciousness of the need to reduce aid dependence, and the increase in focused dialogues on regional issues between African Governments, the private sector and civil society, should contribute to finding sustainable solutions to Africa's weak performance in intraregional and global trade.

Contact

Taffere Tesfachew,
Director,
Division for Africa, Least Developed Countries and Special Programmes
Tel.: 41 22 917 5606
taffere.tesfachew@unctad.org

Press Office
Tel.: 41 22 917 5828
unctadpress@unctad.org
http://unctad.org

UNITED NATIONS
UNCTAD

UNCTAD/PRESS/PB/2015/6 (No. 34)