Strategic Options of Economic Integration and Global Trade for Africa in the 21st Century

Robert Mudida

Robert Mudida

Introduction

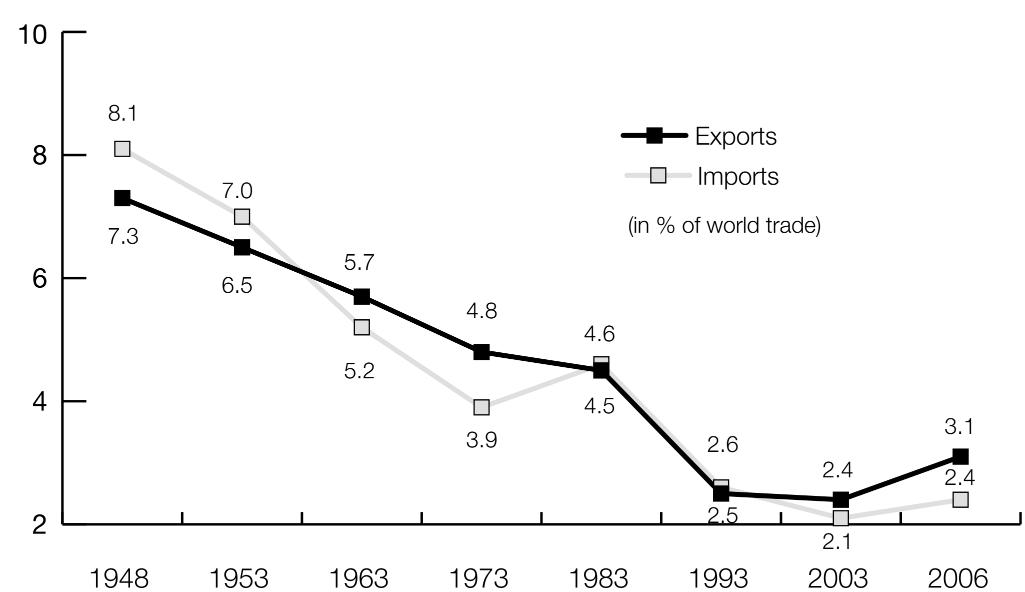
Despite huge strides in economic development made in many parts of the world over the last few decades, many people in Africa still remain in dire poverty. According to the 2007/2008 United Nations Human Development Report, the twenty countries with the lowest human development are all located in Sub-Saharan Africa. Trade has often been identified as a vital engine of economic growth and development to facilitate an African renaissance in the 21st Century. However, economic integration schemes in Africa continue to suffer from many limitations and Africa's participation in the global economy remains miniscule. Regional integration arrangements in Africa, for example, continue to be characterized by overlapping membership and weak institutions. At the turn of the new century Africa's share of world trade plummeted to levels below those in the 1960s when it had accounted for 2 percent of world trade. The erosion of Africa's world trade share represents a staggering income loss of billions of dollars annually. The acceleration of globalization seems to have placed Africa at the threshold of further marginalization.

With the formation of the African Union in 2002 and associated institutions such as the New Partnership for Africa's Development (NEPAD), it appeared that there was a renewed impetus for development on the continent. A new and better calibre of African leaders emerged in some countries in the 21st century, although with some notable exceptions. This paper will explore what needs to be achieved for economic integration to be more effective in Africa and for Africa to participate more effectively in global trade. The relationship between different economic integration initiatives in Africa to global trade liberalization in the framework of the WTO will be explored. It will be argued that in order for African states to become more fully integrated in the global economy they will need to adopt a more pro-active rather than reactive approach. Such an approach will center on building more effective institutions at the national and regional levels so as to give Africa a greater voice in the 21st century. Africa's development challenges are essentially about a crisis of institutions at the political, economic and social levels. Weak regional institutions reflect internal weaknesses of member states. The paper will explore competing conceptual constructs of regional integration in Africa with a view to arriving at a set of strategic options for enhanced effectiveness. For example, open regionalism based on neo-classical assumptions will be contrasted with the concept of "regionalism from below" which emphasizes the importance of civil society and informal organizations in regionalism. Concerns of African states arising from the existing multilateral framework and current trade round of the WTO will also be examined as will be strategic options for integrating Africa more fully into the global economy.

