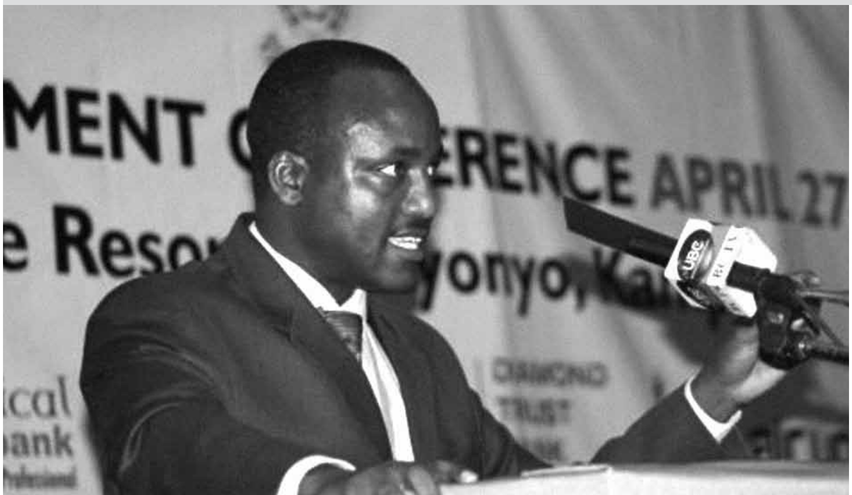
Creating African free-trade area

Challenges and opportunities

In June 2011, African leaders unveiled new plans to create an Africa-wide free-trade area, when they announced that 26 African nations will join three existing, but often overlapping, regional trade blocks, writes **William Gumede**.

EAC Photo Service



Participant speaks at 3rd East African Investment Conference, Kampala, Uganda.

The leaders aim to create a duty-and quota-free movements of goods, services and business people by 2016, and an Africa-wide economic and monetary area by 2025. Priority will be given to trade in goods, and after this, negotiations will focus on concluding a deal on competition policy, intellectual property rights as well as trade in services. Once the agreement has been signed, a protocol on the free movement of business within the three blocs will come into effect.

Many African economies are tiny and often unviable on their own. For example, more than 40% of Africans live in countries with no access to the sea. Therefore, pooling African economies will bring larger economies of scale and markets, thus creating the potential to expand production and demand.

Jose Fernandez, the United States assistant secretary of state for economic, energy and business affairs says foreign investors are more likely to be drawn to the bigger markets an African free-trade zone could offer. As it now stands, the proposed Africa free-trade area, initially comprising 26 countries, would cover a population of 550-million people, which is about 58% of the total population and almost 60% (around US$835-billion) of the continent's gross domestic product (GDP).

The global economy is going through dramatic structural changes, not seen in generations. According to a recent World Bank (WB) report, by 2025 emerging markets will account for more than half of all global growth, and the US dollar may no longer be the dominant global currency.

'The fast rise of emerging economies has driven a shift whereby the centres of economic growth are distributed across developed and developing countries – it's a truly multipolar world,' says Justin Yifu Lind, the WB's chief economist. Developing countries, especially those in Africa, will have to make structural changes if they want to benefit from these dramatic power shifts, or face being left behind again, perhaps never to catch up.

African countries must pool their markets to help economies take better advantage of new growth opportunities offered by the rise of emerging powers, such as Brazil, Turkey and India. Furthermore, this may provide a protective wall for African countries to transform their economies from being single-commodity based to beneficiated ones that support new manufacturing and service industries.

A grand free-trade area for Africa may be one of the best ways to overcome the terrible impact of the global financial crisis on the continent. The crisis led to the decline of the old industrial powers.

However, Africa's future prosperity does indeed lie in individual countries pooling their markets, trading more smartly with each other and creating a continent-wide free-trade area from the Cape to Cairo.

CHALLENGES?

The global economic slowdown has put the brakes on the African economic growth spurt of the past decade, with most countries growth slowing and others going into recession. The International Monetary Fund (IMF) forecasts that sub-Saharan Africa's GDP will grow by 5.5% this year and by 5.8% next year.

However, former UN Secretary General Kofi Annan calls this African growth spurt 'low-quality' growth. According to the Africa Progress Panel the growth was 'inequitable, jobless, (and) volatile'. If the current pattern continues it is unlikely to lead to widespread job creation and poverty reduction.

Africa's rising growth has mostly been caused by a boost in mineral exports and the expansion of ever-growing domestic markets, fuelled by a rising middle class. However, the continent's growing trade with new emerging powers, such as China, India and Brazil, has followed the old pattern of relying on exporting raw materials instead of diversifying into manufacturing, services and value-added products.

The 2011 Economic Report on Africa, urged Africans to diversify production and exports. 'Diversification requires improvement of competitiveness by tackling supply-side constraints as well as improving infrastructure and productive capacities, among other things,' the report said.