Africa's Position in World Trade

Africa's relative performance in world trade has been generally declining over the past thirty years. Although the levels of merchandise trade have increased for all African countries, Sub-Saharan Africa's share of world trade has been in decline for several decades, most markedly since the 1980s.[1] Table 1 shows, for example, that Africa's share of world exports was lower in 2006 when it stood at 3.1% as compared to 1963 when its share of world trade was 5.7%. The extent of this poor performance becomes clear when we compare Africa's performance with that of the Asian region whose share of world trade has doubled over the same period reaching 27.8 percent in 2006. This implies that Africa's trade performance in global terms is far below that of other developing regions. These declining trends indicate Africa's increased marginalization in world trade.

Figure 1: Africa's Share of World Trade



Source: European Centre for International Political Economy (ECIPE), Media Briefing Note, no. 1/2007.

1 European Centre for International Political Economy, Africa and World Trade, Media Briefing Note, no. 1/2007, p. 1.

The figure reveals that even during the period 2003 and 2006 where there has been a slight upswing in Africa's world share, this mostly reflected rising oil prices. Thus the upswing is only confined to a handful of countries, such as Angola and Nigeria. While this constitutes a positive development for oil producers, most African countries have continued to experience deterioration of their role in world trade.

Sachs and Warner[2] assert that Africa has been left out of the process of globalization. The World Bank estimates that losses in world trade have cost Africa almost $ 70 billion a year due to a lack of product diversification and falling market shares for traditional commodities.[3] African states are still heavily dependent on traditional export commodities despite their low income elasticity of demand and their declining terms of trade in the long run. Continuing concentration on these traditional exports will have adverse consequences on income and employment.[4]

Rationale and Fundamental Challenges of Economic Integration Initiatives in Africa

Economic integration refers to the merging of the economies and economic policies of two or more countries in a given region to various degrees.[5] Economic integration occurs whenever a group of countries in the same region join together to form a regional trading bloc. Development economists have argued that developing states should orient their trade towards each other.[6] They base their arguments on the notion that greater collective self-reliance will be fostered and that there are comparative advantage changes to South-South as opposed to North-South trade. The fundamental economic rationale for economic integration of African economies is a long-term dynamic where integration provides the opportunity for industries that have not been established yet as well as those that have in order to take advantage of the economies of large scale production facilitated by expanded markets. In the absence of integration, each separate state may not have a sufficiently large domestic market to enable local industries to lower their production costs through economies of scale.[7] Economic integration also provides the possibility of an increase in trade patterns where free trade within regional trading blocs leads to a shift in production from high to low-cost member states. Given the tiny and fragmented economies in Africa, the issue is not whether Africa should be integrated but rather how.

2 Jeffrey D. Sachs and Andrew M. Warner, Sources of Slow Growth in African Economies, in: Journal of African Economies, no. 3/1997, pp. 335–376.

3 World Bank, Can Africa Claim the 21st Century?, Washington, DC, 2000.

4 Ibid.

5 Michael P. Todaro and Stephen C. Smith, Economic Development, London 2006.

6 W. Arthur Lewis, The Slowing Down of the Engine of Growth, in: American Economic Review, no. 4/1980, pp. 555–564.

7 Todaro and Smith, op. cit. (note 5).

Despite these potential advantages there are fundamental challenges for economic integration initiatives in Africa. Africa has a multitude of sub-regional schemes and strong political rhetoric supporting them, but the results remain modest. The Abuja Treaty of 1991 envisaged an African economic community, but progress has been mostly sub-regional. The main economic integration schemes in Africa are the Common Market for Eastern and Southern Africa (COMESA), the Southern Africa Development Community (SADC), the Economic Community of West African States (ECOWAS) and the East African Community (EAC).[8] However, intra-regional trade among African countries remains low accounting for less than 10% of the total trade of African States. Many African states produce similar primary products thereby limiting the potential for trade.

Asymmetries in development among member states within a regional trading bloc have constituted a major obstacle to economic integration in Africa. A fear persists that the more developed and relatively larger members of the trading bloc will get disproportionate benefits. Once the poorer member states open up their economies to the more developed member states the result could be flooding of the domestic market with cheaper goods and the closure of domestic industries in the poorer states.[9] This factor contributed to the collapse of the East African Community in 1997 since Kenya, which had a relatively more developed manufacturing base compared to Uganda and Tanzania, was considered to be gaining more from the economic integration.

Many African states belong to several regional integration initiatives at the same time leading to overlapping and conflicting obligations. Kenya, for example, belongs to both the East African Community and the Common Market for Eastern and Southern Africa. Tanzania belonged both to SADC and COMESA and eventually had to pull out of COMESA because of conflicting objectives of the two regional trading blocs.

The design and objectives of regional integration schemes in Africa have also been driven by a preference for formal trade and factor market integration rather than a focus on basic policy coordination and collaboration in regional projects. This factor has resulted in excessively ambitious models of regional integration. However, Africa's unfavorable structural features such as competitive primary production, small size, low levels of per capita incomes, limited manufacturing capacity, weak

8 World Bank, Can Africa Claim the 21st Century?, op. cit. (note 3).

9 George Saitoti, The Challenges of Economic and Institutional Reforms in Africa, Aldershot 2002, pp. 101–103.

financial sectors, poor transportation and communications infrastructure make such ambitious models difficult to implement.[10]

African integration schemes have also suffered from implementation lapses, including those due to weak governance. Many states cannot cope with the loss of national sovereignty that integration schemes would entail. Other factors that have limited economic integration in the African context include a lack of adequate technical and management expertise, and also concerns about losing trade tax revenues.

A number of African states have also experienced protracted conflicts. These include, for example, the Democratic Republic of Congo, Sierra Leone, Liberia, Somalia and Sudan. Such conflicts hinder effective regional integration because the emphasis of states becomes to address domestic instabilities and they cannot therefore effectively focus on fostering regional integration.

Linking Economic Integration and Africa's Position in World Trade

An important debate with respect to regional integration is whether regional groupings will fragment the world economy and run counter to the recent globalization of trade. It can be argued that liberalizing trade at the sub-regional level

10 Ibid.

Anselme Harelimana from Rwanda (Summer School 2008) excludes non-member countries from preferential trade thereby offsetting globalization at a broader multilateral level. However, for countries in Africa, effective regional trading blocs can provide a buffer against the negative effects of globalization while still permitting the dynamic benefits of intra-union specialization and greater equality among members to take place.[11] Globalization refers to the integration of markets, nation-states, and technologies to a degree not witnessed before and permitting individuals, corporations and nation-states to reach around the world further, faster, deeper and cheaper than ever before.[12] A challenge for African states is to gain from the trend towards globalization. Stronger regional integration blocs will improve Africa's position in world trade, especially if such economic integration encourages greater competitiveness of Africa's products. Regional integration can also encourage investment in the export sector in African states as entire regions can be promoted as one investment area. More effective economic integration blocs in Africa will also give African states a greater voice in multilateral institutions such as the World Trade Organization.

Concerns for African States in the current Doha Trade Round

The current round of WTO multilateral trade negotiations was launched in November 2001 in Doha, Qatar. It is intended to enhance the development relevance of the WTO, although expectations for its successful conclusion remain mixed. The collapse of the Doha Ministerial in Cancún, Mexico, in September 2003 underscored the challenges faced by the negotiators.[13] African states have several key concerns relating to the Doha round.

Agriculture remains a fundamental concern for African states because many of their economies are still predominantly agricultural. The WTO Agreement on Agriculture is seen as one of the most controversial because special and differential treatment is, in effect, provided to developed rather than developing countries. African, and other developing countries, accepted the Uruguay Round Agreements as a whole mainly because they thought they would benefit from agricultural liberalization and subsidy reduction in the OECD countries under the Agreement on Agriculture. However, these promises were often not fulfilled and loopholes such as the "Green Box" permitted supposedly non-trade distorting subsidies by the developed countries. As a result, OECD countries' agricultural subsidies have been legitimized and have increased rather than decreased since the Uruguay

11 Todaro and Smith, op. cit. (note 5).

12 Thomas L. Friedman, Understanding Globalisation: The Lexus and the Olive Tree, New York, NY, 2000, pp. 3–16.

13 Carlos A. Primo Braga and Elwyn Grainger-Jones, The Multilateral Trading System: Mid-Flight Turbulence or Systems Failure?, in: Richard S. Newfarmer (ed.), Trade, Doha, and Development: A Window into the Issues (The World Bank), Washington, DC, 2006, pp. 27–42.