The WB says that for Africa to become a dynamic emerging 'growth pole', key national and regional economic, political and social institutions must be reformed. Governance challenges need to be overcome, human capital invested in, and technological advances leveraged more effectively. Higher growth rates in new emerging powers are unlikely to magically trickle down to Africa.

Unless Africans introduce some structural changes they may not be able to fully benefit from the rapid growth of the emerging powers. Moreover, Africa may experience another generation of 'low-quality growth' based on the colonial and Cold War model in which it exported raw materials. Now new emerging countries are adding value to the raw materials and selling them back at high prices. In fact, the rapid growth of emerging markets may leave Africa even further behind.

FRAGMENTED

'A fragmented Africa is a useless Africa,' said Patrick Bitature, chairman of the Uganda Investment Authority.

Africa has too many countries, most of which are not economically viable. This is a result of colonialism which carved the continent into small bits. The economies of some countries are sometimes closed to their neighbours but open to the former coloniser. This has made it difficult for larger African regional or continental markets to develop. Yet post-colonial governments and leaders continue to promote this division by clinging to their little 'empires of rules and regulations' argues Ethel Hazelhurst.

Africa's share of global trade is only 2%. Currently African countries trade more with the rest of the world, mostly former colonial powers, than with each other. According to WB figures trade between countries in sub-Saharan Africa accounts for 10% of total trade. In Europe trade between countries amounts to 60%; in North America 40% and in Asia 30%. The exploitation of large internal markets in India, Brazil and China has been instrumental in these countries' high economic growth rates.

Africa is too fragmented, with countries observing different rules and standards, and legions of bureaucratic and logistical obstacles that undermine trade. Africa has more than 30 regional trade arrangements. On average, every African country belongs to four or five regional trading blocs, which are overlapping.

There are currently eight key regional trade blocs: Southern African Customs Union (Sacu), Southern African Development Community (SADC), East African Community (EAC), Economic Community of West African States (Ecowas), Common Market for Eastern and Southern Africa (Comesa), Arab Maghreb Union (AMU), Economic Community of Central African States (Ecca), Community of Sahel-Saharan States (CEN-SAD), and the Intergovernmental Authority on Development (IGAD).

INEFFECTIVE INSTITUTIONS

The lesson so far from past and current attempts at regional or continental integration in Africa is that without support by welldefined, capable institutions, run by competent leaders, such efforts will come up short. One of the key reasons for the failure of the African integration project so far is weak regional and continental institutions. A number of scholars have stressed how the 'quality of institutions "trumps" everything else' in promoting economic development. An IMF study, for example, found that improving the institutional capacity of economies from their current state to those similar to Asian developing countries would boost sub-Saharan Africa's per capita income by 75%.

Most African countries inherited flawed institutions from colonial governments. These were set up not to promote regional integration, but integration into the economy and political system of the colonial power. However, the mismanagement and abuse of institutions for ethnic, regional and political patronage by post-colonial liberation and independence governments and assortments of dictatorships have helped to further disfigure African institutions that are already under pressure. Two decades of enforced structural adjustment have also weakened key domestic and regional institutions which failed on a number of levels.

In some cases, the patronage systems at national government level have been transported to regional bodies – undermining these too. Competent individuals have not been appointed to run the regional and continental organisations. Domestically, most African countries lack professional, meritocratic public services, which have been at the heart of the developmental successes in East Asia.

Furthermore, the public service culture often lacks accountability, with individuals accountable to their patronage bosses, rather than servicing the public good. Long periods of undemocratic leadership, movements and governments in African countries have been characterised by the spurning of good governance systems, and have been underpinned rather by value systems that are based on self-enrichment, at the expense of public service. The lack of professionalism in the public service culture has often been exported to regional bodies.

In the governance systems of many African states the rule of law is often arbitrary, with the ruling aristocracy (whether political, ethnic or regional) operating above it. Laws may be there, but they are inconsistently applied. Of course this makes the legal system ripe for corruption.

The institutional failures in African countries mean that many domestic and national institutions cannot support the complicated and ambitious regional integration commitments. Even if the capacity exists, there is no guarantee that the regional commitments will be honoured.

UNSOUND POLICIES

One of the key failures of African countries is a lack of policy coherence in development. Megumi Muto and others have argued that wrong policies are often pursued, but in many cases policies within countries are not 'mutually consistent' in 'achieving the policy objectives of development and poverty reduction'.

In terms of regional integration, policies adopted at the regional level to promote integration often work against countries' domestic policies. The same applies to continental policies which are also not in agreement with the policies adopted at regional trade or political blocs.

Often individual countries have ignored regional protocols, treaties and legal frameworks. Furthermore, the exaggerated African leadership philosophy of 'sovereignty' has meant that national leaders and governments do not easily defer to regional and continental institutions and statutes.

This philosophy means leaders see their countries as 'personal' fiefdoms and therefore other leaders do not interfere. Therefore when such leaders and governments ignore the integration treaties, there is little objection from peers. Every region has so far integrated along its own path, notwithstanding the Abuja Treaty and AU Constitutive Act, which call for the harmonisation of regional integration efforts with continent-wide initiatives.