Round.[14] Many farmers in Africa have therefore been pushed out of farming or lost their land because they cannot compete.

The General Agreement on Trade in Services (GATS) is also of concern to African states. Trade in services was brought into GATT for the first time under the Uruguay Round despite misgivings among developing states. As a compromise it was agreed that a "bottom-up" approach would be used so that each member would have the right to decide on the sectors it would open up and the limitations to liberalizing each sector. However, the GATS agreement is one from which the African states reap little benefit because of the unequal competitive positions of service suppliers from the North and South. African countries have therefore been put under considerable pressure to liberalize in service sectors where they cannot compete thus adversely affecting local service industries and development objectives.[15] International trade in services is dominated by a few large multinational corporations and given their massive financial strength, world-wide networks and access to sophisticated information technology infrastructure, it is difficult for indigenous African country providers, which are mainly small and medium enterprises, to catch up. Liberalization in services has therefore aggravated the divide in supply capacity between developed and developing states.

Yet another area of concern for African states in the Doha Round is the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement. Intellectual property rights were brought for the first time into a multilateral trade framework during the Uruguay Round. This was done especially at the behest of multinational corporations in the pharmaceutical and information technology industries, especially in the United States, which claimed they were undergoing significant losses from the inadequate protection of their intellectual property abroad. African states, like other developing countries, resisted the TRIPs agreement on the basis that it would benefit multinational corporations while preventing their own enterprises from copying technologies to develop as had been done historically in the developed countries. The TRIPs agreement, however, came into effect in 1995 and it sets high standards of protection for patents, copyrights, trademarks, and industrial design and licenses, allowing patents to be granted on products and processes for twenty years.[16] The issue of patenting of life forms under the TRIPs agreement also received widespread criticism from African states. In addition to raising fundamental ethnical issues such as the patenting of the human genome, the agreement has in a sense facilitated "biopiracy" through the patenting of life

14 Fatoumata Jawara and Aileen Kwa, Behind the Scenes at the WTO: The Real World of International Trade Negotiations The Lessons of Cancun, London 2004, pp. 25–49.

15 Ibid.

16 Jawara and Kwa, ibid.

forms, including plants and their medicinal functions, which were previously available for public use in African countries.[17]

Strategies for Overcoming the Challenges of Poor Trade Performance in Africa in the 21st century

African states therefore face a myriad of challenges in trade both at the level of regional integration and at the WTO multilateral level. African countries have considerable potential, but realizing this potential requires action on several fronts especially to raise international competitiveness. Sustaining competitive and stable real exchange rates are vital to improving export performance in Africa. Real exchange rates are critical for export growth. Chile's experience suggests that economic competitiveness need not come at the cost of adequate integration with the global capital market.[18] Initially interest and exchange rates in Chile were unfavorable to export growth, but gradually these factors changed leading to an increase in the profitability of exports relative to producing non-tradable commodities. The Chilean experience provides valuable lessons for African states seeking to improve their competitiveness. Chile's exports have been one of the engines behind its development. The export sector in Chile represents about 40 percent of the country's Gross Domestic Product. Chile's export market diversification provides an important lesson for the export policy of African countries which tend to concentrate on a narrow range of markets and products.[19] Kenya's exports, for example, tend to be concentrated on the East African region and the European Union. Effective market diversification can, however, only be achieved by a well-developed and implemented export policy. Chile provides a compelling case for a limited but important role of the state in export promotion. Chile's endowments, like many African countries, have included a rich natural resource base. Its export promotion policies show that foreign direct investment is responsive to activities that open up new export possibilities or introduce new technologies. In addition, a growth strategy spearheaded by a few niche products can lead to important dividends. Chile's experience also shows that temporary well-managed subsidies can spur the growth of non-traditional exports.[20]

The East Asian experience also reinforces the argument that the state can play an important role in promoting exports by establishing a pro-export incentive struc-

17 Ibid.

18 World Bank, op. cit. (note 3), pp. 219–233.

19 Robert Mudida, The Chilean Experience: Lessons for Kenyan Economic Policy, in: KASNEB Newsline, no. 3, July-September 2002, pp. 3–7.

20 Manuel Agosin, Export Performance in Chile: Lessons for Africa, in: Gerald K Helleiner (ed.), Non-Traditional Exports and Development in Sub-Saharan Africa: Issues and Experiences (forthcoming).

ture that coexisted with moderate but highly variable protection of the domestic market.[21] A variety of instruments were used in East Asian countries including export credit, duty-free imports for exporters and their suppliers, export targets, and tax incentives. These measures can be studied by African governments and adopted where appropriate.

African tariffs and other trade restrictions are still higher than in other developing regions and anti-export bias is still considerable. This has significant impact especially because of the small size of African economies and the importance of imported inputs. Many African states are still heavily dependent on trade taxes for about one-third of government revenue.[22]

It is vital to introduce complementary measures beyond trade policy to improve Africa's competitiveness. Trade reforms need to be accompanied by measures that lay a firm foundation for investment and production. These include an effective and non-corrupt tax administration, functioning commercial courts, reliable infrastructure, and a working financial system.

21 World Bank, The East Asian Miracle: Economic Growth and Public Policy, Oxford 1993, pp. 12–13.

22 World Bank, op. cit. (note 3).

Dominik Antonowicz, Gerald Neugschwandtner, and Alejandro Ribó Labastida (all Summer School 2002)

Given shortfalls in domestic investment because of low incomes, it is vital for African states to attract substantial investment to the export sector. A major challenge in this respect is that many African countries are still ranked among the riskiest places to do business and even retaining domestic savings is difficult. A critical priority is for African governments to provide a safe and profitable business environment. Institutional reform is key to improve the business environment. Institutions in this context refer to sets of formal or informal rules governing the actions of individuals and organizations and the interactions of participants in the development process.[23] Formal legal rules may, for example, ensure that contracts are enforced, property rights honored and competition maintained. Informal rules relate to unwritten rules which are deeply embedded in a society's culture and reflect its fundamental values. Institutions simultaneously enable and constrain the actions of individuals or organizations. Institutional reforms specify new rules or change old ones with the intention of changing the behavior of individuals and organizations. African states should aim to create institutions which aim to promote entrepreneurship, profits and capital accumulation while achieving an overall objective of promoting the common good.[24] It is necessary to undertake measures to strengthen the state and manage public resources in more accountable ways. Domestic and international pressure must be sustained so as to ensure greater entrenchment of democratic values in many African states. Such values combined with a greater concern for the common good will help to stem the massive levels of corruption that have impeded development in many parts of Africa. Institutional reform will also help to reduce protracted conflicts in many parts of Africa because it will ensure that basic needs of the larger proportion of the population are more adequately met. There are close linkages between security and development.[25]

Economic Partnership Agreements (EPAs) also constitute an important vehicle for improving Africa's trade prospects in the 21st century. They are based on the principle of "more trade not aid." An example is the attempt to create a free trade area between the European Commission of the European Union and the Group of African, Caribbean and Pacific countries (ACP). The EPAs are a fundamental element of the Cotonou Agreement, which is the latest agreement in the history of ACP-EU Development Co-operation. The Cotonou Agreement aims at poverty reduction while contributing to the sustainable development and gradual integration of the ACP countries into the world economy.

23 World Bank, Entering the 21st Century: World Development Report 1999/2000, Washington, DC, 2000, pp. 13–30.

24 Delphin Rwegasira, From Recovery to Accelerated Development: Some Key Issues for Twenty-First Century Africa, in: Ernest Aryeetey et al. (eds.), Asia and Africa in the Global Economy, Tokyo 2003, pp. 385–399.