ECONOMIC DISPARITIES

Deep economic disparities between different African countries are obstacles to regional integration. Samuel Sitta, the Tanzanian minister for EAC affairs, blames slow economic integration in the EAC on 'fears' that some states believe they may become losers and others will benefit more from economic integration. Some smaller countries fear not only domination by bigger neighbours, but revenue losses if tariff liberalisation, essential for the creation of a continental free-trade area, is introduced. Many smaller African economies, such as Swaziland and Lesotho, depend disproportionately on income from custom duties.

Many other countries across the continent, such as Angola, Kenya and Nigeria, fear that a free-trade area would lead to domination by South African produce. Joshua Kivuva, an analyst at the University of Nairobi, says that in some parts of east and central African countries there is a 'fear that they will just be reduced to captive markets for South African goods'.

UNFAIR TRADE AGREEMENTS

Most African countries have trade agreements with former colonial powers that often undermine integration with other

African countries. The Economic Partnership Agreements (EPAs) with former African, Caribbean and Pacific colonies proposed by the European Union (EU) to replace the preferential trade arrangements is one such example.

Ignacio Ramonet, editor of French newspaper *Le Monde*, describes the EPA as the 'latest manifestation of the colonial pact'. The European Union's EPAs threaten African farmers and infant industries, who want EU products and services to enter African markets without any duties.

This clearly undermines African attempts to build local manufacturing capacities, as often heavily subsidised European products flood African economies. The EPAs demand that African countries declare the EU as 'the favourite nation' whose products should not be subjected to higher levies than those of developing countries.

Furthermore, the EPAs demand that African countries extend all the benefits of any future trade agreements that may be entered with other countries. African countries see this as a way of preventing them from striking more competitive deals with new emerging economies such as India, Brazil and China.

The EU also wants its products to get the same level of government support in African recipient countries as locally produced products. Furthermore, the EU has demanded that African countries abolish the requirement for local content in locally manufactured and processed goods – crucial for African countries to build up local industries. Import tariffs for raw materials such as oil are typically low in industrial countries, but they increase dramatically with each state of processing. In terms of the EPAs, the EU has divided Africa into its own regions. This also undermines integration.

The United States African Growth Opportunities Act (Agoa) sets political and economic conditions for select African countries to export their products to the US until 2015. Although Agoa has in some cases 'facilitated the removal of intra-regional trade barriers and the creation of new trade partnerships', it has on many other occasions undermined African regional integration and the formation of regional supply chains, wrote John Page and Nelipher Moyo.

Under Agoa, the US signs trade arrangements with individual African countries, with often difficult conditions, rather than with regional blocs. US Secretary of State Hillary Clinton has acknowledged that 'regional integration has gotten too little attention within the Agoa framework'.

In 2010, the value of African products traded under Agoa reached US$44-billion. However, 91% of these were oil, and then mainly from oil producers Angola, Nigeria and Gabon. Only 5% of African products exported to the US under Agoa were non-oil or non-apparel. Yet, to create jobs and to prosper, Africans desperately need to export manufactured and value-added products. US and industrial countries' subsidies to their farmers outweigh the supposedly beneficial access given to African countries that sign trade agreements with them.

POOR INFRASTRUCTURE

Poor physical infrastructure, with weak logistics and supply chains, poor power supply and transport networks and limited bank finance to fund infrastructure investment, undermines regional trade in Africa. Africa's transport costs remain the highest in the world. and road access rate is only 34% compared to 50% in other regions. The African rail network has low interconnectivity.

Maritime ports and inland waterways are rarely used for travel. For example, Shoprite, the South African grocery chain, calculates that it loses US$500 a day for each truck stuck at border posts. Infrastructure across the region is non-existent, inadequate, or not maintained or upgraded. This significantly increases the cost of business for African operators, making it difficult to access markets on the continent.

Salim Ismail, chief executive of textile operator Groupe Socota in Madagascar says 'in some areas in Africa our freight costs are twice the costs of our competitors in the US and Asia and our lead times are three times those of our competitors'.

To this day, most infrastructure networks in most African countries have not changed since colonialism as there has been little investment and poor maintenance of transport infrastructure. Colonial powers constructed infrastructure networks in their colonies in small areas that produced commodity or agriculture produce for export to the 'mother' country.

Old industrial powers and new emerging powers and their companies are increasingly buying African land to set up commercial agricultural businesses from which they export products back to their countries or to other markets.

A report by the UN Food and Agriculture Organisation stated that more than 2.5-million hectares of African land had been bought by foreign companies since 2004, and this is only scratching the surface. Yet most African countries now import food. Similarly, foreign companies are also increasingly buying up cheap African mines. LB

William Gumede is honorary associate professor of the Graduate School of Public and Development Management at the University of the Witwatersrand.