25 Mudida, The Security-Development Nexus: A Structural Violence and Human Needs Approach, in: Katrin Brockmann, Hans Bastian Hauck and Stuart Reigeluth (eds.), From Conflict to Regional Stability: Linking Security and Development (Research Institute of the DGAP), Berlin 2008, pp. 11–22.

Despite past challenges, the case for stronger economic integration in Africa remains compelling. There is a widely held view within Africa that African unity could help stem its political and economic marginalization. The promise of pan-Africanism has kept alive the ideals of the Lagos Plan of Action despite formidable challenges in its implementation. Thus a vital policy question for African states in the 21st century is how regionalism can help to attain Africa's development goals in a globalized economy. Given Africa's modest success with regional integration, it is vital that a regionalism with a more flexible design is stressed, based on cooperation among countries to jointly implement specific projects. Such cooperation should include transportation and communications infrastructure in addition to investment regulation and trade policies.

Since many African economies are small, both individually and in sub-groups, the potential welfare gains from freer trade in Africa may be limited in the short to medium term. This implies that perhaps the principal focus of integration should be on promoting investment rather than intra-regional free trade. The creation of an economic space where investors can produce for regional as well as global markets may provide small African economies with better growth opportunities than simply removing trade barriers among themselves.

The concerns that African countries have relating to the current Doha Round underscore the need to pay more attention to multilateral negotiations and try to influence the outcome. Many African states do not even have representatives in the WTO. African states should participate in setting the global agenda and partner with other developing countries, for example, in Latin America and Asia to negotiate for the dismantling of restrictive trade practices that inhibit export diversification in poor countries. To improve the multilateral trade regime, institutional reforms within the WTO are required. These reforms should focus on how decisions are made, what gets put on the agenda, how disagreements are resolved and how rules are enforced.[26] Such reforms, if effective, will ensure that the benefits of globalization are more equitably shared. The agricultural sector, for example, accounts for almost two-thirds of the economic gains that could be obtained by dismantling the present global system of merchandise trade barriers and farm subsidies.[27]

26 Joseph Stiglitz, Making Globalisation Work, London 2006, pp. 61–101.

27 Kym Anderson and Will Martin, Agriculture: The Key to Success of the Doha Round, in: Richard S. Newfarmer (ed.), op. cit. (note 13), pp. 77–96.

Conclusion: Towards a New Trade paradigm?

The current trade challenges faced by African states expose the shortcomings of the neo-liberal model of economic development which has dominated the WTO. An important aspect of the new agenda is to recognize that trade is an instrument and not the ultimate goal of policy. The fundamental policy goal is economic development in the context of a fair, inclusive and politically acceptable globalization.[28] Thus for African states, trade represents much more than simply commercial interactions—it is a vital avenue for their development. "Open regionalism" is informed by neo-classical assumptions that the market is the key driving force of integration.[29] This approach is consistent with unfettered economic globalization and has a tendency of reinforcing in some respects the inequalities in the international system. In view of their development objectives, African states should pursue an approach to economic integration and multilateralism that mitigates the adverse effects of globalization on their economies. Such an approach should emphasize collective self-reliance through the mobilization of regional resources and also promote "regionalism from below." This entails underscoring the importance of civil society and the informal sector in the economic integration framework.[30] Such home-grown approaches serve to improve Africa's situation in economic integration and its position in global trade. Enabling macro-economic policies should also be pursued at the domestic level underpinned by measures for improved accountability and infrastructure. Institutional reform is vital at the political, economic and social levels. Such reform should aim at infusing a culture of greater concern for the common good. Only then can Africa truly claim the 21st century.

28 Thomas I. Palley, Globalisation and the Changing Trade Debate: Suggestions for a New Agenda, in: Public Policy Brief (The Levy Economics Institute of Bard College), no. 91/2007, pp. 5–6.

29 John K. Akokpari, Dilemmas of Regional Integration and Development, in: Akokpari et. al. (eds.), African Union and Its Institutions (Centre for Conflict Resolution), Cape Town 2008, pp. 85–110.

30 Ibid.